

**SECRETARY OF DEFENSE ASH CARTER  
SUBMITTED STATEMENT TO THE HOUSE APPROPRIATIONS  
COMMITTEE – DEFENSE ON THE FY 2017 BUDGET REQUEST FOR  
THE DEPARTMENT OF DEFENSE  
THURSDAY, FEBRUARY 25, 2016**

**I. PURPOSE OF THIS TESTIMONY**

Chairman Frelinghuysen, Ranking Member Visclosky, Members of the Committee: Thank you for inviting me here today, and for your steadfast support for the men and women of the Department of Defense (DoD), military and civilian alike, who serve and defend our country all over the world. I'm pleased to be here with Chairman Dunford to discuss President Obama's Fiscal Year (FY) 2017 budget submission for the Defense Department.

At this time last year, we were all facing the bleak prospect of looming budget sequestration, and the damage its return would do to our people and our mission. I'm grateful that our country's leaders were able to come together last fall to avert that dismal future, and reach a budget deal that – after several years of fiscal turmoil and reductions – has allowed for greater investment in all our elements of national security and strength. That was what I urged since becoming Secretary of Defense, including in last year's budget testimony before this committee, and given the threat environment we face around the world, forging that deal was the responsible thing to do. It allows our military personnel and their families to know their future more than just one year at a time, which they deserve. It lets our defense industry partners be more efficient and cutting edge, as we need them to be. And, perhaps most importantly, it sends a signal to the world – to friends and potential foes alike – of our nation's strength and resolve.

The President's budget submission accordingly adheres to that budget deal – requesting a total of \$582.7 billion for the Defense Department in FY 2017, for both the base budget and Overseas Contingency Operations (OCO) funds combined. How we plan to invest those funds, along with our planned investments for the next five years – as detailed in the customary Future Years Defense Program (FYDP) that's included in the President's budget submission – are critical to DoD's ability to carry out our mission of national defense with the excellence the American people expect of their military, which is today the finest fighting force the world has ever known.

As you know, no one got everything they wanted in the budget deal – I said last year that we needed to rise above our differences, and I'm glad many members of Congress were able to do that – so in budgeting and programming for FY 2017, we had to make responsible choices. The President's budget submission reflects those choices, and we need your support for them. This is particularly true for prudent and necessary reforms – some of which the Congress has long denied, in spite of the cost to both DoD and to America's taxpayers. Indeed, while DoD is grateful to this and the other defense committees for your support for the budget deal, it is also the defense committees that in recent years have been tying our hands on reform, as I will address later in this testimony.

We should remember, however, that the budget deal only covered two years. Unless Congress addresses the years beyond it and heads off sequestration, DoD will face \$100 billion in cuts from 2018 to 2021, which would introduce unacceptable risks. So Washington will need

to come together once again – not unlike last year, and two years before that – to provide stability and protect our national security.

That's important, because in this budget submission, we're taking the long view. We have to, because even as we must fight and win today's fights, we must also be prepared to deter and if necessary fight and win the fights that might come 10, 20, or 30 years down the road. Last fall's budget deal set the size of our budget, thereby allowing us to focus on the shape – making choices and tradeoffs to adjust to a new strategic era, and seize opportunities for the future.

## **II. A STRATEGIC TURNING POINT FOR THE DEFENSE DEPARTMENT**

Let me now describe the strategic assessment that drove our budget decisions. First of all, it's evident that America is still today the world's foremost leader, partner, and underwriter of stability and security in every region across the globe, as we have been since the end of World War II. As we fulfill this enduring role, it's also evident that we're entering a new strategic era.

Context is important here. A few years ago, following over a decade when we were focused on large-scale counterinsurgency operations in Iraq and Afghanistan, DoD began embarking on a major strategy shift to sustain our lead in full-spectrum warfighting. While the basic elements of our resulting defense strategy remain valid, it's also been abundantly clear to me over the last year that the world has not stood still since then – the emergence of ISIL, and the resurgence of Russia, being just the most prominent examples.

This is reflective of a broader strategic transition underway, not unlike those we've seen in history following major wars. Today's security environment is dramatically different – and more diverse and complex in the scope of its challenges – than the one we've been engaged with for the last 25 years, and it requires new ways of thinking and new ways of acting.

Accordingly, five evolving challenges are now driving the focus of DoD's planning and budgeting.

Two of these challenges reflect a recognition of – return to, in some ways – great power competition. This is something we haven't seen for some time, and that requires heightened focus given its potential impact on our nation and the world. The first such challenge is in Europe, where we're taking a strong and balanced approach to deter Russian aggression – we haven't had to devote a significant portion of our defense investment to this possibility for 25 years, and while I wish it were otherwise, now we do. The second is in the Asia-Pacific, where we haven't faced great power competition since the end of World War II, and where China is rising, which is fine, but behaving aggressively, which is not. There, where we're continuing our rebalance, in terms of weight of effort, to maintain the regional stability we've underwritten for the past 70 years, allowing so many nations to rise and prosper in this, the single most consequential region for America's future.

Meanwhile, two other longstanding challenges pose threats in specific regions. One is North Korea, which remains dangerous to both us and our allies – that's why our forces on the Korean Peninsula remain ready, as they say, to “fight tonight.” The other is Iran – because while the nuclear accord is a good deal for preventing Iran from getting a nuclear weapon, and doesn't limit DoD in any way, we must still deter Iranian aggression and counter Iran's malign influence against our friends and allies in the region, especially Israel, to whom we maintain an unwavering and unbreakable commitment.

Challenge number five, no less important than the other four, is our ongoing fight to counter terrorism, and especially defeat ISIL – most immediately in its parent tumor in Iraq and

Syria, and also where it is metastasizing, in Afghanistan, Africa, and elsewhere – at the same time as we’re protecting our homeland. While ISIL must and will be defeated now, in the longer perspective and in our budgeting we must also take into account that as destructive power of greater and greater magnitude falls into the hands of smaller and smaller groups of people, countering terrorists will be a continuing part of the future responsibilities of DoD and other national security leaders.

DoD must and will address all five of these challenges as part of its mission to defend this country. Doing so requires some new investments on our part, new posture in some regions, and also new and enhanced capabilities.

Key to our approach is being able to deter the most advanced adversaries while continuing to fight terrorist groups. This means we must have – and be seen to have – the ability to impose unacceptable costs on an advanced aggressor that will either dissuade them from taking provocative action, or make them deeply regret it if they do. To be clear, the U.S. military will be ready to fight very differently than we have in Iraq and Afghanistan, or in the rest of the world’s recent memory. We will be prepared for a high-end enemy – what we call full-spectrum. In our budget, our plans, our capabilities, and our actions, we must demonstrate to potential foes that if they start a war, we are able to win, on our terms. Because a force meant to deter conflict can only succeed in deterrence if it can show that it will dominate a conflict.

We have this ability with respect to North Korean and Iranian military forces, as well as in executing the military aspects of countering terrorists, as we’re doing now against ISIL. That won’t change, even as we know that military power alone cannot prevail – nor can the United States alone deliver a lasting defeat – against the toxic ideology of terrorists like ISIL that have so little regard for the lives of fellow human beings.

In this context, Russia and China are our most stressing competitors, as they’ve both developed and are continuing to advance military systems that threaten our advantages in specific areas, and in some cases, they’re developing weapons and ways of war that seek to achieve their objectives in ways they hope would preempt a response by the United States. Because of these facts, because the implications of any great-power conflict would be so dire for the United States and the world, and because of those nations’ actions to date – from Ukraine to the South China Sea – DoD has elevated their importance in our defense planning and budgeting to ensure we maintain our advantages in the future.

While we do not desire conflict with any of these nations – and, to be clear, though they pose some similar defense challenges, they are very different nations and situations – we also cannot blind ourselves to the actions they choose to pursue. That is the responsible course of action for the Defense Department. Our military is first and foremost a warfighting force, and even as we seek to deter wars, we must also be prepared to fight and win them, which is itself a key part of deterrence.

Our military must be balanced with the proper size and capability to defeat any attack against U.S. forces and our allies. And because of the decisions in this budget, our military will be better prepared for both present and future challenges, and better positioned to deter, and if necessary fight and win, wars against even the most high-end of potential adversaries.

As this budget addresses those five evolving challenges, it also seizes great opportunities – in supporting new and innovative operational concepts; in pioneering and dominating technological frontiers, including undersea, cyber, space, electronic warfare, and other advanced capabilities; in reforming the defense enterprise; and in building the force of the future. I will address the investments we’re making to do so later in this testimony.

### **III. SUPPORTING THE STRENGTH AND WELLNESS OF TODAY’S FIGHTING FORCE**

Before I address how this budget ensures we meet those challenges and seize those opportunities, I want to first emphasize our enduring commitment to supporting the men, women, and families of the world’s finest fighting force. Above all, this means exercising the utmost care in decisions involving the deployment and employment of our troops. It also requires devoting a significant share of our budget every year toward supporting the people, military and civilian alike, who execute DoD’s missions around the world.

To ensure we have a force that’s ready to carry out today’s missions, this budget invests in the four main things that every soldier, sailor, airman, and Marine needs to do their job – the right training; the right equipment; the right force size, meaning the right number of people alongside them; and the right compensation.

#### *The Right Training*

In FY 2017 and beyond, the budget makes critical investments in training throughout the force to rebuild toward full-spectrum combat readiness and continue recovering from the damage caused by sequestration in recent years – though, it’s important to remember that restoring readiness requires not only sufficient funding, but also time. The budget maximizes use of the Army’s decisive action Combat Training Centers, funding 19 total Army brigade-level training rotations. It largely sustains the Navy and Marine Corps’ current training and readiness levels for FY 2017 – optimizing Navy training while maximizing the availability of naval forces for global operations, and fully funding the Marine Corps’ integrated combined arms exercises for all elements of its Marine Air-Ground Task Forces. And, because recent operational demands like the fight against ISIL have slowed the Air Force’s return to full-spectrum readiness, the budget increases funding – as part of a \$1 billion increase over the FYDP to support Air Force readiness – to modernize and expand existing Air Force training ranges and exercises here at home, providing pilots and airmen with more realistic training opportunities when they’re not deployed.

#### *The Right Equipment*

The budget also makes important investments to provide our men and women in uniform with functioning, well-maintained equipment so that when we send them into the fights of today, they’re able to accomplish their mission and come home safely. For example, to address the Navy and Marine Corps’ growing maintenance backlog in tactical aviation, the budget funds a 15-percent increase in F-18 depot maintenance capacity, and it buys an additional 16 F/A-18 E/F Super Hornet fighter jets between now and FY 2018 – providing a significant boost to the health of the Navy and Marine Corps’ 4<sup>th</sup>-generation fighter aircraft fleet so it’s ready and capable for today’s missions. To help ensure the Air Force has enough ready and capable aircraft for both combat missions and intelligence, surveillance, and reconnaissance (ISR), the budget funds improvements in the avionics and electronic warfare systems of legacy fighter and bomber aircraft, and it supports the Air Force’s ‘get well plan’ for remotely-piloted aircraft.

The budget also makes critical investments in every domain to research, develop, test, evaluate, and procure the right technology and equipment our military will need to deter and if

necessary fight and win full-spectrum conflicts in the future. I will detail those investments later in this testimony.

### *The Right Force Size*

The flexibility provided by last fall's budget deal allowed us to maintain DoD's desired targets across the FYDP for end-strength and active-reserve mix for our ground forces – without it, sequestration likely would have forced further reductions. Therefore, the budget stabilizes our total ground force end-strength by the end of FY 2018 with an Army of 450,000 active-duty soldiers, 335,000 soldiers in the Army National Guard, and 195,000 soldiers in the Army Reserve – comprising 56 total Army brigade combat teams and associated enablers – and a Marine Corps of 182,000 active-duty Marines and 38,500 Marine reservists. For the Navy, the budget continues to grow the size, and importantly the capability, of the battle fleet – providing for 380,900 active-duty and reserve sailors in FY 2017, and an increase from 280 ships at the end of FY 2016 to 308 ships at the end of the FYDP. The budget also supports an Air Force of 491,700 active-duty, reserve, and National Guard airmen – maintaining 55 tactical fighter squadrons over the next five years, and providing sufficient manpower to address high operating tempo and shortfalls in maintenance specialists for both tactical fighters and remotely-piloted aircraft.

### *The Right Compensation*

In FY 2017, the budget provides \$177.9 billion in pay and benefits – including health care, housing allowances, commissaries, retirement, and other benefits – for DoD's 2.1 million military personnel and their families. I will discuss DoD's proposed reforms to some of these areas later in this testimony. To help make sure DoD is competitive for the best talent, the budget includes a department-wide pay raise of 1.6 percent in FY 2017. This is an increase above FY 2016's pay raise of 1.3 percent.

It's important to note that of all the cuts we've taken to our previously-planned budgets since the Budget Control Act was passed, including cuts from sequestration – altogether so far totaling at least \$800 billion over ten years – less than 9 percent of those reductions came from military compensation proposals. This should make clear that we've worked extremely hard to protect our people, and that we do need to address some places where savings can be found, such as through modernizing and simplifying our military healthcare system, which I address later in this testimony.

### *More Than Military Readiness*

Beyond ensuring the combat readiness of America's military, our commitment to the force of today also encompasses what we're doing to ensure the dignity of our people. We're putting a priority on preventing and eliminating sexual harassment and sexual assault in the military, investing \$246 million in FY 2017 to help support survivors, reduce retaliation for reporting, and eradicate these crimes from our ranks – and soon, DoD will deliver to Congress our strategy on addressing retaliation, in particular. We're also helping provide transition support and advocating for employment opportunities for veterans, investing a total of \$109 million in FY 2017 so our people can make the most of their potential and keep making a difference when they complete their service in uniform. And we're fostering greater diversity of our force, because our strength depends on being open to the widest possible pool of talent that can meet our standards – young Americans today are more diverse, open, and tolerant than past

generations, and if we're going to attract the best among them to contribute to our mission, we ourselves have to be more diverse, and open, and tolerant, too. It's the only way to compete in the 21<sup>st</sup> century.

That's one reason why we're opening all remaining combat positions to women, so that we have access to 50 percent of our population for every position in the all-volunteer force, and every American who can meet our exacting standards has the full and equal opportunity to contribute to our mission. That said, since the declaration that opens all career fields to women is by itself not sufficient for their full integration, I've asked the military services to mitigate any concerns about combat effectiveness by incorporating my seven guiding principles – transparent standards, population size, talent management, physical demands and physiological differences, operating abroad, conduct and culture, and assessment and adjustment – into their implementation plans. First and foremost, this means the services will continue to apply objective standards for all career fields to ensure leaders assign tasks and career fields throughout the force based on ability, not gender. This may mean in some cases, equal opportunity may not always equate to equal participation. Integration provides equal opportunity for men and women who can perform the tasks required; it does not guarantee women will fill these roles in any specific number or at any set rate, as adherence to a merit-based system must continue to be paramount. Also, we must incorporate concrete ways to mitigate the potential for higher injury rates among women, and leverage lessons learned from Iraq and Afghanistan to address concerns regarding operating in areas where there is cultural resistance to working with women. We must address attitudes toward team performance through education and training, including making clear that sexual assault or harassment, hazing, and unprofessional behaviors are never acceptable. Our core beliefs in good order, discipline, leadership, and accountability are foundational to our success in integration. And it is absolutely critical that we embark on integration with a commitment to the monitoring, assessment, and in-stride adjustment that enables sustainable success.

Finally, it's important to remember that our commitment to the force of today is not limited to those who serve in uniform. In FY 2017, it also includes \$79.3 billion to support our civilian workforce of 718,000 Americans – men and women across the country and around the world who do critical jobs like helping repair our ships and airplanes, providing logistics support, developing and acquiring weapon systems, supporting survivors of sexual assault, and helping care for our military's wounded, ill, and injured personnel. The budget includes \$7.7 billion to support our military families, because they serve too. It includes \$3.1 billion to help take care of our wounded warriors, to whom our commitment is and must remain as strong as ever. And it includes our enduring pledge to support the families of the fallen, whose loved ones made the ultimate sacrifice on behalf of our country.

#### **IV. ADJUSTING TO STRATEGIC CHANGE**

Another significant portion of our budget goes toward DoD's current operations all around the world, in every domain, to help defend our country, our allies, and our interests. Our budget's investments and programming decisions in this area reflect my commitment to helping the President address key national security challenges, and my priorities for how we must adjust to strategic change – in countering terrorists, whether ISIL, al-Qaeda, or others; in taking a strong and balanced approach to deter Russian aggression; in operationalizing our rebalance to the Asia-Pacific; in deterring Iranian aggression and malign influence; in standing alert on the

Korean Peninsula; and in addressing threats from multiple directions in cyber, space, and electronic warfare.

**Countering Terrorism**

It is clear that our mission of countering terrorists and other violent extremists around the world will be with us for some time. The Department of Defense has strong counterterrorism capabilities, and we continue to deploy them to protect America.

**Dealing ISIL a Lasting Defeat**

We must and will deal ISIL a lasting defeat, which is why the budget provides \$7.5 billion in FY 2017 for Operation Inherent Resolve. This investment will be critical to continuing to implement and accelerate the coalition military campaign plan that the United States has developed, that our key allies support, and that focuses on three military objectives: One, destroy the ISIL parent tumor in Iraq and Syria by attacking its two power centers in Mosul, Iraq and Raqqa, Syria; these cities constitute ISIL's military, political, economic and ideological centers of gravity, which is why our plan has big arrows pointing toward both. Two, combat the emerging metastases of the ISIL tumor worldwide wherever they appear. And three, our most important mission, which is to protect the homeland.

To eliminate the parent tumor in Iraq and Syria, DoD is enabling local, motivated forces with critical support from a global coalition wielding a suite of capabilities-ranging from airstrikes, special forces, cyber tools, intelligence, equipment, mobility and logistics, training, advice and assistance. It must be local forces who deliver ISIL a lasting defeat, because only they can secure and govern the territory by building long-term trust within the populations they liberate. We can and will enable such local forces, but we cannot substitute for them. Accordingly, the budget's investment in the counter-ISIL campaign includes \$630 million for training and equipping the Iraqi Security Forces, and \$250 million for enabling Syrian anti-ISIL forces.

This is a worthy investment, as we've already started to see our investments over the last several months start to pay off. For example, it was Iraqi soldiers who took back the Ramadi city center, reversing a loss the Iraqi army suffered last spring. Our support to them included advanced training, tactics, air support, and the portable bridges that carried the Iraqi military across the Euphrates River and into the decisive fight. Ramadi, like recent Iraqi gains in Baiji, Tikrit, and Sinjar all demonstrate the approach we are taking is having an effect as Iraqis prepare for what will be a tough fight for Mosul. Likewise in Syria, local anti-ISIL forces we've enabled with equipment and ammunition have had successes in Tal Abyad, al-Hawl, and the Tishreen Dam. It is imperative to keep building on this momentum.

As we work with our partners to destroy ISIL's parent tumor in Iraq and Syria, we must also recognize that ISIL is metastasizing in areas like North and West Africa and Afghanistan. Having taken out ISIL's leader in Libya in November, we are also now prepared to step up pressure on ISIL in Afghanistan to check their ambitions there as well.

Finally, at the same time that we accelerate our campaign, so must every one of our coalition partners – there can be no free riders. That's why earlier this month in Brussels I convened the first-ever meeting of defense ministers from 27 other countries involved in the military coalition to defeat ISIL to follow up after I personally reached out to dozens of defense ministers to urge them to consider filling critical military and non-military needs in the campaign. And I'm gratified to report that coalition members responded to our challenge – and

not only NATO allies like Canada and the Netherlands, but also Gulf nations, including Saudi Arabia and the United Arab Emirates. In sum, nearly 90 percent of the countries participating in the coalition's military campaign have either stepped up their role or committed to do so in the coming days. Their decisions to expand air operations, send more trainers, provide logistical support, help with reconstruction, or make other contributions will all help our coalition intensify the counter-ISIL campaign and bring about ISIL's lasting defeat.

None of this changes the fact that our counter-ISIL campaign is a hard and complex fight. We have tactical and strategic goals, but they will take time – and, as is often said, the enemy gets a vote. For our part, we will remain focused, committed, and resilient because this is a fight we can, must, and will win, as our efforts to accelerate our campaign are already producing real and promising results.

#### *Ensuring Long-Term Stability in Afghanistan*

After more than a decade of war in Afghanistan, we have to make sure our gains there stick, which is why the budget continues to support our two missions in Afghanistan – countering terrorism, and training, advising, and assisting the Afghan National Defense and Security Forces (ANDSF). In support of those two missions, the President announced last fall that the United States will maintain a continued presence of 9,800 troops through most of 2016 before drawing down to 5,500 troops by January 2017. As I told our troops there when I visited them this past December, while Afghanistan remains a dynamic fight, we are determined to ensure that terrorists – regardless of whether they're al-Qaeda or ISIL – never have or find safe haven there again.

The budget provides \$41.7 billion in FY 2017 for Operation Freedom's Sentinel – including funding to support our posture in U.S. Central Command, the full funding of \$3.4 billion to support the ANDSF, and \$1.4 billion to support other coalition partners. Importantly, this allows us to continue strengthening and developing the ANDSF's aviation, logistics, intelligence, and special operations capabilities, with the intent of reducing their dependency on us over time. Also, in addition to upholding our commitments to Afghanistan, the Afghan people, and other partners, the budget reflects that the United States will retain several key locations in 2016 and beyond, including facilities in Kabul, Bagram, Jalalabad, and Kandahar. As we do so, the United States will support the continuation of the NATO mission in Afghanistan in 2016 and beyond, and continue to consult with our NATO allies and partners to ensure that the U.S. and NATO missions in Afghanistan are mutually supportive.

Our continued presence in Afghanistan is not only a sensible investment to counter threats that exist and stay ahead of those that could emerge in this volatile region; it also supports the willing partner we have in the government of Afghanistan. It is in the United States' interest to help them succeed, for the benefit of their security, our security, the region and the world.

#### *Closing the Detention Facility at Guantanamo*

The Defense Department is resolutely committed to responsibly closing the detention facility at Guantanamo Bay. I share the President's belief – and the belief of many in Congress – that doing so would benefit our national security, which is why DoD will continue to transfer Guantanamo detainees to other countries when appropriate, such as when we have substantially mitigated any security risks to the United States.

Over the last three months, we completed transfers for 16 detainees, bringing the population to 91. Like every transfer that came before them, the decision to transfer these

detainees happened only after a thorough review by me and other senior security officials of our government.

That said, because many of the remaining detainees currently cannot be safely transferred to another country, we need an alternative to this detention facility. Therefore, I support the President's plan to establish and bring those detainees to an appropriate, secure, alternative location in the United States. I appreciate that Congress has indicated a willingness to consider such a proposal, and, in accordance with the 2016 National Defense Authorization Act, DoD delivered that plan to Congress earlier this week. We look forward to working with Congress to identify the most appropriate design, legislative foundation, and geographic location for future detention and to lift the restrictions preventing the responsible closure of the facility at Guantanamo.

*Supporting and Maintaining our Counterterrorism Capabilities*

In addition to the specific funds outlined above, the budget also reflects other investments we're making in DoD's posture to ensure we can counter terrorism effectively wherever it challenges us. For example, the budget sustains our robust funding for U.S. Special Operations Command, allocating \$10.8 billion in FY 2017. To bolster our partners in fighting terrorism, it requests \$1 billion for our Counterterrorism Partnerships Fund. And it supports the development of DoD's transregional counterterrorism strategy, which I'd like to outline now.

The terrorist threat is continually evolving, changing focus and shifting location, requiring us to be flexible, nimble, and far-reaching in our response. Accordingly, the Defense Department is leveraging the existing security infrastructure we've already established in Afghanistan, the Middle East, East Africa, and Southern Europe, so that we can counter transnational and transregional terrorist threats like ISIL and others in a sustainable, durable way going forward. From the troops I visited in Morón, Spain last October, to those I visited in Jalalabad, Afghanistan last December, these locations and associated forces in various regions help keep us postured to respond to a range of crises, terrorist and other kinds. In a practical sense, they enable our crisis response operations, counter-terror operations, and strikes on high-value targets, and they help us act decisively to prevent terrorist group affiliates from becoming as great of a threat as the main entities themselves. This transregional approach is already giving us the opportunity and capability to react swiftly to incidents and threats wherever they occur, and it maximizes our opportunities to eliminate targets and leadership. An example of this in action was our November strike on Abu Nabil, ISIL's leader in Libya, where assets from several locations converged to successfully kill him. To help implement this strategy, including in the fight against ISIL and its metastasis beyond Iraq and Syria, the budget includes an additional \$175 million in FY 2017 – \$9 million to help bolster our posture in the Levant, and \$166 million to help us better address threats in North and West Africa in conjunction with our European partners.

Because the accelerating intensity of our precision air campaign against ISIL in Iraq and Syria has been depleting our stocks of some of the GPS-guided smart bombs and laser-guided rockets we use against terrorists the most, the budget invests \$1.8 billion in FY 2017 to buy over 45,000 more of them. Furthermore, DoD is also exploring increasing the production rate of these munitions in our industrial base – calling on America's great arsenal of democracy to help us and our partners finish the job of defeating ISIL.

Also, because our remotely-piloted intelligence, surveillance, and reconnaissance (ISR) aircraft play an important role in countering terrorism, the budget includes \$1.2 billion for FY

2017 and \$4.5 billion over the FYDP to increase the number of around-the-clock permissive ISR combat air patrols from 70 today to 90 by the end of FY 2018. Using a mix of MQ-9 Reapers, Extended Range Reapers, and MQ-1C Advanced Gray Eagles – and comprising 60 patrols from the Air Force, 16 from the Army, and 14 that are government-owned and flown by contractors for the Air Force and U.S. Special Operations Command – these investments will be critical as the need for ISR continues to increase around the world.

Finally, because it helps us maintain a larger Air Force fighter fleet that can drop more smart bombs in our counter-ISIL air campaign, the budget also further defers the A-10 Thunderbolt's final retirement until 2022. I saw some of the A-10s that are flying bombing missions against ISIL when I was at Incirlik Air Base in Turkey last December, and we need the additional payload capacity they can bring to the fight. Accordingly, we are also changing the rate at which we will phase out the A-10 as we approach 2022, as I will explain later in this testimony.

### **A Strong and Balanced Strategic Approach to Deter Russia**

Despite the progress we've made together since the end of the Cold War, Russia has in recent years appeared intent to erode the principled international order that has served us, our friends and allies, the international community, and also Russia itself so well for so long. In Europe, Russia continues to violate the sovereignty of Ukraine, Georgia, and Moldova, and actively seeks to intimidate its Baltic neighbors. In Syria, Russia has been pouring gasoline on a civil war that fuels the very extremism Russia claims to oppose. At sea, in the air, in space, and in cyberspace, Russian actors have engaged in challenging international norms. And most disturbing, Moscow's nuclear saber-rattling raises questions about Russia's leaders' commitment to strategic stability, their respect for norms against the use of nuclear weapons, and whether they respect the profound caution that nuclear-age leaders showed with regard to brandishing nuclear weapons.

To be clear, the United States does not seek a cold, let alone hot war with Russia. We do not seek to make Russia an enemy, even as it may view us that way. But make no mistake – we will defend our interests, our allies, the principled international order, and the positive future it affords us all. That's why the United States is taking a strong and balanced strategic approach in response to Russia's aggression: strengthening both our allies and ourselves, including through investments in this budget, while also giving Russia the opportunity, if it chooses, to rejoin the international community and work with us where our interests align.

Since Russia began its illegal attempted annexation of Crimea a little over two years ago, DoD's budgets have made valuable investments in reinforcing our NATO allies; for example, contributing to NATO's Very High Readiness Joint Task Force, and stepping up our training and exercises under Operation Atlantic Resolve. This budget builds on that significantly, and breaks new ground by re-envisioning and recommitting to deterring – and, if deterrence fails, defeating – any aggression against our allies in the future. The 20<sup>th</sup> century NATO playbook was successful in working toward a Europe whole, free and at peace, but the same playbook would not be well-matched to the needs of the 21<sup>st</sup> century. Together with our NATO allies, we must write a new playbook which includes preparing to counter new challenges like cyber and hybrid warfare, better integrating conventional and nuclear deterrence, as well as adjusting our posture and presence to adapt and respond to new challenges and new threats.

To further reinforce our NATO allies and build our deterrence posture in the face of Russia's aggression, this budget significantly increases funding for our European Reassurance

Initiative to make a total investment of \$3.4 billion for FY 2017 – more than quadrupling the \$789 million that we requested last year – allowing us to increase the amount of prepositioned equipment sets in Europe as well as the number of U.S. forces, including Reserve forces, rotating through Europe to engage with friends and allies. This increase supports the persistent rotational presence of an armored brigade combat team for 12 months out of the year, which will give us a total of three brigade combat teams continuously present in Europe. It supports more training and exercises with our European friends and allies. It supports more warfighting gear, including forward-stationing equipment for an additional armored brigade combat team by the end of 2017. It supports prepositioning equipment for a division headquarters and other enablers in Europe, such that this equipment – along with assigned Army airborne and Stryker brigade combat teams and Marine Corps heavy vehicles and equipment already in Europe – will allow us to rapidly form a highly-capable combined-arms ground force of division-plus strength that can respond theater-wide if necessary. And it helps strengthen our regional air superiority posture – among other things, allowing us to keep an additional F-15C tactical fighter squadron based in Europe, and also improve airfield infrastructure to enhance operations for Air Force fighters and Navy maritime patrol aircraft.

In addition, the budget reflects how we're doing more, and in more ways, with specific NATO allies. Given increased Russian submarine activity in the North Atlantic, this includes building toward a continuous arc of highly-capable maritime patrol aircraft operating over the Greenland-Iceland-United Kingdom gap up to Norway's North Cape. It also includes the delivery of Europe's first stealthy F-35 Joint Strike Fighters to our British allies. And, given Russia's use of hybrid warfare – exemplified by the so-called 'little green men' in Ukraine – the budget supports more rotational presence of U.S. special operations forces exercising in Europe.

The budget also significantly funds important new technologies that, when coupled with revised operational concepts, will ensure we can deter and if necessary win a high-end conventional fight in an anti-access, area-denial environment across all domains and warfighting areas – air, land, sea, space, cyberspace, and the electromagnetic spectrum. While I will address these areas in greater detail later in this testimony, investments that are most relevant to deterring Russia include new unmanned systems, enhanced ground-based air and missile defenses, new long-range anti-ship weapons, the long-range strike bomber, and also innovation in technologies like the electromagnetic railgun, lasers, and new systems for electronic warfare, space, and cyberspace. The budget also invests in modernizing our nuclear deterrent.

Consistent with our strong and balanced approach, the door will remain open for Russia to reassume the role of respected partner going forward. While that would be greatly welcomed by the United States, and the Department of Defense, it's up to the Kremlin to decide – first by demonstrating a willingness to return to the international community.

### **Operationalizing the Rebalance to the Asia-Pacific**

The budget also supports operationalizing our rebalance to the Asia-Pacific region. In a region home to nearly half the world's population and nearly half the global economy, for 70 years the United States has helped underwrite a stable security environment that allowed the people, economies, and countries in the Asia-Pacific to rise and prosper. We fully intend to continue these efforts so that bright future can be possible for everyone in this important region.

Accordingly, the budget helps improve DoD's geographically distributed, operationally resilient, and politically sustainable posture in the region, through which the United States seeks to preserve peace and stability, and maintain our strategic advantage in an area that's critically

important to America's political, economic, and security interests. Investments in the budget reflect how we're moving more of our forces to the region – such as 60 percent of our Navy and overseas Air Force assets – and also some of our most advanced capabilities in and around the region, from F-22 stealth fighter jets and other advanced tactical strike aircraft, to P-8A Poseidon maritime surveillance aircraft, to our newest surface warfare ships. They also reflect how we're developing and implementing new posture initiatives – in places like Guam, the Northern Marianas, the Philippines, Australia, and Singapore, as well as modernizing our existing footprint in Korea and Japan. And they reflect our efforts to support and strengthen a regional security architecture that benefits everyone – from strengthening and modernizing our alliances, to bolstering our ties with the Association of Southeast Asian Nations (ASEAN), to building the security capabilities of our many friends and allies, who increasingly want to do more with us in the region. In support of this effort, the budget fully supports our five-year, \$425 million Southeast Asia Maritime Security Initiative begun in FY 2016.

For this region, as it does with Europe, the budget also significantly funds important new technologies to ensure we can deter and if necessary win a high-end conventional fight in an anti-access, area-denial environment across all domains and warfighting areas – air, land, sea, space, cyberspace, and the electromagnetic spectrum. These investments – which I will outline later in this testimony – are important for ensuring our forces can go anywhere, at any time, and succeed in whatever mission we ask of them.

It's important to remember that America's rebalance has never aimed to hold any nation back or push any country down. The United States wants every nation to have an opportunity to rise, because it's good for the region and good for our collective interests. That includes China. As we welcome the growth and prosperity of all Asia-Pacific nations, it is clear that the U.S.-China relationship will be complex as we continue to balance our competition and cooperation. There are opportunities to improve understanding and to reduce risk with China – for example, we've agreed to four confidence-building agreements, including one meant to prevent dangerous air-to-air encounters. But there remain areas of concern.

For one, the United States joins virtually everyone else in the region in being deeply concerned about the pace and scope of land reclamation in the South China Sea, the prospect of further militarization, as well as the potential for these activities to increase the risk of miscalculation or conflict among claimant states. U.S. military presence in the region is decades-old, has been instrumental in upholding the rules-based international system, and has laid the foundation for peace and security in the region. Our interest is in maintaining freedom of navigation and overflight, full and unimpeded lawful commerce, and that disputes are resolved peacefully. To accomplish this, we will continue to fly, sail, and operate wherever international law allows. We also expect China to uphold President Xi's pledge not to pursue militarization in the Spratly Islands of the South China Sea.

Also, we are closely watching the long-term, comprehensive military modernization program that China, as well as other countries, continues to pursue. While there is no question that the United States retains a decisive military edge in the Asia-Pacific today, China is investing in capabilities to counter third-party – including the United States – intervention during a crisis or conflict. These capabilities include ballistic and cruise missiles of increasingly greater range and accuracy, counter-space and offensive cyber capabilities, and electronic warfare systems. To maintain a lasting competitive advantage, DoD is taking prudent steps to preserve and enhance deterrence for the long term. The budget reflects this, including with investments to

continue adapting our forces, posture, operations, and capabilities to deter aggression, defend our allies, and sustain our military edge in the Asia-Pacific.

**Deterring North Korea**

The budget also supports investments necessary to deter North Korean provocation and aggression, ensure our forces on the Korean Peninsula remain ready and capable to ‘fight tonight’ if necessary, and defend against threats emanating from North Korea against the United States and our allies. This includes threats posed by North Korea’s nuclear and missile programs, against which DoD is fully capable of defending the U.S. homeland. Our position has been, and remains, that North Korea must abide by its international obligation to abandon its nuclear and missile programs and stop its provocative behavior.

North Korea’s nuclear test on January 6<sup>th</sup> and its ballistic missile launch on February 7<sup>th</sup> were highly provocative acts that undermine peace and stability on the Korean Peninsula and in the region. The United States condemns these violations of U.N. Security Council resolutions and again calls on North Korea to abide by its international obligations and commitments. We are monitoring and continuing to assess the situation in close coordination with our regional partners.

DoD remains fully capable of fulfilling U.S. treaty commitments to our allies in the event of a North Korean attack, and we’re working with our Republic of Korea allies to develop a comprehensive set of alliance capabilities to counter the growing North Korean ballistic missile threat. I spoke with my South Korean counterpart shortly after the nuclear test, and reiterated our commitments as strong and steadfast allies. Also, a few hours after the ballistic missile launch, the United States and the Republic of Korea jointly announced the start of formal consultations to discuss the feasibility of deploying a Terminal High-Altitude Area Defense (THAAD) system to the Korean Peninsula at the earliest date.

**Checking Iran’s Malign Influence while Strengthening Regional Friends and Allies**

The Middle East presents a kaleidoscope of challenges, but there, as everywhere, DoD’s budget – and accordingly our actions and strong military posture – is guided by our North Star of what’s in America’s interests. Defeating ISIL in Iraq and Syria, which I discussed earlier, is of course one of those interests, but amid this region’s complexity and uncertainty, we also have other interests of great importance, which are to deter aggression; to bolster the security of our friends and allies, especially Israel; to ensure freedom of navigation in the Gulf; and to check Iran’s malign influence even as we monitor the implementation of the Joint Comprehensive Plan of Action. That’s why DoD maintains tens of thousands of American personnel ashore and afloat in the region, along with our most sophisticated ground, maritime, and air and ballistic missile defense assets.

While the Joint Comprehensive Plan of Action places significant limitations on Iran that will effectively cut off its pathways to the fissile material for a nuclear bomb, it does not limit in any way what DoD can and will do to pursue our defense strategy in the region. It places no limits on our forces, our partnerships and alliances, our intensive and ongoing security cooperation, or on our development and fielding of new military capabilities – capabilities we will continue to advance. So if Iran were to commit aggression, our robust force posture ensures we can immediately respond and rapidly surge an overwhelming array of forces into the region, leveraging our most advanced capabilities married with sophisticated munitions that put no target out of reach.

This budget invests in maintaining those abilities going forward, which is important, because Iran and its proxies will still present security challenges. Iran supports Assad in Syria, backs Hezbollah in Lebanon, and is contributing to disorder in Yemen, while still directing hostility and violence to our closest ally in the region, Israel. To continue to meet our commitments and enhance our cooperation with our friends and allies in the region, especially Israel, the budget makes critical investments – including \$146 million to support Israel in FY 2017. This reflects our unshakeable commitment to Israel and its security, with funding for Iron Dome, David’s Sling, Arrow, and other cooperative defense programs – not only ensuring that Israel can defend itself, but also preserving and enhancing Israel’s qualitative military edge, which is a cornerstone of our defense relationship.

Meanwhile, with critical investments in other areas, the budget enables DoD to continue to advance our preparations, posture, partnerships, and planning to preserve the President’s options for any contingency. It strengthens the regional security architecture in a way that blunts Iran’s ability to coerce its neighbors. And it helps us stay ahead of the risks posed by Iran’s ballistic missiles, naval forces, cyber capabilities, and support for terrorists and others in the region.

**Addressing Threats in Cyber, Space, and Electronic Warfare**

Even as we make adjustments in our budget to address the five evolving challenges posed by Russia, China, Iran, North Korea, and terrorist groups like ISIL and al-Qaeda, we are also making adjustments to address emerging and increasing threats that transcend individual nations and organizations. That’s because, as we confront these five challenges, we know we’ll have to deal with them across all domains – and not just the usual air, land, and sea, but also particularly in the areas of cyber, space, and electronic warfare, where our reliance on technology has given us great strengths, but also led to vulnerabilities that potential adversaries are eager to exploit.

As I made clear when I released DoD’s new cyber strategy last April, we have three missions in cyberspace – first and foremost, to defend our networks, systems, and information; second, to defend the nation and our interests from cyberattacks of significant consequence; and third, to provide options that can augment our other military systems. Given the increasing severity and sophistication of the threats and challenges we’re seeing in cyberspace – ranging from ISIL’s pervasive online presence to the data breaches at the Office of Personnel Management – the budget puts a priority on funding our cyber strategy, investing a total of \$6.7 billion in FY 2017 and \$34.6 billion over the FYDP. This is a \$900 million increase over last year’s budget. While these funds will help us continue to develop, train, and equip our growing Cyber Mission Force, and also make new technological investments to strengthen our cyber defenses and capabilities – both of which I address later in this testimony – the budget also reflects our efforts to make a fundamental shift toward a culture of accountability in cyberspace, from instituting a DoD-wide cybersecurity scorecard to monitor our progress to increasing individual knowledge about practical ways to defend against cyber intrusions. Our people understandably hold themselves to very high standards when it comes to caring for, attending to, using, and being accountable for the weapons they carry into battle, and we must do the same when it comes to interacting with our networks and cyber capabilities – not only among our cyber warriors and IT professionals, but throughout the DoD workforce.

While at times in the past space was seen as a sanctuary, new and emerging threats make clear that’s not the case anymore, and we must be prepared for the possibility of a conflict that extends into space. This means that as we continue to ensure our access to space so we can

provide capabilities like reconnaissance, GPS, and secure communications that enable and enhance our operations in other domains, we must also focus on assuring and defending these capabilities against aggressive and comprehensive counter-space programs of others. Though competitors may understand our reliance on space, we will not let them use it against us, or take it away. As I will discuss later in this testimony, this budget makes important investments to do just that – sustaining and building on the major shifts DoD began funding in last year’s budget submission. With the presence of so many commercial space endeavors, we want this domain to be just like the oceans and the Internet: free and open to all.

Finally, high-end competitors have also invested in electronic warfare systems as a cost-effective way to challenge the United States and try to blunt our technological advantage. By jamming our radars, communications, and GPS, these systems would seek to disrupt the integrated capabilities that allow our forces to identify, target, reach, and destroy an enemy with precision. We cannot allow that to happen, which is why this budget deliberately invests in buying more electronic protection and resiliency for our current systems as well as developing more advanced capabilities. I will address these investments in more detail later in this testimony.

## **V. SEIZING OPPORTUNITIES FOR THE FUTURE**

The other significant share of our budget goes toward making sure DoD will be ready for the future. Our budget’s investments and programming decisions in this area reflect my commitment to create a Defense Department that’s open to change and new ideas to ensure a better future for both DoD and the nation, and my priorities in doing so. These are best understood through the four key pillars of this commitment – namely, updating and refining warfighting strategies, operational concepts, and tactics; driving smart and essential technological innovation; building the force of the future; and reforming the DoD enterprise.

While I will describe what we’re doing in each of those areas momentarily, the dynamic strategic environment I described earlier in this testimony explains why such change is so important – not for the sake of change, but for the security of this country. We cannot let those challenges overtake us; we have to stay ahead of them and stay the best. That’s why as Secretary of Defense I’ve been pushing the Pentagon to think outside our five-sided box.

### **Updating and Refining Warfighting Strategies, Operational Concepts, and Tactics**

Because our military has to have the agility and ability to win both the fights we’re in, the wars that could happen today, and the wars that could happen in the future, we’re always updating our plans and developing new operational approaches to account for any changes in potential adversary threats and capabilities, and to make sure that the plans apply innovation to our operational approaches – including ways to overcome emerging threats to our security, such as cyberattacks, anti-satellite weapons, and anti-access, area denial systems. We’re building in modularity that gives our chain of command’s most senior decision-makers a greater variety of choices. We’re making sure planners think about what happens if they have to execute their plan at the same time as another contingency is taking place, so they don’t fall into the trap of presuming the contingency they’re planning for would be the only thing we’d be doing in the world at that time. And we’re injecting agility and flexibility into our processes, because the world, its challenges, and our potential opponents are not monolithic, and we must be just as dynamic to stay ahead of them.

As I mentioned earlier, DoD is continuing to embark on a force-wide, all-service transition from an era focused on counterinsurgency operations to an era focused on the full spectrum of military operations. While we do so for many important reasons, it's also important to note that we don't want to forget or turn our back on counterinsurgency, but rather enable most of our forces to be capable of doing a lot more than just that. A smaller segment of our force will still specialize in these skills, and DoD will retain the ability to expand our operational capacity for counterinsurgency missions should it become necessary.

The transition to full-spectrum operations is and will be coupled with demonstrations to clearly signal it and make that signal credible, which is key to conventional deterrence. The same is true for our investments in capabilities – in new technologies, new operational concepts, and also innovative ways for how we use what we already have – these must and will be demonstrated as well. This is accounted for in the budget, as are other investments we're making to recommit ourselves to deterrence across the strategic, operational, and tactical levels of conflict.

Recognizing the immense value that wargaming has historically had in strengthening our force in times of strategic, operational, and technological transition – such as during the interwar years between World War I and World War II, when air, land, and naval wargamers developed innovative approaches in areas like tank warfare and carrier aviation – this budget makes significant new investments to reinvigorate and expand wargaming efforts across the Defense Department. With a total of \$55 million in FY 2017 as part of \$526 million over the FYDP, this will allow us to try out nascent operational concepts and test new capabilities that may create operational dilemmas and impose unexpected costs on potential adversaries. The results of future wargames will be integrated into DoD's new wargaming repository, which was recently established to help our planners and leaders better understand and shape how we use wargames while also allowing us to share the insights we gain across the defense enterprise.

### **Driving Smart and Essential Technological Innovation**

The investments this budget makes in technology and innovation, and the bridges it helps build and rebuild, are critical to staying ahead of future threats in a changing world. When I began my career, most technology of consequence originated in America, and much of that was sponsored by the government, especially DoD. Today, not only is much more technology commercial, but the competition is global, with other countries trying to catch up with the advances we've enjoyed for decades in areas like precision-guided munitions, stealth, cyber, and space. So now, as we have in the past, DoD must invest to ensure America pioneers and dominates these and other technological frontiers.

DoD is therefore pursuing new technology development along with new operational concepts, and new organizational constructs – all of which are reflected in or supported by this budget submission – to maintain our military's technological superiority and ensure we always have an operational advantage over any potential adversary. How we do this is important, because while the Cold War arms race was characterized mostly by strength, with the leader simply having more, bigger, or better weapons, this era of technological competition is uniquely characterized by an additional variable of speed, such that leading the race now depends on who can out-innovate faster than everyone else. It's no longer just a matter of what we buy; what also matters is how we buy things, how quickly we buy them, whom we buy them from, and how quickly and creatively we're able to upgrade them and repurpose them to be used in different and innovative ways to stay ahead of future threats.

In particular, this means leveraging the capability of current and emerging technologies, including commercial technologies wherever appropriate. It means demonstrating and seeding investments in new capabilities and concepts to counter advanced anti-access, area-denial challenges across all domains and in every region where they persist – a particular focus of DoD’s effort to develop a third offset strategy. And also, it means investing in and operationalizing our security by leveraging advances in cyber, space, electronic warfare, biotechnology, artificial intelligence, and other areas. Our technologies and capabilities must be able to operate so that no matter what any of our enemies might throw at them, they are able to defeat attempts to be hacked.

Accordingly, this budget invests a total of \$183.9 billion in FY 2017, and \$951 billion over the FYDP, to help research, develop, test, evaluate, and procure the right technology and capabilities our military will need to deter and if necessary fight and win full-spectrum conflicts in the future. For the second year in a row, the budget increases funding for our research and development accounts, which total \$71.8 billion in FY 2017. That includes \$12.5 billion specifically invested in science and technology to support groundbreaking work happening in the military services, in our dozens of DoD labs and engineering centers across the country, and in the Defense Advanced Research Projects Agency (DARPA) to develop and advance disruptive technologies and capabilities in areas like undersea systems, hypersonics, electronic warfare, big data analytics, advanced materials, energy and propulsion, robotics, autonomy, and advanced sensing and computing.

At the same time that DoD is making investments in technologies themselves, we’re also investing in building and rebuilding bridges with America’s vibrant, innovative technology community and forging more connections with the commercial technology base – and it’s reflected in our budget. In FY 2017, this includes \$45 million for our Defense Innovation Unit-Experimental (DIUx), which we opened in Silicon Valley last August to build relationships and better tap into the region’s innovation ecosystem. It also includes \$40 million for our pilot program with the independent, non-profit startup backer In-Q-Tel, leveraging its venture capital model to help find innovative solutions for some of our most challenging problems. And it includes \$137 million to support our public-private partnership-funded Manufacturing Innovation Institutes, including the one focused on flexible hybrid electronics that I announced in Silicon Valley last August. In all these areas, similar to how DoD’s historic investments in things like GPS and the Internet later went on to yield great benefits for not just our security but also our society, we hope the investments we’re making in some of these fields along with our partners in the technology industry will lead to incredible advances that today we can only imagine.

Importantly, technological innovation must be done in concert with operational innovation. It’s not enough to have or create new technologies or weapon systems; how they are used is key. The budget reflects work DoD has been undertaking in this area through multiple lines of effort. First, there’s our Long-Range Research and Development Planning Program – an effort named after the mid-1970s project that brought together a cross-section of military, academic, and private-sector experts who paved the way to a future of GPS-guided smart bombs, battle networks, and stealth – and also our Advanced Capability and Deterrence Panel. Both focus on identifying and charting longer-term, leap-ahead investments for strategies and capabilities that will give us an advantage several decades from now, and together they make up nearly 60 percent of our science and technology investments in this budget submission.

## AS PREPARED – EMBARGOED UNTIL DELIVERY

Now, to focus on maintaining our near-term advantage, DoD has an office that we don't often talk about, but that I want to highlight today. It's called the Strategic Capabilities Office (SCO). I created SCO in 2012 when I was Deputy Secretary of Defense to reimagine existing DoD, intelligence community, and commercial systems by giving them new roles and game-changing capabilities to confound potential opponents. I picked a talented physicist to lead it. SCO is incredibly innovative, but also has the rare virtue of rapid development and the even rarer charter to keep current capabilities viable for as long as possible. So it's good for both troops and taxpayers alike.

SCO is focused on thinking differently, which is incredibly important to innovation when it comes to technological capabilities. Thinking differently put us in space and on the moon. It put computers in our pockets and information at our fingertips. It's how we came to have airplanes that take off from the decks of ships, nuclear submarines beneath the seas, and satellite networks that take pictures of the world and show us where we are in it. And this kind of bold, innovative thinking isn't lost to history. It's happening every day, in SCO and many other places throughout the Department of Defense.

Most people don't often hear about it because most of its work is classified; however, SCO has been a tremendously useful part of DoD. It's received large support from all the services, as well as our combatant commands, the Joint Chiefs of Staff, the intelligence community, and also Congress – with its budget growing from \$140 million in its first year, FY 2014, to reaching \$845 million for FY 2017 in this year's budget submission. To show the return we're getting on those investments, I'd like to highlight some projects SCO has been working on that we're funding in the budget.

First is a project focused on advanced navigation, where SCO is taking the same kinds of micro-cameras and sensors that are littered throughout our smartphones today, and putting them on our Small Diameter Bombs to augment their targeting capabilities. This will eventually be a modular kit that will work with many other payloads – enabling off-network targeting through commercial components that are small enough to hold in your hand.

Another SCO project uses swarming, autonomous vehicles in all sorts of ways, and in multiple domains. For the air, they've developed micro-drones that are really fast, and really resilient – they can fly through heavy winds and be kicked out the back of a fighter jet moving at Mach 0.9, like they did during an operational exercise in Alaska last year, or they can be thrown into the air by a soldier in the middle of the Iraqi desert. And for the water, they've developed self-driving boats, which can network together to do all sorts of missions, from fleet defense to close-in surveillance – including around an island, real or artificial, without putting our sailors at risk. Each one leverages the wider world of technology. For example, the micro-drones use a lot of commercial components and 3D printing. And the boats build on some of the same artificial intelligence algorithms that NASA's Jet Propulsion Laboratory wrote for the Mars lander.

SCO also has a project on gun-based missile defense, where we're taking the same hypervelocity smart projectile developed for the electromagnetic railgun, and using it for point defense by firing it with artillery we already have in our inventory – including the five-inch guns at the front of every Navy destroyer, and also the hundreds of Army Paladin self-propelled howitzers. This way, instead of spending more money on more expensive interceptors, we can turn past offense into future defense – defeating incoming missile raids at much lower cost per round, and thereby imposing higher costs on the attacker. In fact, we tested the first shots of the hypervelocity projectile out of a Paladin a little over a month ago, and we found that it also significantly increases the range.

There's also a SCO project that we're calling the arsenal plane, which takes one of our oldest aircraft platforms, and turns it into a flying launch pad for all sorts of different conventional payloads. In practice, the arsenal plane will function as a very large airborne magazine, networked to fifth-generation aircraft that act as forward sensor and targeting nodes – essentially combining different systems already in our inventory to create wholly new capabilities.

The last SCO project I want to highlight is how we're creating a brand new capability with the SM-6 missile, an interceptor that's designed to launch from our Navy's surface ships and be highly maneuverable and aerodynamic to stop incoming ballistic and cruise missiles in the atmosphere. It's one of our most modern and capable munitions – and thanks to work done by SCO, we've been able to modify the SM-6 so that in addition to missile defense, it can also target enemy ships at sea. This new anti-ship mode makes the SM-6 doubly useful, taking the defensive speed and maneuverability already sitting in our Aegis destroyers' launch cells and leveraging it for offensive surface warfare lethality. That makes it a potent new capability for our fleet, and also a good deal for the taxpayer by using the same thing twice. We already know this works; it was fully tested this past January to great success. And, as I will address later in this testimony, this new operational concept is strongly reflected in our 2017 budget.

Those are just a few projects that SCO has worked on so far – and they're working on a lot more, including some surprising ones.

Now, with all of that in mind – from why we need to invest in technological innovation, to how we're doing it – let me address the specific investments this budget makes in technologies and capabilities to deter, and if necessary fight and win, a full-spectrum conventional war against even the most high-end of adversaries. In concert, they will help maintain our military's edge both under and on the sea, on land, in the air, in space, in cyber and electronic warfare, and in the modernization and maintenance of our nuclear enterprise.

### Maritime Investments

In the maritime domain, the budget refocuses our Navy on building lethality for high-end conflicts while continuing to grow the battle fleet to meet, but not exceed, the department's warfighting posture requirement of 308 ships. Our investments reflect an emphasis on payloads over platforms, on the ability to strike from sanctuary quickly so that no target is out of reach, and on closing capability shortfalls that have developed over the last several years.

First, the budget maximizes our undersea advantage – leveraging and growing our lead in an area where the U.S. military should be doing more, not less, going forward. It provides funding for important payloads and munitions, including \$170.8 million in FY 2017 and \$1.5 billion over the FYDP for an improved heavyweight torpedo as well as research and development for an advanced lightweight torpedo to stay ahead of existing and emerging undersea challenges. It includes \$5.2 billion in FY 2017 and \$29.4 billion over the FYDP to buy nine Virginia-class attack submarines over the next five years; four of those submarines – up from three in last year's budget – will be equipped with the versatile Virginia Payload Module that can more than triple each submarine's strike capacity from 12 Tomahawk land attack missiles to 40. The budget also invests \$500 million in FY 2017, and \$3.4 billion over the FYDP, to upgrade 49 of our submarines' combat systems and enhance underwater acoustics on nine of our existing Virginia-class submarines. It increases funding for unmanned undersea vehicles (UUVs) by over \$100 million in FY 2017, part of a total \$173 million in FY 2017 and \$1.2 billion over the FYDP that invests in, among other areas, rapid prototyping of UUVs in

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multiple sizes and diverse payloads – which is important, since UUVs can operate in shallow waters where manned submarines cannot. And it includes \$2.2 billion in FY 2017 and \$6.4 billion over the FYDP to continue procuring the advanced P-8A Poseidon maritime patrol and surveillance aircraft. Together, all these investments – totaling \$8.2 billion in FY 2017, and \$41.9 billion over the next five years – will ensure we continue to have the most lethal undersea and anti-submarine force in the world.

Second, the budget makes significant investments to bolster the lethality of our surface fleet forces, so they can deter and if necessary prevail in a full-spectrum conflict against even the most advanced adversaries. It invests \$597 million in FY 2017, and \$2.9 billion over the FYDP, to maximize production of the SM-6 missile, one of our most modern and capable munitions, procuring 125 in FY 2017 and 625 over the next five years – and this investment is doubly important given the SM-6's new anti-ship capability. It also invests in developing and acquiring several other key munitions and payloads – including \$1 billion in FY 2017, and \$5.8 billion over the FYDP, for all variants of the SM-3 high-altitude ballistic missile interceptor; \$340 million in FY 2017, and \$925 million over the FYDP, for the Long-Range Anti-Ship Missile; \$221 million in FY 2017, and \$1.4 billion over the FYDP, for the Advanced Anti-Radiation Guided Missile, including its extended range version; and \$435 million in FY 2017, as part of \$2.1 billion over the FYDP, for the most advanced variant of the Tactical Tomahawk land-attack missile, which once upgraded can also be used for maritime strike.

Third, the budget reflects decisions we've made to ensure that we look at our overall warfighting posture, rather than only the presence that contributes to it, in determining whether our maritime forces can deter and if necessary fight and win a full-spectrum conflict. Having grown the size and the capability of our surface and subsurface fleet over the last seven years, this budget will continue to do both. It will ensure we meet the department's 308-ship posture requirement – indeed, growing the battle fleet to 308 ships by the end of the FYDP – and it will make our naval forces as a whole more capable, more survivable, and more lethal than they would have been otherwise.

The budget invests \$3.4 billion in FY 2017 and \$18.3 billion over the FYDP to continue to buy two DDG-51 Arleigh Burke-class guided missile destroyers each year over the next five years – a total of 10 over the FYDP – as well as \$400 million in FY 2017 and \$2.8 billion over the FYDP for modernizing our destroyers, 12 of which will also receive upgrades to their combat systems. It continues to support 11 carrier strike groups, investing \$2.7 billion in FY 2017 and \$13.5 billion over the FYDP for new construction of Ford-class carriers, as well as \$2 billion in FY 2017 and \$8.9 billion over the FYDP for midlife reactor refueling and overhauls on our current carrier fleet. And, as I will discuss in the reform section of this testimony, it supports modernizing our guided missile cruisers – providing them with more capability and a longer lifespan while freeing up significant funds that can be put toward a variety of uses.

I'd like to now address the Littoral Combat Ship (LCS), where we made an important tradeoff so we could put more money in submarines, Navy fighter jets, and many other critical areas. As such, the budget takes a new approach to the LCS and its associated frigate – buying a total of 40, not the 52 or more that were planned starting back in 2002. Let me explain why. First, to be clear, we're investing in LCS and frigates because we need the capability they provide, and for missions like minesweeping and anti-submarine warfare, they're expected to be very capable. But now, in 2016, we have to further balance our shipbuilding investments among guided missile destroyers and Virginia-class attack submarines. We face competitors who are challenging us on the open ocean with new submarines, ships, aircraft, and missiles – advanced

capabilities we haven't had to contend with in a long time, meaning that we must now invest more in higher-end capabilities across our own fleet. The department's warfighting analysis called for 40 small surface combatants, so that's how many we're buying. Over the next 10 years, this will let us invest almost \$8 billion more into highly lethal ships and capabilities – all the while increasing both the number of ships and the capability of our battle fleet. While this will somewhat reduce the number of LCS available for presence operations, that need will be met by higher-end ships, and it will ensure that the warfighting forces in our submarine, surface, and aviation fleets have the necessary capabilities to defeat even our most advanced potential adversaries. Under this rebalanced plan, we will still achieve our 308-ship goal within the next five years, and we will be better positioned as a force to effectively deter, and if necessary defeat, even the most advanced potential adversaries.

### Land Investments

To ensure our ground forces have the capabilities to counter emerging threats and the demonstrated ability to deter and if necessary fight and win a full-spectrum conflict, the budget will help provide our Army, Marine Corps, and special operations forces with greater lethality in several forms. This includes a next-generation shoulder-launched weapon, a life extension program as well as a replacement for the Army Tactical Missile System (ATACMS) that can be used for improved counter-battery and long-range strike, and increased firepower for Stryker armored fighting vehicles. Together these investments comprise \$780 million in FY 2017 and \$3.6 billion over the FYDP.

Additionally, the budget invests \$735 million in FY 2017, and \$6.8 billion over the FYDP, in the Joint Light Tactical Vehicle intended to replace the military's Humvees – procuring more than 2,000 vehicles in FY 2017, and a total of more than 17,700 vehicles over the next five years. It also invests \$159 million in FY 2017, and \$1.7 billion over the FYDP, in the Amphibious Combat Vehicle, which will replace the Marine Corps' aging Amphibious Assault Vehicle – helping procure over 200 vehicles over the next five years. And, as I discuss later in the reform section of this testimony, it supports the Army's ongoing Aviation Restructure Initiative – investing \$1.1 billion for 52 AH-64 Apache attack helicopters in FY 2017, and \$5.7 billion for 275 Apaches over the FYDP, as well as \$1 billion for 36 UH-60 Black Hawk utility helicopters in FY 2017, and \$5.6 billion for 268 Black Hawks over the FYDP.

The budget also invests \$9.1 billion for missile defense in FY 2017, and \$47.1 billion over the FYDP. This reflects important decisions we've made to strengthen and improve our missile defense capabilities – particularly to counter the anti-access, area-denial challenge of increasingly precise and increasingly long-range ballistic and cruise missiles being fielded by several nations in multiple regions of the world. Instead of spending more money on a smaller number of more traditional and expensive interceptors, we're funding a wide range of defensive capabilities that can defeat incoming missile raids at much lower cost per round, and thereby impose higher costs on the attacker. The budget invests in improvements that complicate enemy targeting, harden our bases, and leverage gun-based point defense capabilities – from upgrading the Land-Based Phalanx Weapons System, to developing hypervelocity smart projectiles that as I mentioned earlier can be fired not only from the five-inch guns at the front of every Navy destroyer, but also the hundreds of Army M109 Paladin self-propelled howitzers. Additionally, the budget's missile defense investments maintain DoD's commitment to improving our homeland and theater defense systems – as we're increasing the number of deployed Ground-Based Interceptors (GBIs) from 30 to 44, redesigning the exo-atmospheric kill vehicle to

improve the reliability of the Ground-Based Midcourse Defense system, and funding improvements and follow-on concept development for the Terminal High-Altitude Area Defense (THAAD) system. Specifically, we're investing \$1.2 billion in FY 2017 and \$5.8 billion over the FYDP for the Ground-based Midcourse Defense program; for THAAD, we're spending \$640 million in FY 2017 and \$3.6 billion over the FYDP, which includes procuring 24 interceptors in FY 2017 and 149 over the FYDP; and, to research, develop, and deploy a new Long-Range Discrimination Radar, we're investing \$317 million in FY 2017 and \$1 billion over the FYDP.

### Air Investments

To ensure the U.S. military's continued air superiority and global reach, the budget makes important investments in several areas – and not just platforms, but also payloads. For example, it invests \$2.4 billion in FY 2017 and \$8 billion over the FYDP in a wide range of versatile munitions – including buying more Small Diameter Bombs, JDAMs, Hellfires, and AIM-120D air-to-air missiles. We are also developing hypersonics that can fly over five times the speed of sound.

The budget continues to buy the stealthy, fifth-generation F-35 Lightning II Joint Strike Fighter. It includes \$10.1 billion in FY 2017 and \$56.3 billion over the FYDP to procure a total of 404 F-35s across the force through 2021 – 43 F-35As for the Air Force in FY 2017 as part of 243 to be purchased over the FYDP, 16 F-35Bs for the Marine Corps in FY 2017 as part of 97 to be purchased over the FYDP, and 4 F-35Cs for the Navy and Marine Corps in FY 2017 as part of 64 to be purchased over the FYDP. This represents a slight deferral in Air Force F-35 procurement, which we're doing in order to free up funds to maintain a larger-size Air Force of 55 tactical fighter squadrons, and to improve avionics, radar, and electronic warfare systems in legacy bomber and fighter aircraft like the F-15, F-16, B-1, B-2, and B-52 fleets – increasing their lethality, survivability, and therefore usefulness in a full-spectrum conflict. At the same time, it also represents an increase in the Navy and Marine Corps' F-35 procurement, which is important to ensure sufficient high-end capability and numbers in our aircraft carriers' tactical fighter fleet.

Additionally, the budget invests \$1.4 billion in FY 2017 and \$12.1 billion over the FYDP for continued development of the Long-Range Strike Bomber, as well as \$3.1 billion in FY 2017 and \$15.7 billion over the FYDP to continue upgrading our aerial tanker fleet – buying 15 KC-46A Pegasus refueling tankers in FY 2017 as part of 75 aircraft to be purchased over the FYDP.

The budget also reflects important decisions regarding future unmanned aerial systems, such as the Navy's Carrier-Based Aerial Refueling System (CBARS), formerly known as the Unmanned Carrier-Launched Air Surveillance and Strike (UCLASS) program – by focusing in the near-term on providing carrier-based aerial refueling, we're setting the stage for a future unmanned carrier air wing. With this approach, the Navy will be able to quickly and affordably field the kinds of unmanned systems that its carrier air wings need today, while laying an important foundation for future, more capable unmanned carrier-based platforms. We know we need to ensure aircraft can operate off the carrier in high-threat environments, and we're working hard to make them unmanned – it's just that the UCLASS program as previously structured was not the fastest path to get us there. This approach will allow us to get started integrating unmanned aircraft onto our aircraft carriers affordably and as soon as possible.

Furthermore, to maximize the capabilities and extend the reach of all our airborne systems, the budget reflects how we're expanding manned-unmanned teaming – from buying Navy MQ-4C Triton unmanned maritime surveillance and patrol aircraft, which can be paired

with our P-8A Poseidon aircraft for a variety of missions; to buying Army AH-64 Apache attack helicopters that can pair with MQ-1C Gray Eagle scouts; to buying Air Force F-35s that can network with both payloads and platforms.

*Cyber and Electronic Warfare Investments*

This budget significantly increases our cyber capabilities, with new investments totaling over \$900 million in FY 2017 compared to last year's budget.

Because defending our networks is and must be DoD's number-one mission in cyberspace, the budget makes significant investments to improve our defensive capabilities to deny a potential attack from succeeding. These include \$336 million over the FYDP to support more capable network perimeter defenses, as well as \$378 million over the FYDP to train and strengthen DoD's Cyber Protection Teams to respond to security breaches, grow our cyber training and testing ranges, and support tool development that will let our Cyber Mission Force quickly respond to cyberattacks against our networks regardless of where they are stationed around the world.

Reflecting our renewed commitment to deterring even the most advanced adversaries, the budget also invests in cyber deterrence capabilities, including building potential military response options. This effort is focused on our most active cyber aggressors, and is based around core principles of resiliency, denial, and response.

As part of DoD's second cyber mission – defending the nation – the budget invests in an advanced capability to disrupt cyberattacks of significant consequences. And to support DoD's third cyber mission – providing offensive cyber options that if directed can augment our other military systems – the budget invests \$347 million over the FYDP to help provide cyber tools and support infrastructure for the Cyber Mission Force and U.S. Cyber Command.

DoD has a unique level of resources and cyber expertise compared to the rest of the federal government, and following the recent data breaches of the Office of Personnel Management's information technology systems, DoD has undertaken responsibility for the development, maintenance, and cybersecurity of the replacement background investigation systems and their data infrastructure. To provide proper support and a dedicated funding stream for this effort, the President's budget includes \$95 million for DoD in FY 2017. Also, on a separate but related note, the budget invests \$454 million over the FYDP to ensure DoD will continue to have access to the trusted microelectronic components needed in our weapon systems. By developing alternative sources for advanced microchips and trusted designs, this funding will help ensure the long-term security of our systems and capabilities.

Meanwhile, to protect our platforms and ensure U.S. freedom of maneuver in contested environments, the budget also continues to support research, development, testing, evaluation, and procurement of advanced electronic warfare capabilities – totaling \$3.7 billion in FY 2017 and \$20.5 billion over the FYDP. To enhance the electronic survivability and lethality of fighter and bomber aircraft like the F/A-18, F-15, and B-2, we're investing in both offensive and defensive airborne capabilities, including the Air Force's Defensive Management System modernization and Eagle Passive Active Warning Survivability System, and also the Navy's Integrated Defensive Electronic Countermeasures and Next Generation Jammer. We're upgrading the radar on our E-3 Sentry AWACS with enhanced electronic protection to make adversary jammers less effective. Investments in the Navy's Surface Electronic Warfare Improvement Program will help our ships protect themselves better. And to help protect our ground forces, the budget invests in the Army's Common Infrared Countermeasures and

Electronic Warfare Planning and Management Tool, as well as the Marine Corps' Intrepid Tiger pod.

While cyber and electronic warfare capabilities provide, for the most part, different techniques to achieve similar mission objectives, an integrated approach can yield additional benefits. This is reflected in our budget, including investments intended to ensure we can hold even the most challenging targets at risk.

### Space Investments

As I mentioned earlier, this budget continues and builds upon important investments in last year's budget to help secure U.S. access to space and address space as an operational domain.

After adding over \$5 billion in new investments in DoD's 2016 budget submission to make us better postured for contested military operations in space – including over \$2 billion in space control efforts to address potential threats to U.S. space systems – this budget largely sustains those investments over the FYDP. While there is much more work ahead, we are on a good path in our efforts to complicate an adversary's ability to defeat our systems while also enhancing our ability to identify, attribute, and negate all threatening actions in space.

Meanwhile, the budget also supports strengthening our current space-based capabilities, and maturing our space command and control. It invests in more satellites for our Space-Based Infrared System to maintain the robust strategic missile warning capability we have today. And it allocates \$108 million over the FYDP to implement the Joint Interagency Combined Space Operations Center (JICSpOC), which will better align joint operations in space across the U.S. government.

DoD must have assured access to space through multiple reliable sources that can launch our critical national security satellites, which is why the budget invests \$1.8 billion for space launch in FY 2017 and \$9.4 billion over the FYDP. Because we want to end the use of the foreign RD-180 engine as soon as possible, and because we have a strong desire to preserve competition for space launch in order to ensure multiple launch service providers can sustain uninterrupted access to space, and to control costs, the budget includes funds for competitive public-private partnerships to help develop new launch services, which we believe is the most responsible way forward. Merely developing a new engine would not give us the assured access to space that we require. We plan to take advantage of the emerging commercial space launch marketplace using an innovative, more commercial approach – investing through competition in new launch services in return for priced options for future launches.

### Nuclear Enterprise Investments

The budget also makes reforms and investments needed to continue providing a safe, secure, and effective nuclear deterrent. Compared to last year's budget submission, it adds \$10 billion over the next five years, for a total of \$19 billion in FY 2017 and \$108 billion over the FYDP for maintaining, and modernizing the nuclear force and associated strategic command, control, and communications systems. This reflects DoD's continuing commitment to the nuclear triad and its critical mission.

In addition to making an array of investments across the nuclear enterprise – from increased funding for manpower, equipment, vehicles, and maintenance, to technological efforts that improve the sustainability of our bomber fleet – the budget also fully funds the first stages of our key nuclear modernization effort, in particular the replacement of our Ohio-class ballistic

missile submarines. The Ohio Replacement Program is allocated \$1.9 billion in FY 2017 and \$13.2 billion over the FYDP, which in addition to research and development will allow the first year of construction on an incrementally-funded first ship to begin in FY 2021.

We expect the total cost of nuclear modernization to be in the range of \$350-\$450 billion. Although this still presents an enormous affordability challenge for DoD, we believe it must be funded. Previous modernizations of America's strategic deterrent and nuclear security enterprise were accomplished by topline increases to avoid having to make drastic reductions to conventional forces, and it would be prudent to do so again. I hope DoD can work with Congress to minimize the risk to our national defense.

### **Building the Force of the Future**

While we have the finest fighting force in the world today, that excellence is not a birthright, and we can't take it for granted in the 21<sup>st</sup> century. We have to earn it again and again, starting with our most enduring advantage – our people.

That's what building the force of the future is all about: making sure that long into the future, my successors will be able to count on the same excellence in people that I do today. And we have several overarching priorities to help us do that, like attracting a new generation of talented Americans, promoting diversity, and rewarding merit; carving tunnels through the walls between DoD, the private sector, our reserve force, and other agencies across the government; and updating and modernizing our personnel management systems with technology and data analysis to help improve the choices and decisions we make related to our people.

I made this commitment to President Obama when he asked me to serve as Secretary of Defense, and so shortly after I was sworn in, I visited my old high school in Abington, Pennsylvania to outline my vision for the force of the future. I talked about how, in the face of generational, technological, and labor market changes, we in the Pentagon must try to make ourselves even better at attracting talent from new generations of Americans. In the months that followed, I went to places like Silicon Valley and St. Louis, and heard from companies like Facebook, and Boeing, and LinkedIn about what they're doing to compete for talent in the 21<sup>st</sup> century. And this past December, I announced that we're opening all combat positions to women, to expand our access to 100 percent of America's population for our all-volunteer force.

Throughout this process, we've always been mindful that the military is a profession of arms. It's not a business. We're responsible for defending this country – for providing the security that allows our friends and family members and fellow citizens to go to school, go to work, to live their lives, to dream their dreams, and to give the next generation a better future.

The key to doing this successfully is leveraging both tradition and change. While the military cannot and should not replicate all aspects of the private sector, we can and should borrow best practices, technologies, and personnel management techniques in commonsense ways that work for us, so that in future generations, we'll keep attracting people of the same high caliber we have today – people who will meet the same high standards of performance, leadership, ethics, honor, and trust we hold our force to today.

Last spring I asked DoD's Personnel and Readiness chief, Brad Carson, to lead a team in developing a package of bold proposals, which they did – building on the great work the military services were already doing, and also coming up with some new ideas. Subsequently, a senior leadership team led by Deputy Secretary of Defense Bob Work and Vice Chairman of the Joint Chiefs of Staff General Paul Selva has been working with the service vice chiefs to closely analyze each proposal and make recommendations before I decide. While this process is still

ongoing for some proposals, I've decided to announce my decisions on other proposals as I've made them, which I will now detail.

### *The First Link to the Force of the Future*

I outlined the first link we're building to the force of the future at George Washington University last November, announcing over a dozen new initiatives in several categories that are intended to make our future Defense Department better connected to 21<sup>st</sup> century talent.

First, we're creating what we call 'on-ramps' for people who aren't involved with DoD but want to try contributing to our mission. One way we're doing this is by having better managed internship programs that more effectively transition promising interns into employees. Another is our new Defense Digital Service, which brings in talent from America's vibrant, innovative technology community for a time to help solve some of our most complex problems. We're also going to bring in resident entrepreneurs, who will work with senior leaders on challenging projects for a year or two. And we're going to hire a chief recruiting officer to bring in top executives for stints in civilian leadership roles, as we had in the past with people like Dave Packard, co-founder of HP, who also served as Deputy Secretary of Defense.

Second, we're creating short-term 'off-ramps' for those currently in DoD, so they can gain new skills, experiences, and perspectives from outside and then bring them back in to help keep us strong, creative, and forward-thinking. One way we're doing this is by expanding and broadening the Secretary of Defense Corporate Fellowship program, including by opening it up to qualified enlisted personnel. Another example is the Career Intermission Pilot Program, which lets people take a sabbatical from their military service for a few years while they're getting a degree, or learning a new skill, or starting a family. DoD plans to seek authorities to make this program permanent, and looks forward to working with Congress to do so – similar to how we were able to partner last year to update and modernize retirement benefits and ensure that the 80 percent of our force that doesn't serve 20 years will get the benefits they earned whenever they move on to whatever's next in life.

And third, we're going to use 21<sup>st</sup> century data and technology to improve and modernize our talent management systems. We're launching LinkedIn-style pilot programs to help give servicemembers and units more choice in matching up for future assignments. We're creating an Office of People Analytics to leverage big data to inform our personnel policies. We're finally implementing exit surveys, so we can have quantitative data on why people decide to leave. And to help us keep bringing in the best people, we're looking at ways to evaluate recruit performance, improve outcomes, and better analyze trends that if left unchecked could indicate or lead to our military's insularity from the rest of society.

### *The Second Link to the Force of the Future*

Last month, I announced our so-called second link to the force of the future, a set of several initiatives with a singular focus: strengthening the support we provide our military families to improve their quality of life. They were developed keeping in mind DoD's recruiting, retention, and career and talent management needs, as well as our closely-linked readiness and warfighting demands, which must always guide us.

We know that our all-volunteer force is predominantly a married force – 52 percent of our enlisted force is married, and 70 percent of our officer force is married. We also have another 84,000 military-to-military marriages, with 80 percent of them stationed within 100 miles of each other. So while we recruit a servicemember, we retain a family. This means that

what we do to strengthen quality of life for military families today, and what we do to demonstrate that we're a family-friendly force to those we want to recruit, is absolutely essential to our future strength. While we often speak of commitments to family and country in the same breath, the stresses of military service on our families are heavy and well known; among the stresses military families face, having and raising children is near the top. We also know that at 10 years of service, when women are at their peak years for starting a family, women are retained at a rate 30 percent lower than men across the services. And we know that a high level of work and family conflict is one of the primary reasons they report leaving service.

To build the force of the future, tackling these problems is imperative, especially when the generation coming of age today places a higher priority on work-life balance. These Americans will make up 75 percent of the American workforce by 2025. Nearly four-in-five of them will have a spouse or a partner also in the workforce – twice the rate of baby boomers. These Americans wait longer to have children, and when they do have children, they want to protect the dual earning power of their families to provide for their children accordingly.

That's why, for starters, we're providing a more competitive standard for maternity and paternity leave across our joint force – setting 12 weeks of fully paid maternity leave as the standard across the joint force, and working with Congress to seek authorities to increase paid paternity leave for new fathers from 10 to 14 days, which they can use in addition to annual leave. These changes put DoD in the top tier of institutions nationwide, and will have significant influence on decision making for our military family members. For both mothers and fathers alike, this establishes the right balance between offering a highly competitive leave policy while also maintaining the readiness of our total force. While I don't take lightly that 12 weeks of maternity leave represents a downshift from what the Navy pursued last summer, we will be at the forefront in terms of competition, especially as part of the comprehensive basket of family benefits we're providing across the joint force. This will be an increasingly important factor as current and future generations of parents have different views and expectations in parenting, and we must continue to be able to attract and retain the best talent among them.

Additionally, we're expanding the child care we provide on our bases, because whether for single parents, for families where both parents work outside the home, or for every mother or father in our military, child care hours should be as responsive as possible to work demands. So based on feedback from pilot programs, and in the interest of responding to typical work hours at our installations, we will increase child care access to 14 hours a day across the force. By providing our troops with child care they can rely on –from before reveille to after taps – we provide one more reason for them to stay on board. And we show them that supporting a family and serving our country are by no means incompatible goals.

We're also making relatively inexpensive improvements so that our workplaces are more accommodating to women when they return from maternity leave, with a focus on making it easier for them to continue breastfeeding if they choose. To make the transition between maternity leave and returning to work for military mothers smoother, to enhance our mission effectiveness, and to comply with standards that apply to nearly every organization outside the military, we're requiring the installation or modification of mothers' rooms throughout all facilities when there are more than 50 women regularly assigned.

Furthermore, we can also be more creative about making reasonable accommodations for members of our force who face difficult family geographic situations while at the same time, as is here as elsewhere, preserving our force's effectiveness. Data indicates that allowing family members to trade the ability to remain at a station of choice in exchange for an additional active

duty service obligation is one approach that could increase retention, while preserving readiness. DoD will be seeking legislative authority to this effect – when the needs of the force permit a service member to stay at their current location, we will seek to empower commanders to make reasonable accommodations, in exchange for an additional service obligation.

Finally, as a profession of arms, we ask our men and women to make incomparable sacrifices. We ask them, potentially, to place themselves at risk of sacrificing their ability to have children when they return home. To better account for this in the benefits we provide our troops, DoD will cover the cost of freezing sperm or eggs through a pilot program for active duty service members – a benefit that will help provide men and women, especially those deployed in combat, with greater peace of mind. This investment will also provide greater flexibility for our troops who want to start a family, but find it difficult because of where they find themselves in their careers.

Each of these initiatives is significant in its own right. Taken together, they will strengthen our competitive position in the battle for top talent, in turn guaranteeing our competitive position against potential adversaries. The initiatives approved to date total \$867 million across the FYDP; we've included this in our budget because it's a worthy investment that will yield great returns.

### *More Still to Come*

While these first two links are important, we will have more to announce on the force of the future in the coming months. For example, we're taking a serious look at some commonsense reforms in our officer promotion system, and I greatly appreciate Congressional leaders from both parties who have indicated their support for such reforms in principle. We're also looking at ways to improve how we manage our civilian personnel, working with the government-wide Office of Personnel Management as well as federal employee unions. In both of these efforts, working with Congress will be essential to ensure that our force of the future is as strong as the force of today.

### *Reforming the DoD Enterprise*

As I've said consistently from the moment I became Secretary of Defense, I cannot ask for more taxpayer dollars for defense without being candid about the fact that not every defense dollar is spent as wisely or responsibly as it could be, and also being determined to change that and make our department more accountable. That's why reforming the DoD enterprise is so important – from improving how we're organized so we can best respond to the challenges and opportunities of the future security environment, to continuing to improve our acquisition and enterprise-wide business and audit practices, to reducing excess infrastructure and overhead, to modernizing the military healthcare system.

Before I address the reforms in this budget submission, it's important to consider the recent history of defense reform – how DoD has been embarked on a reform path for much of the last seven years, and how we appreciate Congress's work with us over the last year on acquisition and modernized retirement reforms.

Despite what some may think, this administration hasn't been dragging its feet when it comes to defense reform – the reality has been quite the opposite. Beginning in 2009, we reduced the number of senior executives and general and flag officers, while working with Congress to trim management headquarters staffs by 20 percent, and move DoD toward auditability. We've done three iterations of the Better Buying Power initiative I established to

continuously improve our acquisitions, with Better Buying Power 3.0 incorporated into this budget, and we're seeing compelling indications of positive improvements, including in areas like reduced cost growth and reduced cycle time. And we've continually submitted much-needed reforms to strengthen the efficiency and capability of our force – many of which have been continually denied, either in whole or in part, at a cost for both taxpayers and our troops. This last part poses a real problem, because every dollar Congress denies us in reform is a dollar we can't invest in security we need to deter and defend against today's and tomorrow's threats.

Now is the time for action. DoD will work closely with Congress on any anticipated reform legislation, and we welcome an open and collaborative process. In the past, legislative reform has proven to be a double-edged sword – sometimes it leads to constructive change, which is good, but other times it just adds to bureaucracy and overhead, even if that was never the intent. I hope that with the focus on reform we've recently been seeing in this and the other defense committees in Congress, we can work together to do reform right. And we should, because there's a lot that needs to be accomplished in many areas.

### *Continuously Improving Acquisition*

DoD has been, and still is, absolutely committed to improving acquisition outcomes. After five years of implementing our Better Buying Power (BBP) initiatives for continuous process improvements in the defense acquisition system, we're seeing compelling indications of significant improvement in acquisition outcomes – for example, annual growth metrics for contracted costs on our major programs have dropped dramatically from a peak of 9.1 percent in 2011 to a 30-year low of 3.5 percent in 2015, and a much higher percentage of major programs are projecting cost reductions relative to initial baselines than in the past. While these developments are positive signs, we can and must do more to sustain and where possible accelerate our momentum to keep improving and deliver better military capability while protecting American taxpayers.

We need to continue reducing overhead and bureaucracy associated with the acquisition system, making it more agile and having a faster flow of commercial technology into our weapon systems. DoD is comfortable with the reforms in the FY 2016 National Defense Authorization Act – which included several legislative reforms that DoD proposed last year – and we strongly support the increased role of the service chiefs in acquisition programs, particularly on cost and requirements trade-offs. Going forward, it's important that we take the responsible approach to absorb these reforms and see their effects before making additional major changes.

DoD also appreciates Congress's interest in flexibility and agility, because the pace of threat changes and technology development are not compatible with our long cycles of budget submission, authorization, and appropriations. And DoD will be looking for opportunities to work with Congress to improve the efficiency and effectiveness of our acquisition process. In particular, we would welcome greater flexibility in appropriations or reprogramming to initiate development of urgently needed capabilities. The flexibility to start a program as soon as a threat is identified would save critical time – as much as two years under current practices – and position both DoD and industry to more quickly initiate development, without a long-term commitment, outside the traditional budget cycle. This step would represent a 'free' two years of lead time to acquiring a new capability.

Spending Taxpayer Dollars More Efficiently

The budget submission reflects several important efforts to spend taxpayer dollars more efficiently, generating savings that would be much better invested in other areas like the fight against ISIL or deterring Russian aggression.

Part of this means making more reductions to overhead, and also adopting some commonsense business practices that are long overdue – which in total we expect to help save nearly \$8 billion over the next five years. By better managing the 20 percent management headquarters reductions I mentioned earlier, including layering and flattening management organizational structures, and also by increasing the reduction to 25 percent, we expect to save close to \$5.9 billion over the FYDP. And we're modernizing how we manage our commissaries and military exchanges, to optimize their business practices and respond to the changing needs of their customers. Unlike commissary and military exchange reforms proposed in previous budgets, this new approach protects the benefits they provide our people while still generating expected savings of nearly \$2 billion over the FYDP.

We're also making real progress on reforming DoD's myriad systems and business processes to meet our commitment to be audit ready by the beginning of FY 2018. The three military departments began audits of their budgets for the first time last year, and DoD financial audits currently cover over 75 percent of our total General Fund budgetary resources and just over 90 percent of the current year dollars.

In addition, we need to stop spending so much money to hold onto bases we don't need, and implement a domestic round of Base Realignment and Closure (BRAC) in 2019 as we're requesting. While it's helpful that the FY 2016 National Defense Authorization Act allowed a study of DoD's excess infrastructure, the bottom line is that we have more bases in more places than we need, with preliminary analysis indicating that we have over 20 percent excess infrastructure. To ignore this fact while criticizing DoD for wasteful spending is not only a sin of omission, but a disservice to America's taxpayers. Last year's Congressional denial forced the BRAC round to slip from 2017 to 2019, further prolonging our ability to harvest savings we greatly need. By then it will have been 14 years since DoD was allowed to right-size its domestic infrastructure, which any business leader or citizen would think is ridiculous – and they'd be right. Now is the time to fix it.

Reexamining Goldwater-Nichols and Defense Institutional Reform

I appreciate that Congress shares my desire to make institutional reform a priority. To help formulate DoD's recommendations to Congress on reviewing Goldwater-Nichols reforms, I asked our Deputy Chief Management Officer last fall to lead a comprehensive review of organizational issues in DoD – spanning the Office of the Secretary of Defense (OSD), the Joint Staff, the combatant commands, and the military departments – and search for potential redundancies, inefficiencies, or other areas of improvement.

This review is currently ongoing, and preliminary internal findings are expected in March to help shape our forthcoming recommendations to Congress. Without prejudging any outcomes, I can say our review is looking at things like increasing coordination and eliminating unnecessary overlap between OSD and the Joint Staff, and between the service secretariats and staffs; better aligning combatant command staffs to their mission; streamlining acquisition requirements and decision-making processes; having more flexibility in the laws and policies that govern joint duty qualifications; and better aligning the Joint Staff and the combatant commands to produce operational advice and respond to transregional threats.

That said, there are some early results I can preview already – for example, we will likely not recommend going so far as to create a General Staff or include the Chairman of the Joint Chiefs of Staff in the chain of command. But we will likely develop an improved capability for the Joint Staff in strategy development, including reviewing operational plans and identifying military alternatives to address contingencies, subject to political guidance from civilian leadership. And, using my authority as Secretary of Defense, we will likely provide the Chairman greater responsibility for global integration, including increased authority to synchronize, organize, and prioritize military activities and resources across combatant command boundaries.

I look forward to the full results of our review, and I hope you will too. While DoD's current organization produces sound military advice and operational decisions, it often does so in a needlessly costly and time-consuming manner – leaving plenty of room for organizational improvements that can make us more agile and efficient. While much is within our authority to do, we look forward to working with Congressional committees to implement it.

#### *Modernizing and Simplifying the Military Healthcare System*

DoD greatly appreciates that Congressional leaders have said 2016 will be the year to reform our military healthcare system, TRICARE, after having passed retirement modernization reform in 2015. As you know, DoD has proposed various ways to reform TRICARE for several years, so we look forward to working very closely with Congress in the year ahead. The reforms reflected in the budget give beneficiaries more simplicity and choice in how they manage their healthcare, while also incentivizing the much more affordable use of military treatment facilities. This will not only save money, but also maximize the workload and readiness of our military's medical force, giving our doctors, nurses, medics, and corpsmen the experience they need to be effective at their mission. Together this should generate about \$548 million in FY 2017 and almost \$7 billion over the FYDP that can be better spent in other ways without sacrificing the care of our people. It's time to get this done.

#### *Making Sure Retirement Reform Works*

DoD greatly appreciates being able to work closely with Congress last year in reforming the military's retirement system. In this year's budget submission, we are including a few modifications to military retirement reform to help make sure those reforms work in the best possible way for the future strength and success of our military.

First, continuation pay should not be an entitlement at 12 years of service, but rather a vitally important force shaping tool. DoD should have the flexibility to determine if and when to offer this benefit so we can better retain the talent we need the most at any given time.

Second, the blended retirement plan that Congress passed last year needs some modifications to avoid having adverse effects on retention – in particular, slightly raising the maximum matching contribution from 4 percent to 5 percent. To improve retention, we also propose increasing the number of years a servicemember has to serve before matching contributions begin – so instead of beginning them at the start of their third year of service, it would be at the start of their fifth year of service, after their first reenlistment. DoD looks forward to working with Congress to make these proposals a reality.

*The Right Force Structure for Current and Future Operations*

The budget also reflects critical decisions on force structure reforms, all of which are vital to making sure our troops have the capabilities they need for both present and future missions. While Congress has too often rejected such reforms out of hand, our decisions this year show that when world events and operational demands require the Defense Department to change its plans, it does so. In turn, Congress must do the same, and recognize that with a set budget and the need to invest in advanced capabilities to strengthen high-end deterrence, it's time to seriously consider these reforms and stop tying our hands from implementing them.

I mentioned earlier that we're pushing off the A-10's final retirement until 2022 so we can keep more aircraft that can drop smart bombs on ISIL; in addition to changing when A-10s will be retired, we're also changing how it will happen. As 2022 approaches, A-10s will be replaced by F-35s only on a squadron-by-squadron basis as they come online, ensuring that all units have sufficient backfill and that we retain enough aircraft needed to fight today's conflicts.

While some members of Congress may think the Navy's phased approach for modernizing its guided missile cruisers is just a ploy to quickly retire them, that is incorrect – in fact, retiring them now or anytime soon would be a serious mistake. Our cruisers are the best ships we have for controlling the air defenses of a carrier strike group, and given the anti-ship missiles being developed by other nations, we not only can't afford to go without them; we also need them to be as modern and capable as possible, and for them to stay in service as long as they can. The Navy's plan is still smarter and more affordable than the approach laid out by Congress, saving us \$3 billion over the FYDP that we're putting to good use elsewhere in the budget. And to make clear that this is not a ploy to quickly retire our cruisers, we will be submitting proposed legislative language that Congress can pass to hold the department to its word.

Additionally, the Army is continuing to implement its Aviation Restructure Initiative in accordance with the FY 2015 National Defense Authorization Act as the Chief of Staff of the Army reviews the recent findings of the National Commission on the Future of the Army. While we will revisit the Army's aviation transfer plan when we receive the Chief of Staff of the Army's report, the Commission's proposal to keep four Apache battalions in the Army National Guard could cost over \$2.4 billion if the Army fully equips all 20 active battalions and keeps all aircraft currently dedicated to its equipment set in South Korea. By improving the readiness of the Army's Apache attack helicopters, and better leveraging the diverse capabilities Black Hawk helicopters bring to the table for National Guard missions both here at home and around the world when called upon as an operational reserve, the Army's planned Aviation Restructure Initiative is in the best interests of both the Army as well as the taxpayers who support it.

*The Opportunity of Reform*

Regardless of how any of our proposed reforms might be initially received, DoD needs Congress to work together with us on a path forward for all of them, because there's a real opportunity in front of us.

With last fall's budget deal, you showed that cooperation and prudent compromise for the good of our future security and strength was actually possible. And our reform submissions on things like the A-10, commissaries, and TRICARE reflect the fact we've heard Congress's concerns about past submissions, and made adjustments accordingly.

If we don't lead the way ahead together, both troops and taxpayers alike will be forced to deal with the consequences. So let's work together on their behalf.

**VI. REQUESTS OF THIS COMMITTEE: THE IMPERATIVE OF WORKING TOGETHER**

Before concluding, I want to reemphasize the big picture, because this budget marks a major inflection point for the Department of Defense, and we need your support for it.

For a long time, DoD tended to focus and plan and prepare for whatever big war people thought was coming over the horizon – at one point becoming so bad that after a while, it started to come at the expense of current conflicts – long-term at the expense of the here-and-now. Thankfully we were able to realize that over the last decade, correct it, and with help from Congress turn our attention to the fights we were in.

The difference today is that, while such a singular focus made sense when we were facing off against the Soviets or sending hundreds of thousands of troops to Iraq and Afghanistan, it won't work for the world we live in. Now we have to think and do a lot of different things about a lot of different challenges – not just ISIL and other terrorist groups, but also competitors like Russia and China, and threats like North Korea and Iran. We don't have the luxury of just one opponent, or the choice between current fights and future fights – we have to do both, and we have to have a budget that supports both. That means funding a force with the right size, readiness, and capabilities to prevail in today's conflicts while simultaneously building a force that can prevail in the future – recognizing that future force won't exist unless we take actions today. That's what this budget submission was designed to do, and we need your help to do it.

I thank this committee again for overwhelmingly supporting the Bipartisan Budget Act that set the size of our budget; our submission focuses on the budget's shape, and we hope you approve it. I know some may be looking at the difference between what we proposed last year and what we got in the budget deal, but I want to reiterate that we're mitigating that shortfall, and that this budget meets our needs. The budget deal was a good deal – it gave us stability, and for that we remain grateful. Doing something to jeopardize that stability would concern me deeply. The greatest risk we face in DoD is losing that stability this year, and having uncertainty and sequester in future years. That's why going forward, the biggest concern to us strategically in the Congress is averting the return of sequestration next year so we can sustain all these critical investments over time.

By working together, I am confident we can succeed, because in many ways we already have. If we think back to those defense investments and decisions that changed the course of our nation's and our military's history for the better – and not just in technologies like GPS, the Internet, and satellite communications, but also in other areas, like the all-volunteer force – they were all able to benefit our security and our society because they garnered support across the aisle, across branches of government, and across multiple administrations.

That same support for what's in this budget is essential today to address the security challenges we face and seize the opportunities within our grasp. We need your support in the decisions that our senior military leaders and I are advocating for. We need you to work with us, and not tie our hands, when it comes to pursuing smart and critical reforms. And we need you to provide adequate, stable, predictable resources, as only you can, by coming together as you have before – including, in the coming years, to avert the return of sequestration once again. As long as you do, I know our national security and national strength will be on the right path, and America's military will continue to defend our country and help make a better world for generations to come.

Thank you.

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