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WASHINGTON, Jan. 6, 2011 - The Defense Department has found \$154 billion in efficiencies over the next five years and will be able to invest \$70 billion of that saved money in more deserving accounts, Defense Secretary Robert M. Gates said today.

The secretary announced the savings and reinvesting of the efficiencies during a Pentagon news conference.

Gates emphasized that the nation is at war and faces a range of future security threats. "It is important to not repeat the mistakes of the past by making drastic and ill-conceived cuts to the overall defense budget," he said. "At the same time, it is imperative for this department to eliminate wasteful, excessive and unneeded spending."

Gates said he wants every dollar invested in defense spent in the smartest manner. The efficiencies continue a process to reshape and re-balance the defense budget that has already saved the nation \$300 billion, he noted.

The secretary announced efficiencies in modernization accounts. He said he agrees with the Navy and Marine Corps recommendation to cancel the expeditionary fighting vehicle program, which already has consumed \$3 billion to develop and would require another \$12 billion to build.

Gates said he also will restructure the F-35 joint strike fighter program. The Air Force and Navy variants of the fighter are on schedule, but the short take-off and landing variant is experiencing significant testing problems.

"As a result, I am placing the STOVL variant on the equivalent of a two-year probation," Gates said. "If we cannot fix this variant during this time frame and get it back on track in terms of performance, cost and schedule, then I believe it should be cancelled."

The secretary said he also wants changes to the military's TRICARE medical program, noting that fees have not risen since the program was introduced in 1995. He said he will propose modest increases to fees for working-age military retirees.

These changes also will be part of the fiscal 2012 budget request. The Army will cancel procurement of the SLAMRAAM surface-to air-missile and the non-line-of-sight launch system.

The efficiencies will change the way the department uses information technology, consolidating hundreds of information technology centers to save more than \$1 billion a year, Gates said.

"At the same time," he added, "I am not satisfied with the progress we have made in this area since August, and expect to make a follow-on announcement with a specific plan of action by next month."

The efficiencies will cut the number of contractors. "Overall, we will cut the size of the staff support contractor cadre by 10 percent per year for three years and realize nearly \$3 billion in total savings," the secretary said.

A third efficiency will trim the size of the defense work force and place more in areas with the most pressing need, he said. This should yield \$4 billion in savings, he added.

Gates is also said he's initiating changes in the defense intelligence apparatus, and will eliminate or downgrade general and flag officer positions. He will also eliminate or downgrade 200 senior executive positions.

The efficiencies will eliminate the Office of the Assistant Secretary of Defense for Network Intelligence and Information, the Business Transformation Agency and the U.S. Joint Forces Command, Gates said, though roughly 50 percent of Joint Forces Command will survive and be assigned to other organizations.

In April, Gates instructed the services to find at least \$100 billion over five years in overhead savings that they could keep and shift to higher-priority programs. They have done so. In addition, defense agencies have found \$54 billion in possible efficiencies.

Air Force leaders have proposed efficiencies that will total \$34 billion over five years. The Army has proposed \$29 billion in savings, and the Navy looks to savings of \$35 billion over five years.

Of the \$100 billion in savings, the services will use about \$28 billion to deal with higher-than-expected operating expenses. These costs include health care, pay and housing allowances, sustainment of weapons systems, depot maintenance, base support and flight hours and other training.

"Frankly, using the savings in this way was not my original intent or preference," Gates said, "but we have little choice but to deal with these so-called 'must-pay' bills ?- and better to confront them honestly now than through raiding investment accounts later."

But this still leaves the services with \$70 billion to reinvest in higher priority systems. In the Air Force, this will mean the service can buy more Reaper unmanned aerial vehicles and enable the service to move this capability from the war budget to the base budget. It will also allow the service to increase procurement of the evolved expendable launch vehicle and to modernize radars aboard the F-15 Eagle to keep the fighter jet flying and fighting longer.

The Air Force also will be able to invest in development of a long-range, nuclear-capable bomber.

The Army will invest in soldiers by improving suicide-prevention and substance-abuse counseling. The service will also modernize its battle fleets of Abrams tanks, Bradley fighting vehicles and Stryker wheeled vehicles. The service also will accelerate fielding of the newest tactical communications network and will invest in more unmanned aerial vehicles and a new unmanned helicopter.

The Navy will accelerate procurement of electronic jamming gear and fund refurbishment of Marine Corps equipment. The service is also looking to develop a new generation of sea-borne unmanned strike and surveillance aircraft, and to buy more F-18 Super Hornets. The Navy also will be able to buy more ships, including a destroyer, a littoral combat ship and fleet oilers.

Gates stressed the need to make cuts carefully and judiciously.

"To maintain the kind of military needed for America's leadership role requires not only adequate levels of funding, but also fundamentally changing the way our defense establishment spends money and does business," Gates said. "That is why it is so important to follow through on the program of reform and overhead reduction.

"This department simply cannot risk continuing down the same path -? where our investment priorities,

bureaucratic habits and lax attitude towards costs are increasingly divorced from the real threats of today, the growing perils of tomorrow and the nation's grim financial outlook," he added.

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