

## 'LIKE SHOOTING OURSELVES IN THE HEAD': THE IMPLICATIONS OF SEQUESTRATION ON DEFENSE

[BEGIN FILE]

### DREW DAVIS:

Well, good afternoon and welcome to the Minuteman Building of the Reserve Officers Association. I'm Major General Drew Davis. I'm retired Marine officer and have the privilege of being the executive director of ROA. And it really is my pleasure to welcome you to a certainly provocative program that has, I think, the best title of any defense education forum we've done. Like Shooting Ourselves In The Head: The Potential Economic and National Security Implications of Sequestration. Which is a program co-sponsored by our defense education forums and by the Center for Security Policy. A couple of unabashed commercials, first of all. First, if you haven't already, I invite you to [CAMERA GOES OUT] and I know many of you have access to big sources like the [CAMERA AND MICROPHONE FADES OUT BRIEFLY] stories, well, we – our computer algorithm scrapes all of the defense news and we have then human editors who daily pick the eight to ten most important stories. So this is actually not yet another email to you that you have to read. This will – I guarantee you will replace, at times will replace other sources that you have on defense news. It's very good and it's free. In order to do it, all you do is go to [www.smartbrief](http://www.smartbrief) – one word –/roa. And it also has a very nice mobile phone application as well. That's unabashed commercial number one.

Commercial number two is that ROA is sponsoring and open to all national defense studies crews that will sail from Boston on August 19<sup>th</sup> and arrive in Halifax, Nova Scotia on August 21<sup>st</sup>, followed by a day of defense related tours of Halifax on August 22<sup>nd</sup>. And then you go home on the 23<sup>rd</sup>. It is a full program that our keynoter is – General Mike Hayden – who you all know as the Director of the CIA and the National Intelligence Agency. So he is going to lead us off. We have programs on the face of valor with two Medal of Honor recipients. And a Navy Cross recipient from the past war. We have programs on border security and the politics of – or the security implications of the economy. And I believe even Mackenzie Eaglen is there, going to be a presenter. In the evening, we'll have the ROA Military Film Festival. Which our members have voted on. We'll have yoga classes, an optional fitness boot camp. Led by a Marine major, world caliber athlete. There's a spa on board the ship. It's going to be just a terrific program. So go on our [www.roa.org](http://www.roa.org) website for more information on that. I came by a great quote this morning in a *New York Times* article that was actually stolen from *National Affairs Journal*, in an article by Jay Cost. And the quote reads, the days when lawmakers could give to some Americans without shortchanging others are over. The politics of deciding who loses what and when and how is upon us. And that I think is an adequate description of everything from the Wisconsin recall election to the elections of 2010 to the current debates on the national budget. It's always a distinct pleasure to welcome Frank Gaffney, president of the Center for Security Policy, to our facility. He's graced us a number of times over the years. We know him to be eloquent and hard hitting and he is a great American, opinionated, concerned patriot. I'm not going to give any more remarks today. The importance of the national debt, the deficits, and the looming specter of sequestration in January of 2013 – actually the deadline is right on October 1<sup>st</sup>, because of the sixty day rule. I'm sure we may talk about that. The Secretary of Defense has referred to this as disastrous. But at the same time, he has directed his service chiefs not to plan any contingencies for additional cuts due to sequestration. I'm sure you'll talk about that. So the threat to our national security is – it is monumental. If it kicks in, DOD will suffer another half trillion dollars in cuts over the next nine years in addition to the half trillion cuts that are already underway over the next decade. So without further ado, I turn this over to our distinguished faculty and to introduce them, Frank Gaffney. Frank?

## **FRANK GAFFNEY:**

Thank you very much. Well, it's nice to have my opinionated nature advertised in advance so you don't have to figure this out all by yourselves. General, thank you as always for your hospitality and for these splendid quarters and to my colleagues who are going to add their opinions and their informed insights into what is afoot. I'm going to just say a brief word about the context, then introduce Christine Brim to tell you a little bit about the specific product that we're rolling out here today and then turn the dais over to three of the best people in the business here in Washington, DC, in terms of understanding national security, what it takes to provide for it and what happens if we don't provide for it. The backdrop for all of this, of course, is the world we're in. And I think particularly in this building and I hope in this audience both here in the room and those that are joining us through our live streaming, there is a general awareness of what I'm about to say. But my opinion, I'd like to think informed by thirty-six years of working in this space, is that we are in as dangerous a world today as at anytime in those thirty-six years. And that's saying something, because of course that spans a couple of wars, a Cold War and some hot ones.

Let me just very quickly say why I think that's the case. We are dealing with the combined effects, as you know, of Islamists animated by a doctrine that calls for their world domination under shariah. They come in different stripes and lots of different places around the world, but one thing joins them and that is this supremacist ideology that unfortunately tolerates no divergence from its direction. That's a problem all by itself. When you add on top of it a China that is clearly feeling its oats. It has its problems and that doesn't actually make this any better. Domestically as well as in its region. It is increasingly asserting itself. And having more and more resources applied to giving it the capacity to do so at our expense. Today we're witnessing the, once again, president of Russia meeting with the president of China in what is one of the most worrying axis between adversaries. Potential or perhaps actual. People who are working together to, I think, greatly intensify the dangers that we're facing, both from their own countries and through arms sales and political support and other kinds of cooperation, again, to our detriment. Hugo Chavez is in bad health. That's the good news. The bad news is the cancer that he has helped unleash in our own hemisphere is metastasizing. And I think that's a problem, especially when you see some of the aforementioned states and movement actively involved in our hemisphere. To, again, threaten us and our interests. Many of these are now enabled to be vastly more problematic because of technology that puts at their disposal the potential of mass destruction. The traditional weapons of mass destruction, cyber warfare, electromagnetic pulse and the like thrown into the mix.

All of this is made more dangerous, vastly, I think, more dangerous by the perception that the United States is weak. And becoming more so by the day. Is irresolute, led at least in an irresolute way. And increasingly exhibiting the kind of behavior that has unfailingly in the past encouraged adversaries to act aggressively. Sometimes against our allies, sometimes directly against us. But in whatever way, to our, again, peril and perhaps profound, profound danger. We're here to discuss, most especially, that last bit. I suspect with this distinguished group as the general called them, our faculty, will get into some of the other backdrop. But I wanted most especially to say that in order to understand this last part, the impact on perceptions and what that can do to impel aggressive behavior that might otherwise have been avoidable, might otherwise have been deterred, we wanted to look at what is being done, specifically to the defense capabilities of the United States. And to do that most immediately we're going to talk a little bit about the impact on the industrial capacity of the country and the economic activity, both in terms of jobs and in terms of economic impact. And then we will talk about some of the specific effects on various aspects of the military itself that are supported or, if they're not available,

not supported by those defense industrial capabilities. So to do the first, to talk a bit about the economic impact of specifically sequestration coming on top of the cuts that have already been put into train with the Defense Department, I'd like to introduce the chief operating officer of the Center for Security Policy, the driving force behind what we call our defense breakdown reports, here to share with you the results of the updated information – we initially rolled this out a couple of months ago, but we now have the 2011 data and Christine Brim, the chief operating officer of the Center will briefly present that to you. Christine? Thank you.

### **CHRISTINE BRIM:**

Thank you. And just give me one second here to see if I can bring up – let's see, there we go. All right. Thank you. This is a series of reports that we compiled. It was initially released with 2010 data in February – can you hear me? Yeah. And then with an updated version of that in the middle of February, then we waited for the 2011 data. It has now gone up at the website [forthecommondefense.org](http://forthecommondefense.org). [Forthecommondefense.org](http://forthecommondefense.org), which is the website that we're streaming from as well. And the objective of these reports was really twofold. One was to show information about the potential economic impact of both the nine percent current budget cuts that have been essentially specified and are now being debated within both houses of Congress, and the projected approximately eighteen percent of budget cuts anticipated under sequestration. Depending on the baseline, of course, that we take that from, the actual impact of those cuts varies. When we confront this situation, how do we let Americans at the local level, at the state and county and city level, know what's coming down the pike? Because, by and large, they're pretty much not aware of this. Obviously, the actual budget cuts aren't going to be evenly eighteen or nine percent across the board, so this is a forecast, this is kind of projection, but it's the closest we can come without very specific data. So it's a way to give people an approximation of what the impact will be. So we went to the federal procurement data system, obtained that information through another vendor of that data, and compiled a series of what's about twenty-nine thousand online reports as well as summary reports for each of the states and Washington, DC. And these reports that are online and particular at [forthecommondefense.org](http://forthecommondefense.org), show two kinds – what happened? Two kinds of data. One is the revenues coming in to each state and county, by the revenue coming in to the business headquarters, right? The actual center of the business. So, you know, it would be potentially where they also perform the work. It might just be where they get the money and then they perform the work elsewhere.

The other data that we show is place of performance, which is where the work is done. This data is up at the website now for, using the 2011 data. With estimates for 2011 of the impact of the losses, the revenue losses for each state, for every county and for every city. So by going there, we tried to provide for local people this information. The other finding that we had after we began briefing people on this around the country was that a lot of – both even, you know, elected officials, weren't aware of how much local communities actually would be impacted by this. They didn't realize how much their local communities were actually contributing. So I will just show you – we also have state summary reports, which are up there. I believe everyone here has the USA version of that. What we have up is the state by state version and all of these are downloadable as well. So we would recommend that anybody here or watching this program go to [forthecommondefense.org](http://forthecommondefense.org). That will take you immediately to the 2011 data. The 2010 data is still up there. Just to suggest some of the high level findings on this at the US level, the top five states that will be seeing tremendous cuts under sequestration are Virginia, California, Texas, Maryland, and Florida. Then we're looking at national revenue losses, potentially in the fifty to sixty-nine point billion level across the country every year. If sequestration comes into play. So from an economic impact point of view, from a jobs point of view, the estimates are approximately one million three hundred thousand jobs will be lost. That actually will happen pretty much within the

first year or two. Because the cuts will be impacted immediately. So I'm going to – I'm going to keep it short. I won't go into much more detail. If there are any questions, I'd like to be available for those after this and we can show the actual reports online at that time, but I'd rather give the remainder of time to the other speakers.

**FRANK GAFFNEY:**

Christine, thank you. And thank you for the terrific work that you and the rest of the Center team did in pulling this data together. It's really impressive. There is a four page summary, those of you in the room have it at your seats, those of you who are coming to us online can get it at [forthecommondefense.org](http://forthecommondefense.org). And it will give you the entry point to drill down on your state, your county, your city, your congressional district, and it's hopefully going to be important in two ways. One is that it will both equip people who currently aren't frankly paying attention to this problem, to understand what the problem is. And if this in fact is going to eventuate – and we hope that it will not – we pray, for the reasons we'll be discussing, that it will not – that the planning that is not currently being done in the Defense Department, apparently, that needs to be done in these various state and other levels of community, is done to mitigate the train wreck that I think is about to befall them as well. With that, we will bring the faculty to bear on this. These are among, as I said, I think the best minds in the country, certainly in this town, who are thinking about these problems. We are very proud to have been involved with them under the rubric of this informal coalition, For the Common Defense. They are all working these problems full time in their day jobs and I will introduce them as I bring them up. Our first speaker will be Robert Zarate. Robert is a man who has been active in both the private sector and in the public sector on national security. Notably in his time on Capitol Hill where he was a legislative fellow and assistant on the Foreign Affairs Subcommittee on Terrorism, Non-Proliferation, and Trade. He is currently the policy director of an organization that I think all of us in the business have come to regard very highly, the Foreign Policy Initiative, and I commend to you the work that Robert and his team – in fact, Heritage and AIE as well as his team have been doing in this space. Robert, you're going to give us a little bit of an overview as to the legislative situation and such other thoughts as you wish to share on these other issues. Welcome.

**ROBERT ZARATE:**

Good afternoon. Frank, thank you for inviting me and I'd like to thank Frank, Christine, the Center for Security Policy, for their leadership as folks in our community try to deal with the looming shadow of sequestration and try to stop the damage that's in the offing. And again, just to reiterate, I do recommend the resource that CSP has put out. It's an amazing resource in terms of understanding, especially at the constituent level, at the local level, at the state level. How this coming defense train wreck will affect everybody. Frank asked me to talk about the situation today, legislatively in terms of trying to reverse or responsibly replace a sequester. Where things stand today is – I'll just start with a couple of facts. Current law is current law. The Budget Control Act of 2011 is current law. And unless it's changed, it will in turn of fact, under the terms of the law, on January 2<sup>nd</sup>, 2013, O and B is supposed to start the sequester. And as folks pointed out here earlier, though, that there are other laws such as the Warren Act which will require, if there are going to be furloughs, early notification, and so this is coming. That's the first thing. This is coming and until something is done to change it, it will continue to move at us. Beyond that, though, on the House side, the House Republicans have taken – moved forward legislation and passed it and it's called the House Reconciliation Bill. And it does not avert the entire sequester. However, it responsibly – in their phrasing – responsibly replaces the first year of the sequester with alternative cuts to mandatory domestic spending. It passed in May. And I think that regardless of where you fall in terms of how this thing should be solved, you at least have to

give credit to the House for doing something. On the Senate side, however, this legislation is all but dead on arrival as Senate Majority Harry Reid has said that he will not accept any solution that doesn't include some effort to raise taxes. And the president has said similar things. And I think from where I sit, one of the most disturbing things, though, is that it's fine to say that, but to my knowledge, no serious attempt by those who advocate a different solution, no serious legislation has been put out. And I – Senator Reid certainly hasn't, to my knowledge, worked with his colleagues, his House Democrat colleagues, to somehow find a way to put a serious proposal on the table.

And I think they need to be asked why. If many on their side believe that it should be undone, I think they should be asked why they haven't put out a serious proposal yet. And why they're trying to put it off. As folks have mentioned, it's not clear whether or not the Congress will actually get to this during the lame duck session after the November 2012 election. And that's troubling. There is going to be a very large legislative agenda. To my knowledge, no serious effort has started between the chambers to try to negotiate even the groundwork for a package. If it is, and I'm not really aware – it would be on a very informal basis. But there is no formal effort at this point. The folks on the panel from Heritage and AEI, Mackenzie and Steve, will talk more about some of the more specific consequences, but I just wanted to leave a couple of parting thoughts in terms of how we move forward. When – in 1961, when outgoing president Dwight D. Eisenhower spoke of the so-called military industrial complex, spending on national defense accounted for fifty-seven cents out of every dollar spent by the United States. In contrast, social domestic spending, a category from the O and B, accounted for thirty-five cents of every dollar. Today, in 2012, we're looking at roughly less than two dimes, less than nineteen cents, out of every dollar spent by the federal government, is spent on national defense. In contrast, social domestic spending, which again includes primarily mandatory, that's the main driver, accounts for, by my calculations, at least seventy cents out of every dollar spent by the federal government. And I think it's clear, especially in the long term, where the restructuring and where the seeds of the solution are to be found. But to being to move towards that solution, honestly, it will require hard choices by lawmakers and whoever sits in the White House. And that – hard choices are going to require leadership. I certainly hope our leaders do, in the end, show that leadership. Thank you. [APPLAUSE]

#### **FRANK GAFFNEY:**

Thank you, Robert. Next up, we're going to hear from Mackenzie Eaglen of the now American Enterprise Institute. Many of you are familiar with Mackenzie's work previously with the Heritage Foundation. In both capacities, she has built on some very considerable experience with these sorts of national security issues, on both sides of Capitol Hill, including, most recently, with Senator Susan Collins. She is, to my way of thinking, a national treasure. And it's always a privilege to be able to share a platform with her. She is going to give you sort of a macro picture of what happens to modernization and readiness of the United States military under, again, not just the cuts that have already taken place. On the order of almost eight hundred billion dollars. But under this further half a trillion dollar cut. Mackenzie? Welcome.

#### **MACKENZIE EAGLEN:**

Thank you, Frank, and thanks everybody for coming today. I want to reiterate my praise for the product that your team has put together with Christine and everyone. This is a remarkable resource that I have gone to on many, many occasions. I refer policymakers, lawmakers, policy community members, to this website. It partners really well with the work that Aerospace Industries Association has done. I think together you've come up with a complementary set of products that is very effective for giving tools to members of Congress who continuously ask, you know, sequestration is a scary prospect. One,

of course, that they created. But nonetheless, what's going to happen? Because it really is unclear at this point, which is a great irony, because the Budget Control Act is quite specific in what happens. But Congress has the perennial problem of dealing with the wolf closest to the sled. And sequestration right now is not that wolf. And that is the real challenge here. And it's going to become a growing challenge throughout the rest of the year. Just this morning, House Majority Leader Eric Cantor basically hung up his hat and said, we're done making policy this year. We'll see you in the lame duck. And he's right because everything the House is passing is falling flat on the Senate side. And nothing's – between the two chambers – is effectively getting done and so everything has been stalled out until the lame ducks of December. And that's a problem because now it makes sequestration hostage to debt and tax negotiations. So it's not a problem to be solved in and of itself anymore. It's simply a negotiating leverage point for one party to use over the other to generate more tax increases as part of a larger deal. The challenge here is that I don't think there are any – there is any bigger deal coming up in Congress this fall or this winter. That's a whole other set of problems. And all of these things – it's not about, for me right now, it's not about will sequestration happen in January. It's that soft sequestration launches now and partial sequestration is going to be the ultimate result.

I agree with Frank. The Pentagon has to do its planning. I know why they're dragging their feet. They're dragging their feet because the minute they put it on paper, then Washington shrugs its shoulders and says, oh, that's not so bad. We can live with that. We'll take sequestration. Well, we'll remove that inflexible mechanism that makes it a blind budget scenario as opposed to – the way it's written right now is basically, it's just a universal. As Panetta called it, a goofy meat ax. You just whack all the programs that counts and projects and activities by the same percentage. We expect president Obama to exempt the military personnel account. This is out of the four major defense accounts, which puts further squeeze on the other three. But even more so, now we have overseas contingency operations funding included in the possibility of the sequester taking effect. Which again, I think adds a further squeeze to the challenges already facing the modernization priorities for the Department of Defense. So Secretary Panetta sent a letter to Senators McCain and Graham last year where he outlined the – one of the first efforts by the department to say that this is what could happen under sequestration. And it's not pretty. You know, he basically says everything. Everything from military construction projects, you know, cranes already in the air kind of thing. Not the new starts alone. To family, morale, welfare and recreation programs. To range modernizations at training sites. To, of course, ships, aircraft, and vehicles. And when he says, ships, aircraft, and vehicles, he means the big and he means the small. So everything from a carrier that's under construction now to a littoral combat ship that hasn't even possibly entered contract yet. All ships. All aircraft. All vehicles. Would be – take a hit. The F-35, it's the single largest modernization program. That's a function of the last three years of defense budget cuts. Certainly that would be a significant [UNCLEAR] in any scenario.

Once you start going into these kinds of accounts, even not just on the hardware and the capital assets and the weapons and equipment side, but when you start going and breaking military construction, for example, when you start putting off maintenance availabilities for ships and aircraft in particular, what happens – we've seen this in the last two years under continuing resolutions when the Pentagon has to operate under a CR because Congress can't agree on its budget funding levels for the year, things deferred ultimately become things canceled. So under sequestration, even if it were partially addressed in some patch or shoddy framework, like earlier this year, or even a reverse solution after it takes effect, a lot of these challenges would still exist. A lot of these programs would still be affected. Anything that is on the chopping block under full sequestration, which is the worst case scenario as written into the BCA, would still be affected under partial sequestration. And partial sequestration is the likelihood here. Somehow, someday, whether it's O and B or Congress, the inflexible mechanism will be taken away. But the 487 in defense cuts, this half trillion under this first launch under just the

Budget Control Act, is now the new floor for how many defense dollars we're going to take out. Because again, this isn't about the military, this isn't about defense, it's about tax increases, it's about the debt ceiling increase that's going to happen at some point either in November, December, January, or February.

So it's a dire picture. It's not going to be pretty. I would just conclude by saying soft sequestration launches now, it doesn't just affect – some members or some people might think, well, you know, it's not that big of a deal. Defense budgets have grown in the last decade. Although they peaked in 2010. Or, you know, this is really only going to hurt the military industrial complex, the prime contractors, for example, like the Boeings and Lockheeds and they're so flush with cash that it's okay. They might be, they might not be. But who this really hurts first this summer are small and medium sized businesses, not Lockheed, not Boeing. Not General Dynamics. Not the big guys around town, the ones you probably really see and work with from time to time. For every dollar that Congress gives or appropriates on a Pentagon request to a prime contractor, seventy-five cents goes out the door to a small business in America. Just this morning I was reading an article about that Boeing CEO, he was presenting at a conference, and he basically said, our supplier base is 1.3 million workers. And he means that companies that are five hundred and fewer people, small and medium, different classifications, people that give the welding chips and the, you know, the screws for the ships, I mean, we're talking, this is not – this is not the picture that I think that is painted in most people's minds. So those are the kinds of companies and industries that are impacted first. Because a major contractor, once the Pentagon starts hoarding dollars or not putting out bids for awards or solicitations for new contracts, contractors respond to that changing mind behavior at the Pentagon by withholding their own investments, by driving conservatism in their own planning, expecting certain contracts not to come down the pike, or that they will be delayed. So by default, they're not going to place those orders for their supplies with their vendors. That's exactly what we're seeing now and that's going to continue to snowball as November nears. So this is not a problem to be solved in January, much to the contrary of conventional wisdom. This is something that starts now. And unfortunately, I'm not sure that we see a solution on the horizon. Thanks.

**FRANK GAFFNEY:**

[APPLAUSE] Mackenzie, thank you very much. Just two quick points that were inspired by what you just said. One is, in the defense breakdown report, one of the things that we've tried to do is give people an appreciation how some at least of those smaller industrial components will be affected. Specifically minority owned businesses, women owned businesses, veteran owned businesses, handicapped people owned businesses, and the like. And Mackenzie's absolutely right. As this data very, very powerfully indicates, at every part of the country really, you're going to see those people materially affected and long before this thing is finalized in the next year. The other point I just want to make and it's not made facetiously, in the wake of hearing – I think it was this week or last now that we're not only using Chinese made parts in our weapons systems, but they've actually taken the step of putting trap doors or back doors into some of the chips, military spec chips. That is to say, chips designed to meet military specifications. My guess is, if we allow the defense industrial base to attrit even further, we will be finding ourselves depending even more on people against whom we may have to use these weapons to supply us with them, in which case I think it unlikely they will work. In fact, exceedingly unlikely. I'm very pleased to say that the next two members of this panel are people who have served with great distinction in uniform in the Army and Navy respectively. Dr. Steven Bucci is now with the Heritage Foundation where he is the Senior Research Fellow for Defense and Homeland Security. He was a commanding officer in some of the most highly lauded special operations units in the United States military, including the third battalion of the fifth special forces, the 82<sup>nd</sup> Airborne. And the seventh

special forces. We've asked Steve to talk a little bit about one of the facets of this construct that says, well, we can make these kinds of very dramatic cuts in our military, in part by offloading the job of continuing to do what we need to do as a military onto the shoulders of the special forces. So, Steve, thank you very much for joining us and for your service to our country.

### **STEVEN BUCCI:**

It's a pleasure to be here. Thank the ROA for hosting us and the Center for Security Policy for putting this on. Frank didn't always think so kindly of me cause I used to be Colonel and then the civilian who was in charge of Secretary Rumsfeld's schedule and whenever Frank tried to get on it, I told him no a lot. So he didn't really like that very much. [LAUGHTER] But we've grown past that. I'm going to touch on a couple of things real quickly. I'm going to get to the point that Frank asked me to speak of second. The first one I want to throw out is there's a danger with the wonderful work that the Center's done here on these numbers. There are some people that are going to look at these numbers and say, well, this is only really affecting those communities right around federal facilities and people directly connected with the active duty military. That's not true. Right? Those communities will be inordinately affected, granted. They're going to have a big hit on the jobs and the other things that Mackenzie referred to. But there's an aspect of it that's a little harder to see. Despite the fact that Secretary Panetta has forbidden the military to plan for these cuts, if you think they're not planning for them, you're crazy. Because the military just doesn't do that. They don't just stand by and wait for something to happen. They're already thinking about it. I can tell you what the active duty Army and Air Force in particular are thinking of doing and that's pushing as many of these cuts towards the National Guard elements in their service as possible. And when you start cutting the National Guard folks, that affects every state in the union, every governor, every congressional district has National Guard units in it. And in defense of the Army and Air Force, they're looking at the big federal mission that they've got to accomplish. And how best to do that. In their minds, they want to keep as much of this pain away from the active duty guys as possible and they're going to pass it off to, unfortunately, the very brave and confident folks we have in the Air and Army Guard. The problem is, they're not thinking about how those forces are used in the service of their states under the command of their governors. Which frankly happens a lot more often than their use on the federal side.

So that's an aspect to keep in mind. It doesn't matter where you live, you're going to be affected by these cuts if they do go through. All right, the part that Frank wanted me talk about is, right now, we have an administration that is very enamored with the use of the guys that I so proudly led and our cousins in the other services. And that's the special operation forces. The special – the Green Berets, the Seals, the Rangers, the Special Ops Aviation folks. They are the best we have. They are not a substitute for the regular Army, Navy, Air Force, and Marine Corps. All right, they're good at very special niche kind of missions. And there's nobody better in the world. They cannot do what infantry divisions and amphibious readiness groups and B-52 bombers and carrier battle groups do. So when we get that leaning, well, you know, we're going to depend on these light, agile, very competent forces to make up the difference, that's just a fallacy. Please do not fall for that. Added to that now, the dependance on drones. The drone campaign is a great idea. We're killing bad guys. And they are serious bad guys. And they deserve getting close and personal with hellfire missile as often as possible. But again, that is not a substitute. It is an augmentation in this fight that is being very effective right now, but the problem is, you give all the headlines to SOF and to the drones, it looks like we don't need the regular guys, that is wrong. And the regular forces are the ones that are going to get hit the hardest with these cuts and we've got to really fight that. And my last comment will be it's dangerous to try and fix our economy on the back of defense. In this case, it's not going to fix the economy. It's going to actually have a detrimental effect on the economy. So what we're looking at with sequestration is a double whammy.

We're going to kill defense and we're going to hurt the economy. So, I mean, if you could make the argument that these things would help the economy and we're going to accept risk on defense, that's dangerous, but at least it makes some logical sense. But in this case, it's going to hit us with a one-two punch. And we've got to really fight to do something to mitigate those effects. As Mackenzie pointed out, I don't think we're going to avoid them all. It's too late. But we've got to mitigate them as much as possible or this country will be paying a heck of a price and it won't just be in dollars. [APPLAUSE]

**FRANK GAFFNEY:**

Well said, Steve. Thank you. Just, again, two points quickly. One is that as has been mentioned, some of the very important underpinning of our analysis was provided by the Aerospace Industries Association and some important research that they've done. The million point three jobs that Christine Brim was talking about, speaking to Steve's point about the economic impact, those are not – to use a hackneyed phrase – shovel ready jobs. Those are high paying, high skilled jobs that exist, that will cease to exist here in fairly short order, perhaps as soon as October, if not before – long before we're being told these guys are going to come around to fixing this problem if at all they do. And lastly, I just want to emphasize something that Steve mentioned. There is a potential anytime you do an exercise like this that it can be misunderstood or be misperceived. Somebody who came to us when we first rolled out the product mentioned that we obviously had a mistake in the data for North Carolina, where he was from. Because the five top counties that were listed as the ones that would be most seriously affected by these cuts didn't have the base communities. And it seemed to us, well, obviously, there must be some error in the data. We went back and ran it. Christine spent hours trying to figure it out. Well, it turned out – just as you say, Steve, the base communities and the counties surrounding them are going to be adversely affected, but it happened that there were more jobs, there was more economic impact that was going to be felt in businesses and communities outside of those counties. So please take a hard look at the data and if you do see any errors, please bring it to our attention, but I think you'll find that it actually has been carefully run out and it's important as we've said again and again and again, that the American people are aware of what is coming for them on the economy as well as for the national security. Finally, last and hardly least, we're going to have the bookend of one of the distinguished representatives of this organization, a colleague and great friend, Captain Marshall Hanson, United States Navy Reserves, and he's going to drill down a little bit more on the point that Steve started with, which is the impact on the Guard and Reserve elements if in fact the active duty forces have to try to cope with this tsunami of cuts in a way that at least preserves as much as they can of the active force. Captain?

**MARSHALL HANSON:**

It's always fun to learn what you're going to talk about on the way up to the podium. [LAUGHTER] I think Buck McKeon, in one of his releases, indicated that if sequestration goes through, the cuts that he anticipates is 1.5 million. So it kind of coincides with this study in the 1.3 that's on this chart. But one should also realize that those are only the jobs at the top. Coming from Seattle, we used to have a saying, when Boeing sneezes, Seattle catches the cold. And what happens is, if Boeing lays off a person, that means six other people are laid off because of the loss of that one job. And having worked in industry in Seattle, I know for a fact personally about the ups and downs of an economy if it's based on a large national defense producer. So a lot of the communities are dependent on the Boeings, the Lockheed-Martins, are going to see a big impact and you have to realize that part of the strategies of these companies have been to spread their subcontractors out to all of the fifty states. So it's not a bullseye. It is nationwide. So it's something that we should also be aware of. One of the things that the Department of Defense has talked about as a solution to the reduced defense guidance that they came

out with in January is a concept called reversibility. And they think it's something that's instantaneous. I guess it's kind of like a zipper. You can zip it down or you can zip it back up as quickly. Which is not the case at all. They talk about two things mainly within reversibility. And one is, improving the partner capacity. And if you look at that, that basically says something that we've actually built our defense on for the last several decades. And that is reliance on our allies. They say traditional allies and they also say new allies. Well, there's a trouble with this. Most of the countries that we partner with are so reliant upon the United States to provide them the defense that they've already begun cutting back on their own defense budget, expecting us to fill in. And the best example of that is Europe. Where almost every NATO country is in the process of cutting back on their defense budgets. And yet they are going to be very key to our defense. Something doesn't quite fit together. Another area in reversibility that they anticipate would be a quick recovery and that we're touching upon here is the industrial base. Well, anybody who's dealt with industry recognizes the fact that if you shut down a production line today, it's not something you can start up next week. Outside of the fact that you're laying off people and that these people are going to go to other areas to find jobs, so your skill sets leave a geographic area. These companies will break up the tools, they will break up the molds, they will break up the patterns and you have to go from start.

So to reengage a production line will take six months, a year, a year and a half, up to two years, depending on the complexity of the technology we're trying to recover. This is not something easily reversible. The other thing they talk about in reversibility is the active duty to reserve balance. The challenge here is the fact that our services are becoming insular. They are trying to predict their – protect their own personal budgets. As a result of the cuts that they see coming up. So the first thing we see is they turn to the reserve component and they say, well, we don't need you as an operational force any longer. Even though you've done very well for the last ten years, and you've helped maintain the volunteer total force. Well, a couple of things will occur if that happens. One, you will lose the capability to search, we will only be able to respond with an active duty force. Because if the reserves are put back on the shelf, and money is not put into training and to modern equipment, our veterans from the last war will walk away, taking the experience with them, but in addition, they walk away with their civilian experience and the training they got through private corporations, which the active duty doesn't have. So the active duty will be handicapped on two levels. By not having a traditional type of reserve to fall back upon, which has been called the strategic reserve, and also having that expansion into areas they haven't trained for. If you look at the areas of cyberspace and IT, guess where the experts are. They are in the reserve components today. And the military realizes they cannot keep up with what private industry is doing. So sequestration is causing a lot of complex issues to occur. It's becoming a real puzzle to unravel. And it's setting up some confrontations. We've talked about the political confrontations here on Capitol Hill where even though there are level heads that would like to come to some type of solution, the pressures that are occurring in an election year are causing individuals to think partisan. And worse yet, with two philosophies, one of budget cutting and another of raising taxes, you're going to see a political play occur to where neither side may back down and there will be an element of brinksmanship to see how far they can push it and, unfortunately, I don't think you're going to see sequestration even get resolved within the lame duck.

Besides a competition, we have a deadline of January 1. And they're going to possibly push it to that deadline. In addition, you're seeing a confrontation between the Pentagon and Congress itself. Secretary of Defense Panetta has told Congress, do not change the budget, do not change the force structure. This is why we see a confrontation Matelian [PH] and Panetta on that additional four billion dollars that were put into the House version of the National Defense Authorization Act. And no one's looking at the fact the House went and found offsets. So it's really not an increase of the budget, just of the defense budget that resulted. And so you're going to see over the summer this tension growing

before the Pentagon and Congress which is going to cause further things to bog down. And this is entertaining, but it's very frustrating because what has happened is our national security is being held hostage by all these confrontations that are occurring. And the last thing I think we want to see is polarization and partisanship – I can say it, started off with testimony this morning – which is going to put our US citizens at risk.

**FRANK GAFFNEY:**

Marshall, great. Thank you. [APPLAUSE] Marshall, thank you. I failed to mention that Marshall is the Director of Legislative and Military Policy here at the Reserve Officers Association. We have a bit of a logistical issue. I'm going to take the mike over here and ask you to sort of – is there a mike here? Does it actually project or is – oh, perfect. [OVERLAPPING VOICES] We're going to use this for Q and A. Okay. [UNCLEAR] If you would, please identify yourselves. If you have a question. We prefer questions to statements. But in either case, please make it brief. And if you have somebody you'd like to have answer the question, direct it to them. Thank you.

**WOMAN:**

I'll just make a very short statement. I'm a nurse. So I understand about morale and I can tell you, I work with the worst of the worse of [UNCLEAR] patients and if morale is bad, no matter what you do to somebody, they're not going to cooperate with you. And I then wanted to ask, what if the missile defense shield goes down and will we have to use it against our own, a meltdown of our own nuclear capabilities?

**FRANK GAFFNEY:**

Forces. Anybody want to take that? Robert?

**ROBERT ZARATE:**

Sure. Could you just clarify that question? You're asking whether we would have to use our ballistic missile defense against –

**FRANK GAFFNEY:**

Our nuclear forces. Fire away.

**ROBERT ZARATE:**

Sure. You know, I'm not so worried about that. I think, when it comes to nuclear strategic forces, the long term challenges, modernizing them, we have a lot of the same systems that, we've been deferring our efforts to modernize a lot of those systems. The next generation bomber, which is supposed to replace the B-51 and the other long range bombers. We have, down the pike, a next generation ballistic missile submarine, these sorts of things. They're not – modernization in this day and age is not as easy as it was in the 1940s and 1950s. It – we have a much more technologically driven force and so – and another part of the problem, too, in terms of funding, you know, I think, in general, whether you're talking about the Defense Department or modernization, we do better off if we're just consistent, moderate funding as opposed to peaks and valleys, which then create a lot of uncertainty for industry and the managers and the Pentagon has been trying to do these things. So but to your point about

ballistic missile defense, you know, I think there is a worry – the administration itself is not exactly a lover of ballistic missile defense. I think that president Obama is certainly as a candidate said a lot of things that were very negative. I think even in 2001, he went on record during a Chicago interview, saying that he just in principle opposed missile defense. And I'll just close with – I think we all remember March, 2012, when a hot microphone caught president Obama talking to outgoing president Vladimir Putin, talking about how he would be more – have more flexibility to deal with Russia's missile defense concerns after the November 2012 elections. What exactly that means, I think a lot of people do worry. So.

**FRANK GAFFNEY:**

Amen. Steve, do you want to talk about the morale issue? How that's being affected by all of this?

**STEVEN BUCCI:**

You know, our military, the guys at the ends of their careers, remember the downturn after the Cold War and the problems that that brought. Some of them even remember back to, you know, the Carter administration where, frankly, you kind of felt like a second class citizen if you were in the military. That has changed. This country's matured. Their attitude toward the military as individuals is what it should have been thirty years ago when the guys and gals came back from Vietnam. You know, our soldiers and sailors, airmen, Marines, they walk through the airports today, even people who violently disagree with the policies in Iraq and Afghanistan, they get thanked. People come up and thank those kids for what they're doing. That's the right thing to do. My concern is that these kind of cuts are going to return us to that second class citizen status where these young people who have volunteered to put their lives between the, you know, the bad guys and the safety of this country would start to, again, feel like they're really not worth anything. That would be a crime. So that part does worry me. I think right now, the professionalism of our troops and their leaders are such that at least in the short term, that will not happen. But if this starts to drag on and you start seeing really massive bleeding cuts to the military's readiness, when you can – the only training you can do is to go do extra PT, because that doesn't cost any money to go out on the road, you're going to see the morale go down, cause these kids are professionals. They know what good training is. They know what they have to do to prepare to go into combat because they've been doing it. And if we suddenly cannot allow them to do that cause we don't give them enough money to do that training, it will affect their morale. So it's a future thing, but it's something that we need to be concerned about.

**FRANK GAFFNEY:**

Marshall – do you want to move this down? There you go.

**MARSHALL HANSON:**

One of the concerns that we have is the fact that the Pentagon is demonstrating their interest is in those people who are currently serving. And once an individual retires or gets discharged, then it's no longer a person who's contributing to the mission. And this can have a direct affect on the morale of the troops because they look to see how the generation that preceded them is being treated. And I can tell you, ROA worked on a retirement issue for the reserves, leaders in Congress and leaders in the Pentagon didn't believe that the younger serving members cared about retirement, didn't even think about it, you know, Secretary Chu was a good example of some quotes that came out. All they need is a red pickup truck, was something that he said. Then they went out in the field and they met these young people and

they learned from the Guard and Reserve that retirement was indeed an issue from E-3 up through O-7, O-8. So the problem we face is if they cut back on how they treat the retirees, it's going to have a reflection on what the serving people look at what a career potential will be. And it can not only affect the morale, it could affect the volunteer force. As a whole.

**FRANK GAFFNEY:**

[BACKGROUND] Okay. Next question? Yes, ma'am.

**WOMAN:**

Hi [UNCLEAR] I was just wondering if there are any significant differences in the data that was released in 2010 and the data that you're releasing now, if it says anything different.

**FRANK GAFFNEY:**

Let's get Christine up to address that if you would. [OVERLAPPING VOICES] Hot chair here. Thanks, Marshall.

**CHRISTINE BRIM:**

We just got the data up, so any suggestions I could make would be at the very high level at this time. We certainly found that there were actually counties and cities that had not receiving funding previously that are now – that did get it in 2011. So it appears that there will actually be some new communities that maybe weren't affected previously, but who would be now. We also found it at a high level, certainly the 2011 contracting budget that went out was greater than in 2010. Which means, as a baseline, when you begin taking the percentages away, the pain is actually going to be greater across at least a number of communities. And I think that the other significant thing that we found is that, as we look at this, and this is, again, an initial observation, but it's both the 2010 and 2011 data, many of the communities that are impacted are – as Frank mentioned in his example – that they are not related to bases. They may be – they may be a county. One or two counties away from the base. It's possible that people there even commute to work at the base. But a tremendous amount of the money that's going out in terms of contracts, particularly in the area of high tech and research contracts, not just high quality jobs, but I would say jobs that are mandatory to maintaining a competitive edge for this military, are in counties, you know, where people really didn't even realize it. And so I think that as, we've briefed a number of governor's offices, we've certainly briefed many people on the Hill. We've briefed local government. And I think that the – one of the impacts that we're seeing is an eye-opening realization of how much high quality jobs may be at risk. And let me add, just in terms of broader context on that, this is also at a time when innovation is clearly proceeding apace, for instance, in China and in other areas where proliferation of technology and of innovation is at dangerously at high levels, because of cyber security failures in this country. And also in Europe. So at the very time that we may be disinvesting in high level R and D, we're going to see a real intensive investment growth in it in geopolitical adversaries.

**FRANK GAFFNEY:**

Any other questions? Yes, sir? [BACKGROUND VOICES]

**ETHAN ROSENKRANZ:**

Thank you. This is actually for Christine –

**FRANK GAFFNEY:**

[OVERLAP] Christine, could you come back?

**ETHAN ROSENKRANZ:**

You've done a great job with the defense breakdown report. Which found job losses of 1.3 million potentially from defense sequestration. I'm wondering if you've also done comparative analysis of the potential job losses and/or impact on small businesses entailed from non-defense domestic sequestration and/or the House Reconciliation Act and/or potential tax increases. Thank you.

**CHRISTINE BRIM:**

No, we haven't. That would be great. We've actually looked and researched and tried to find if anybody's doing similar work on this, because it would be a tremendously useful complementary research product, frankly, to help the debate. Our goal was basically to get people aware of this. And talking about it. And I think that that's the, sort of the other side of the coin. And it would be hugely helpful if somebody would do that. So no, we haven't. And if you know of anybody who has, let everybody know. Thank you.

**FRANK GAFFNEY:**

Any other questions? Yes, sir.

**TOM O'CONNOR:**

My name is Tom –

**FRANK GAFFNEY:**

Stand by. The microphone. There you go.

**TOM O'CONNOR:**

My name is Tom O'Connor. I am retired from the Army Reserve. A veteran of Vietnam and Operation Desert Storm. And a life member of ROA. I have noted a very noticeable uniformity and consistency among the speakers as to the drastic effects, mainly monetarily, but others as well, from this sequestration situation. But I am constrained to think that each of the speakers – and I'll address my question to any of the speakers who want to respond or all of them – but each of the speakers must have a fairly uniform and consistent concept of the national security threat that this country faces. Now, for sure, in the opening remarks, there was reference to Islamists and that threat. But what is your assessment of the current and future threat, national security threat, that this country faces and since there's so much concern over cuts in the budget are you contemplating a two world war situation? Something in between? And then at the other end of the spectrum, contingency operations. Thank you very much.

**FRANK GAFFNEY:**

Thank you. Mackenzie, do you want to –

**MACKENZIE EAGLEN:**

Sure. You know, it's not going to be Mackenzie's opinion. I'll just tell you what federal government officials and policymakers, everyone from the Director of National Intelligence to the Secretary of Defense have said, to the Chairman of the Joint Chiefs, their opinion is that they've never lived in a more dangerous era in their entire lives. Across the board. Everything ranging from cyber threats to corporate espionage to the risk of terrorism. Additional attacks. To nuclear competitors. To failing states, to proxies like Hezbollah. I mean, the list goes on and on. And it's just readily available. I'd be more than happy to share it with you. Unfortunately, we're seeing the proliferation of threats confronting the US and the way I would look at it monetarily in terms of how to build a defense budget and what does it cost and how do you defeat them, it's, you know, the military capabilities that we have to defeat these wide varieties of threats as opposed to sort of a monolithic threat that's similar to like a Cold War, for example. Our capabilities relative to the risks confronting our forces, relative to the threats, this is not sort of a one-off proposition. It's about what do we have? What do we need? What's out there? And what are the risks in the delta to get there? Everything from readiness to lack of modernization and we're – the signal lights are flashing red or yellow actually across all three of those domains.

**ROBERT ZARATE:**

Sure. Thank you for your question. I think it's a great question because I think – my sense is that in the post Cold War era, sometimes our political leadership doesn't always do the best job of explaining America's role in the world. Not only militarily, but diplomatically and economically. And I guess – a couple of things in terms of the threats we face. And I thought it was great that you asked a question about the possibility of future world wars. I would assert that the United States has been certainly not the only pillar holding up the international community, and the relative stability we've had since the end of World War Two, I mean, of course, there have been perturbations, but there hasn't been another world war. The United States has been that indispensable pillar. And I think in the long term as – I mentioned how the United States, you know, during Eisenhower's time was spending upwards of sixty cents to a dollar on defense. Today we're at nineteen. We're on a downward trajectory, too. That's troublesome. And things aren't – the world isn't any less dangerous in a sense than it was during the Cold War. The dangers have changed. We have a rising China. And I think what's problematic is I think that our own leaders have a hard time talking about the implications of a rising China. People even bristle at calling them a competitor when it's quite clear in many ways they are competing. I mean, they certainly, economically, they've benefited from basically stealing our intellectual property. They are building a navy and a military force in general at a dramatic pace. And it is a military force that's aimed at denying our – America's ability to operate in the Asia/Pacific. And I, you know, a couple of weeks ago, I had a lunch with an Asian ambassador and this outgoing ambassador was very, very frank about the concerns of people in the Asia/Pacific region and about America's staying power. And so I think, you know, this debate, Mackenzie, you know, put it well earlier, too, this is a, sort of a pivotal moment for the United States in terms of its global leadership. I think *Wall Street Journal* put it well in an op-ed some time ago that it's the United States' choice. It can be a global power or a European style welfare state. And we're at that point. And Americans can – when they vote, they'll make their choice in terms of leaders and what the leaders say they'll do in the Congress and White House, but we do face a pivotal choice. And the threats we have are growing. And China's just one in the litany. I could talk on

and on about Pakistan and its troubles there. Its nuclear arsenal, terrorism. I mean, it's a long list.

**FRANK GAFFNEY:**

Steve, do you want to say something?

**STEVEN BUCCI:**

You know, there isn't today a danger of bad guys coming over the beaches. And coming here to the United States. That's also not necessarily relevant. There are people that would like to come here and do ill to us. Mostly in smaller groups and with sort of spectacular effect. But there are a lot of people who are willing to take us on in the various regions that would put a great constraint on our ability both to do business and to play the role in the world that – to which we've become accustomed. Now there's a lot of people, some of them in this city, that would think that was an okay thing. And maybe we should retract. There's a cost for all that. You know, every time we've had a big conflict in modern history, we have this big recoiling afterwards. Mostly for economic reasons. And it hasn't worked once. Something bad happens before we finish the recoiling. And we're forced to try and adjust on the fly to respond to that event. That's really bad policy. Regardless of who's in the office or who's on Capitol Hill. You know, we have some really smart, capable people in our government, in the intel community, in DOD and the Department of Homeland Security that can do the kind of preparation and planning that we need to do to keep this country and its people and our interests around the world safe. But they have to have the means with which to execute those plans and that's kind of what we're concerned about. The threats are real. They're very diverse, as has been mentioned. Some of them much more significant than others. But even the little ones can be pretty darn troublesome if you're the one who's on the axe when they do their thing.

**FRANK GAFFNEY:**

May I just add one point?

**TOM O'CONNOR:**

Thank you very much for your response.

**FRANK GAFFNEY:**

Just a more direct response to your question about two world wars. As I think everybody in this room knows and hopefully most of our audience, this is a kind of perennial question in the national security community. How much is enough? For many years, after World War Two, specifically, we believed what was going to be enough was the capacity to deal with two wars. I mean, full bore wars simultaneously. We sized the fleet, as Admiral Ace Lyons can attest, we built our force structure, we maintained our bases, we had power projection capabilities geared towards that scenario. And ever since, we basically have been telling ourselves, well, that's really not necessary anymore. Not so much because the threat has diminished. In some cases, more so than others. But because somebody concluded that it was unaffordable. And then they usually would trot out some sort of defense strategy or revised defense strategy or guidance or road map or whatever you wanted to call it that would justify what was fundamentally driven by the budgetary considerations. I think what each of our distinguished faculty have pointed to is the historical experience. When we have created, as I said at the outset, the perception that we're not there, I think Robert said, you know, as the pillar of the national –

international arena, people are emboldened to try to take advantage of the vacuum of power. And so whether that winds up being one nasty war that was unnecessary or maybe when you get yourself embroiled in one nasty war and the others who are also interested in taking advantage of your weakness calculate that you can't possibly deal with them at the same time. Maybe they're in collusion with the perpetrators of the first. Maybe they're not. Maybe they're just opportunistic. You may wind up being in two pretty messy conflicts and find yourself having to do, as Robert and others have pointed out, what we've done in the past, which is throw money at it. And worse, throw lives at it. And the effect is not to save any money. That net – it's usually those bust and boom cycles cost us dearly. But most importantly, they cost us in lives and that's the currency, obviously, we value most. So my personal feeling is you really want to have an insurance policy that undergirds your strategy, that is not driven by dollars, but by the threats. And by so doing, you actually achieve economies by preventing wars rather than wage them.

**TOM O'CONNOR:**

Thank you.

**FRANK GAFFNEY:**

Anybody else? Yes, sir. Could you identify yourself, please? Could you identify yourself, please?

**PATRICK HOUSTON:**

Patrick Houston [PH] I'm from Senator Sessions' office. You identified a threat from Hugo Chavez. I know that in the past, he's thrown around petrol dollars to try to get royalties from South American countries such as Argentina and other countries in the region. What do you expect from him in the coming years that will be a threat to the US economy and more so to US security? Thank you.

**FRANK GAFFNEY:**

May I take that and then turn it over? Well, frankly, what I expect is he'll die. Which is going to be a good thing, I think, for the people of Venezuela and the region. But not soon enough, probably. Already it's too late, because some countries that were not subject to the kind of tyranny and economic predation and rabid anti-Americanism that they are now might have been spared if he had been put out of business years ago. I believe that what he is doing and the people around him, the narco-generals that he seems to be planning to hand this operation over to, and the Castro brothers, and other friends, both in the region and the Iranians and the Chinese and the Russians, I think what they all have in mind is continuing to make what some call our backyard, I think of as our frontyard, a region of growing instability and hostility towards us. And I think, again, that's going to be bad for the region. It's going to be bad for our economic relations. We're here talking a bit about economy. Our economic relations with that very important market for our products. And what we import. And it's most importantly, I think it'll be bad for the national security. Because as I'm sure our colleagues can speak to with more precision, we know – as Steve said, it may not be, you know, battalions coming over the beach, but we know people are coming through Venezuela. Some of them from the Middle East. Some of them from other countries of concern into our hemisphere and across our borders and I think we've neglected this danger for far too long. Steve, did you want to say something?

**STEVEN BUCCI:**

Yeah, I'm sorry. I can't pass up on Hugo. The main danger is the fact that he's opened up his country to a lot of people that are – have really malevolent designs for our hemisphere and for this country. That's probably the biggest danger. The other thing I – it just gripes me, every time I see one of those commercials where it's saying, you know, this guy who's a virulent dictator in his own country, who's abusing his own people, that he's going to send oil to help the poor people of America because they're not being taken care of properly by our own government. And that's American political figures being paid to be in those commercials. That just irks the heck out of me. Because that's just – it's a lie. You know, and for that man who kills his own people and squashes political dissent in his country to hold himself up as this savior of the downtrodden here in America, it really sort of gets to me, but they're not an existential threat, but the fact that he – that they let folks in who could cause a lot of trouble for us is problematic.

**MACKENZIE EAGLEN:**

One brief point. I just would say that, you know, Venezuela kind of highlights how the world is truly no longer divided up into regions for US national interests. It's not that, you know, you kind of heard about this with the Pentagon's budget this year, it's that we can pivot to Asia pretty much at the expense of everywhere else. And that does include the Middle East even though we don't say it. And so on the chopping block is Latin America. And Africa, primarily. But what you're seeing here, whether that is narco-trafficking, human trafficking, organized crime, counter-terrorism and terrorism, all of these things are connected. The money all goes to fund operations everywhere else. And instability everywhere else. So this isn't just Chavez is a problem down there in Venezuela. If we just keep the lid on it, everything is fine. This contributes to sending foreign fighters into Iraq. Instability in the wider Middle East. Recruiting for al-Qaeda organizations in Yemen and Somalia, counter-piracy on the high seas, etceteras. All of these problems are linked. Not just instability in our backyard, but around the world.

**ROBERT ZARATE:**

And just a quick point. You know, I think it's just worth pointing out that Venezuela and Iran have pretty close relations. We all know that certainly is trying to develop the capability to make nuclear weapons on extremely short notice. If they haven't actually made the political decision to make them, I personally would rather err on the side of caution and think that they have given all that they're doing. And beyond that, you know, Iranian Venezuelan cooperation militarily, there's a broad spectrum of it. And there are a lot of worries about, you know, missile cooperation in particular in the Western hemisphere.

**FRANK GAFFNEY:**

Thank you. Anybody else? Yes, sir.

**JOE BLOCKIE:**

Good afternoon. I'm Joe Blockie [PH] with Aero Jet. I'm also an Air Force reservist and a life member of ROA. I wanted to talk, more focus on sequestration itself. I know we talked at very high levels strategically about some of the implications of what might happen. Do you have any thoughts on how much flexibility you think DOD will have in making the cuts here, whether it will be at a P level, you know, how they'll be able to maneuver around trying to maybe have some more strategy in this process as opposed to just, you know, a salami slice cut across the board? And other point is, what are your

thoughts in terms of major programs and weapons systems, what do you see as the future in terms of what ones that may face the most impact under a sequestration situation? Thanks.

**FRANK GAFFNEY:**

Robert, do you want to talk about the – whether there is the latitude to exercise any discretion and then maybe Mackenzie, you want to talk about that as well?

**ROBERT ZARATE:**

Sure. I'll just speak, first of all, from more of a congressional legal point of view. I mean, the [UNCLEAR] across the board. And in terms of what Secretary Panetta has written to lawmakers, there was that letter in November of 2011 in which he gave sort of some illustrative examples, the things he actually thought might have to be cut. Some of the things that come to mind, the ICBM leg of the triad, which would be a very serious thing. On top of that, delayed if not canceled procurements of a lot of major systems. Joint strike fighter and next generation sub, etceteras. Other speakers might want to speak more on the level of actually detailed contracts. Because that's above my pay grade.

**FRANK GAFFNEY:**

Do you want to talk also – I mean, just any –

**MACKENZIE EAGLEN:**

Yeah, sure.

**FRANK GAFFNEY:**

There is this argument, as I understand it, as to whether the Defense Department thinks it has more latitude to apportion these cuts. Some have concluded that actually if they do, they'd be okay with the magnitude of the cuts. Do you want to speak to that?

**MACKENZIE EAGLEN:**

Sure. Yeah, absolutely. So right now, it's generally agreed upon that there is little flexibility as the Budget Control Act is written. However, two things are happening. One, the Congressional Research Service is advising Congress that actually they don't have to change the law to give DOD flexibility. They simply have to pass a joint resolution, which is a lot easier than going back into the BCA and trying to actually change text and get Obama to sign it. So that's the one universal element across the board of sequestration that everybody hates. The White House hates it, you know, the fringes, if you will, of both parties, the center of everybody, you know, just critical mass, everybody hates the inflexible part of this. It is absolutely the one thing that would get changed in a scenario where you have an omnibus spending bill where you're trying to raise the debt ceiling and make a tax deal. This is not going to be, at the end of the day, if and how sequestration is dealt with or it goes into effect, the flexibility will be addressed. And DOD will get that flexibility. Otherwise, I mean, Panetta has boxed himself in, there's just no other way around it. Congress hates it. Everybody wants to do this. But so you have this one point where it's not that hard to change it. Then you also have the other angle here which you've seen already over the last several months, which is, at the end of the day, the White House and O and B are in charge. They are absolutely in the driver's seat. And for Congress to tell them

otherwise, they'd have to do something about it which is ninety-nine percent unlikely. We've seen this, obviously, with the president and O and B taking the forward leaning step of going ahead to exempt the entire Veterans Affairs Department. Didn't have to do it. The military personnel account was the one inside the defense budget that was in question. They could have just exempted certain elements like the health care. They chose to exempt the entire department. We just saw last week where the O and B said we're going to include overseas and war funding spending as part of the sequester. White House budget shop is in charge. If they interpret the BCA as giving them flexibility, then they have flexibility.

**STEVEN BUCCI:**

I was just going to say, even if they get the flexibility, you know, there's not that much flexibility in the account. I mean, the majority of the defense budget goes to people. It doesn't go to programs and bullets and bombs and the other stuff. And, you know, so they're kind of constrained, too. Really, the only thing they have to do to make these cuts is to go after programs. Which right now is meat. It's modernization. It's fixing buildings. It's making sure that there's bullets for the soldiers to shoot so they can know how to use their weapons properly. That stuff is going to get cut because there's nothing else to take it from. So whether they do it now – the big debate is which services get hit the most. Are we going to do, you know, the standard thing we've always done in Washington where everybody sucks up the pain evenly regardless of how that affects the strategy or, you know, because of the pivot to Asia, does that mean the Air Force and the Navy don't get hit as badly as the Army and the Marine Corps? I don't know. Those debates will still be had. But the bottom line is, you're going to have to cut muscle out of this. It's not just going to be fat. There's fat in the DOD, but not this much. And when you start cutting muscle, eventually you start chipping bone. And that's really scary, cause you chip a bone and the skeleton collapses.

**FRANK GAFFNEY:**

Christine? Could you also –

**CHRISTINE BRIM:**

Yeah. I just also – from the perspective of the businesses, cause we focused a lot on our reports on the contractors, I just want to say, if you're a business, you're already in this environment, in an extraordinarily uncertain environment regardless, just hold the military budget aside and Europe and the other things that are happening in the economy. Now add another level of uncertainty in terms of what's happening with the budget and for the third and second and fourth tier suppliers, many of whom are very small, many of whom exist to produce one or two parts, basically. And those may be absolutely crucial parts and in many cases, they're the only supplier for that part. You're looking at introducing now, regardless of what happens with sequestration, so much uncertainty over 2012 into the environment and this is going to go on into 2013 and even 2014. That businesses are beginning to be cut back now. And it's not as if they have a whole lot of other great sources of credit that they can rely on to fill in a gap in an uncertain time. So layoffs are beginning to happen. People are not investing in their businesses, everybody's hoarding cash, people are doing what they do if you're a business owner in a time of uncertainty. And that is not going to be reversible either. There has been a huge amount of risk introduced just into managing defense businesses at this time. And it's not just that it's return in growth, many of them are going to be getting shut down, they're going to be getting – diversifying into other lines of work simply to keep people paid. Mortgages and food be paid. You know, I mean, this is, people worry about keeping their employees alive and paid in some way. And what happens is that is not reversible. And this is also happening at the same time that there is a huge brain drain, because

you've got baby boomers aging out and and so you're going to have a lot of legacy knowledge of how to do things at a manufacturing level, leaving just with normal retirements, and now that's going to be accelerated and the money to actually do a hand-off – and this is particularly critical in the nuclear industry – is not going to be there. So you've got a perfect storm of risks happening right now and that's without sequestration happening at all, but merely the threat.

**FRANK GAFFNEY:**

Thank you. All the way in the back. Last question, I'm afraid. Go ahead.

**ANDREW HARED:**

Hi, I'm Andrew Hared [PH], I'm an independent researcher with various organizations here in the area. It occurred to me – the question arose about, as usual, or the fear arose about how, as usual, allies around the world of the United States are depending on the United States to pick up the slack and be there on the day and stand ready. Has there then occurred in light of these – this issue here in America – any sort of feedback from countries such as South Korea or Japan or European allies. Germany asked, too, they're saying to us, hey, look, if you cut this, we could be really I a pickle here?

**FRANK GAFFNEY:**

Anybody know the answer to that? [BACKGROUND VOICES]

**STEVEN BUCCI:**

Well, we've had some, with specific programs, you know, the F-35 is a big one that we're tied together with other countries and they're voting with their currency and that is as we cut our numbers, they're correspondingly cutting theirs. You know, remember, I heard students, war college students, talk about this and they'd say, well, we're just going to have to depend more on our allies. They're going to have to step up and spend a little more and do some more things to make up for what we don't do. That's a nice thought, but that's not the reality of the way the world works. Whenever America takes one step back, all of our allies take two. You know, they didn't want to be there in the first place. And if we're going to back down, they do even more so. And it's the same thing with the spending. So I don't know if they have approached our government or our legislators, legislators. I've spoken to attaches here in town and they're all, you know, kind of concerned about this. They like America spending money on defense because that means they don't have to. And they're not going to make up the difference.

**FRANK GAFFNEY:**

Anybody else?

**ROBERT ZARATE:**

I'll just – to add to that, I spend a lot of time, not only on the Hill, but talking with folks at embassies and, I mean, frankly, they're concerned. That's one of the first things they'll ask about, what's really going on? And they're starving for good information. And they themselves are, certain embassies in particular are very much struggling – they live in tough neighborhoods and they're thinking a lot about, you know, they got to think about the long game. And, I mean, obviously if the United States doesn't – isn't signaling like it's going to be there for the long haul, if we're like the broken traffic light signaling

red, yellow, green at different times, in the end, signaling nothing clearly, you know, a lot of these folks, especially some people who are more partners rather than allies, might start doing things which also we may not want them to do. So it's a real serious situation.

**FRANK GAFFNEY:**

Let me just conclude on that point if I may and – I think that the – there's an example that strikes me as illustrative of this phenomenon and Steve, you particularly, will probably resonate to this, for a long time, we have delegated certain programmatic capabilities and responsibilities – I guess it was sort of unsaid, but we sort of thought they were beneath us. Like counter-mine operations. And we gave those to the allies. And we really, largely eliminated our own indigenous capabilities to do mine sweeping. Well, all of a sudden, we're hearing from the Iranians that they're going to close the Strait of Hormuz and we look around for all those mine sweepers that we're going to – or aircraft or what have you – that our allies were supposed to bring to bear and they're not there. So suddenly, we're throwing money at trying to reconstitute capabilities that we never should have given up. Just cause they weren't as sexy as some of the big deck carriers and other things that we think is our special stock-in-trade. I just want to say I think that what you've heard today is evidence that whether we like it or not, the world is an ugly place. Whether we want to acknowledge it or not it is going to pose challenges to us. Those challenges are almost certainly – if history's any guide – going to become more intense if people perceive, as we've been discussing, that we're kind of back on our heels or, worse, in decline.

And I just want to say something in response to what Robert just said. People have choices. If we deal with partners or allies who are in dangerous neighborhoods, for example, and they decide that we're unreliable, well, they may opt, as Robert was suggesting, to get their own nuclear weapons, for example. Especially if they think ours are not credible or not going to be available. And what that might mean for the neighborhood. What that might mean for our interests in the neighborhood can only be speculated about. Another option for them – and this is probably the default setting for many – is to arrive at a separate peace with enemies, at least that they see as threatening to them and probably they're our enemies, too. Notably China at the moment. And we're watching this play out in real time. So for all these reasons, and I'm obliged to say I regard national security as something we do for national security, but it has economic impacts. It has strategic impacts. It can make the world more dangerous if we fail to do what we need to do. And relying on others to do it, to pick up the slack or simply assume that we can delegate safely to them is, again, historically shown to be folly. So the question is, really, and I say this particularly to the larger audience beyond this room, but also to those of you that are here, first of all, thank you for tuning in. Thank you for listening to this extraordinary array of expert opinion on some of the most important issues of our time. But please, take the time to go to school on this subject. There is represented here at the American Enterprise Institute and the Foreign Policy Initiative and the Heritage Foundation and the Center for Security Policy and others associated with the common – Coalition for the Common Defense, a wealth of information that will make you informed and capable of addressing these issues probably as few others in this country are. And we, as a people, as a nation, need that kind of capability to be brought to bear. So with that, let me just say, again, thank you to our distinguished panel, Steve Bucci, Robert Zarate, Mackenzie Eaglen, and, of course, Marshall Hanson's since departed, but Carolyn – excuse me, Christine Brim and all of you who've made this report possible and to those of you who have been taking this aboard here and elsewhere, please join in this fight. We've got a few months, hopefully, to stave off the train wreck that's coming and we need your help. Thank you very much. [APPLAUSE]

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