

# **Center for American Progress**

## **A Unified Security Budget for the United States**

### **Introduction/Moderator:**

**Richard Verma,  
Senior Fellow,  
Center for American Progress**

### **Keynote Speaker:**

**Thomas R. Nides,  
Deputy Secretary of State for Management and Resources**

### **Panelists:**

**Miriam Pemberton,  
Center for American Progress**

**Lawrence Korb,  
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LAWRENCE KORB: Good morning. My name is Larry Korb, and on behalf of our president, John Podesta, my colleagues in the national security team, I'd like to welcome you to this discussion, this event to talk about a unified national security budget.

Some seven years ago, I began working with some of my colleagues here, with Miriam Pemberton on a unified national security budget. And our latest iteration is out there for you. Please take as many copies as you'd like.

Our approach basically has been that when you're looking at national security, you should not look just at the Department of Defense -- or, as we call it, the offensive component -- you should also look at the defensive component, which is homeland security; and the preventive, if you will, of State Department and AID. Some people call it the three Ds: defense, development and diplomacy. And this is the way you need to look at it if you really want to ensure that whatever amount of money you're spending, you get the most bang for the -- for the -- for the buck.

It's interesting that over the years this concept -- when we first started here back with Miriam, myself and under the leadership of Bob Boorstin, our initial chairman here of our national security division, most people did not pay attention to it and thought it was somewhat naïve. But over the years, people have more and more accepted the -- accepted the concept, even people in the Department of Defense, like Admiral Mullen, who has said it's time to invest in other departments, such as Homeland Security, intelligence and the State Department, whose budget pales compared to massive Pentagon funding.

And even recently, just recently this year, Admiral Mullen said, "My fear, quite frankly, is that we aren't moving fast enough in this regard. U.S. foreign policy is still too dominated by the military."

And if you get a chance to look at our report, you'll see that for every dollar we spend on State and AID, we spend \$12 for Defense. For every dollar we spend on homeland security, we spend \$11 on the Pentagon budget. And our fear this year is that things may get worse because, as we deal with this situation, people -- with our deficit situation, people might be more willing to go after the State Department and AID rather than the Department of Defense.

Now, in addition to Admiral Mullen, other people who have embraced the concept include the -- when they had the Quadrennial Defense Review review by Steve Hadley and Bill Perry, they said let's have a unified national security budget. And of course it's sort of good news and bad news. On our first part of the deficit reduction package, they do talk about security spending in terms of what they need to do.

Now, today we're going to have -- we're going to have -- our keynote speaker is going to be the deputy secretary of state, Tom Nides, and he will speak for about 10 or 15 minutes. And then we'll have a panel, which will be composed of Miriam, our -- who's the leader in this project and who's a senior fellow at the Institute for Policy Analysis; and Rich Verma, who is

now a member of our team here at CAP and until recently was assistant secretary of state for legislative affairs.

Now, I can't think of a person more qualified to be the deputy secretary of state than our speaker today. Secretary Nides has experience in the business sector with Morgan Stanley. He's worked over on the Hill, where he was a top aide to Tom Foley when Tom Foley was speaker. He's also – before this appointment worked in the executive branch as – working for the U.S. – United States trade representative.

And if I can quote an interview he gave to The Cable, he said, “The DOD budget is” “national security;” State and AID are likewise.

Please join me in welcoming Secretary Nides. (Applause.)

THOMAS NIDES: Thank you very much. Thank you, Larry. I want to thank everyone for being here in August. I hope this is not considered a vacation day for those of you who are sitting in the audience. If so, that's quite sad.

I want to thank Larry and Miriam for, quite frankly, the hard work they have done on thinking how we can better spend taxpayers' money to protect and enhance our national security.

I also want to thank my pal Rich Verma. As you know, Rich has left a few months ago as the assistant secretary for legislative affairs. I want to be clear. There's probably no finer assistant secretary this administration had than Rich Verma. You don't have to ask me. You can ask about anyone at the White House that will also attest to my good words.

We probably wouldn't have a New START treaty, a defense trade agreement with the U.K. or Australia; or sanctions against Iran; and much, much more without Rich's fantastic assistance. And I, along with about just every other senior official at the State Department, wouldn't have their job, either, because Rich was in charge of getting us all confirmed. And for me, that was a heavy lift. So I am appreciative and thank Rich for all the work he's done not only on behalf of myself and my colleagues but on behalf of the American people.

And even though he's not here, I want to thank my friend John Podesta because he's built one heck of an organization and he deserves an enormous amount of credit.

As I said, thanks to Rich, I have a great job that I've had for about nine months. As deputy secretary of state, I could be focused on many issues and in many places. But few things are as important to me than fighting for the resources that our diplomats and development experts need to enhance our national security and our economic security. Few things are more important than making the case for security, economic and humanitarian assistance. And few things are more important than making sure that Washington appropriates funding in a rational way.

Beginning in 2007, the Department of State and USAID's budgets dramatically increased, and credit starts with Secretary Condoleezza Rice. Secretary Clinton picked up where

she left off and pushed forward a – strong budgets for the State Department and USAID. We made great strides in getting additional resources to elevate diplomacy and development alongside our military. As the three pillars of our national security, we added foreign service officers and civil servants. We invested in programs to combat hunger, illness and poverty, and we increased our diplomatic presence in places like Iraq, Afghanistan and Pakistan.

The reality is that State and USAID and the military are working more closely together in places around the world than ever in our history. I saw it when I was – in travel to Iraq, in Pakistan and early this summer in Afghanistan. You can see it when our diplomats and development officers are working hand in glove with the military to respond to humanitarian crises [sic] in Japan and Haiti. Around the world, you will find representatives from across the interagency and the security establishment working together on joint missions on behalf of the country. They don't think about which subcommittee funds them or what respective budget allocations are. They really just don't care. All they know is that they work together with a common purpose and often in dangerous and deadly environments. We need a budget that reflects this reality, but as everyone knows, we're facing the process of major budget cuts. These cuts could be the most significant we have had in two decades and they could have a devastating impact on the work that we do.

Let me put our situation in clear and stark terms for you. In the fiscal 2011 budget, which has now been finished, State and USAID took a massive hit, a 13.6 percent cut from what the administration believed we needed in 2011. And although it's unclear what's going to happen in 2012, we could face more catastrophic cuts, which I'll get to in a minute.

Secretary Clinton has made the case that State and USAID are essential to our national security and ought to be considered part of a national security budget, which Larry and Miriam recommended in their paper. Secretary Clinton and key allies – Secretary Clinton has very – several key allies in making the argument – current, former defense secretaries; the chairman of the Joint Chiefs of Staff; and numerous senior military officials. Now, for the first time as part of the debt-ceiling legislation just passed, State and USAID funding are included in a national security budget alongside spending for defense, intelligence, homeland security, the veterans' programs and military construction. That is the good news. But there is real risk that Congress could decide to shield defense spending and other categories of spending by cutting everything else. And that, my friends, is the bad news.

The House Foreign Affairs Committee already approved the State Department budget that included substantial cuts, as well as potentially debilitating restrictions, on how we can spend our money. The House Appropriations Subcommittee approved a bill that provides just \$36.9 billion of our core budget, which is an 18 percent cut. The House did accept the president's proposal for the for the "overseas contingency operations" account, or what you might have heard of, called OCO, to pay for the temporary and extraordinary costs in Iraq, Afghanistan and Pakistan. This is the same approach that DOD takes. By isolating the extraordinary costs from – for these three countries, OCO has the effect of showing that the core budget for State and USAID – the core budget, which manages our day-to-day operations – is relatively flat from 2010 to 2012.

As we increase the cost in these three countries around \$4 billion for State and USAID, the Defense Department's OCO spending is coming down by \$45 billion. So to repeat: As our cost of our OCO is going up by \$4 billion in 2012 for our operations in Iraq, the DOD's cost is going down by \$45 billion.

Now, in the business world, they call that leveraging an investment, investing \$4 to save 45 (dollars). Although the OCO account is helpful – it is helpful – we cannot just fund our efforts in the frontline states and gut our base budget for everything else we do in the world. So the question is what do we do about it?

We at State and USAID are not trying to rob the Pentagon to pay ourselves. I am not here today to talk about cutting military spending. Our goal is to match our spending on diplomacy and development and the military with our national security challenges. I've said this until I am blue in my face and I'll repeat it again: The State Department and USAID make up about 1 percent of the federal budget. Deep and disproportionate cuts in the State and USAID won't do anything or make any sense if our goal is to enhance our national security.

We know that resources are necessary to advance our national security interests and prosperity around the world, and we are at risk of not getting them. This is no time to retreat from the world, because as everyone knows, it is a critical moment in our foreign policy. We have a chance to capitalize on opportunities in the Middle East and to be part of an historic pivot point in the Arab world. We have the chance to invest in programs to curb and even prevent humanitarian crises [sic]. We need the resources to sustain our diplomatic presence and effectiveness in Iraq, Afghanistan and Pakistan.

And we need the resources to advance our economic agenda as well. Our economic officers and our ambassadors work to open markets abroad and create jobs at home. They facilitate trade and travel and tourism. This is especially important at this moment as our economy recovers from a very long recession.

The reality is that if we don't seize these opportunities, someone else will. As Secretary Clinton has said, other countries will promote their own models and serve their own best interests. They will create jobs elsewhere rather than in the United States. They will claim the mantle of global leadership. We should not allow this to happen.

We recognize as well as everyone else that we get value from every dollar spent. We have to be able to justify each dollar we spend every day, and we have to be fixated on improving what I like to refer as our rate of return. That is why Secretary Clinton, with Rich, undertook the QDDR, the Quadrennial Diplomacy and Development Review, which is the first of its kind, top-to-bottom review of how the State Department works and how it doesn't work and how we can operate more effectively and efficiently in the 21<sup>st</sup> century. To her credit, most organizations wait until a crisis breaks out to undertake such an initiative. Secretary Clinton started the QDDR when things were going pretty well.

With Secretary Clinton's leadership, we're undertaking more public-private partnerships with NGOs and, yes, with the business community as well. Most importantly, in this difficult

budgetary climate, we have to make our case to win it. Humanitarian security and economic assistance in tough times and in not so tough times are often the first buckets of spending to get thrown out the window. I understand that most Americans think that the foreign assistance makes up 25 percent of our budget, even though, as I said, it's only about 1 percent. The positive side, however, is that when asked how much we ought to be spending on foreign assistance, people say between 10 (percent) and 15 percent, which I'll take. (Laughter.)

Finally, we're not making this case alone, as Larry pointed out. There is bipartisan support for what we do. Senator Lindsey Graham understands as well as anyone the importance of State and USAID's work for our national security. General Dave Petraeus, our new CIA director; Admiral Mullen and Leon Panetta understand the role of diplomacy and development in enhancing our national security. Bill Gates, Bono and the former Senate Majority Leader Bill Frist, who just returned from the Horn of Africa with Jill Biden, all understand our mission. NGOs, and just as importantly, the business community also understands that diplomacy and development support are national security. They understand that our national security and economic security and our leadership role in the world are at stake if these cuts are too dramatic.

We recognize the threat that the deficit and the long-term debt poses to our national security, but there is a smart and balanced approach to deficit reduction. What we don't need to do is hammer at a bipartisan programs [sic] that over time have created safer, more stable and, quite frankly, a more prosperous world.

I want to thank the Center for American Progress and Larry and Miriam and Rich for giving me a chance to speak, and I'm more than happy to take a few of your questions. Thank you very much. (Applause.)

MR. : (Off mic.) Now we'll go to the second phase. We will ask a few questions to the secretary, then, we'll open it up to the audience if you will be with us – [inaudible] – says until 10:28. So Jonathan – (inaudible) -- and then we'll go.

All right. Miriam, do you have a question for the secretary?

MIRIAM PEMBERTON: Yeah, thanks a lot.

I really appreciated your remarks. One point that I especially noted was when you talked about diplomacy and development aides working hand in glove with the military. So sometimes unified security budgeting is sort of lumped with integrated operations. And, you know, when one partner has most of the money, that partner tends to call most of the shots. And so I wonder how you balance the need for working with the Pentagon on integrated operations while preserving the integrity and the independence of the State Department as the lead agency in U.S. foreign policy.

MR. NIDES: Well, it's a – that's a – first of all, thank you. That's a very good question, because I – as someone who is new to the world of diplomacy and realizing the sensitivity between our prerogatives and making sure that our prerogatives are secured, this debate comes up quite a bit. One of the things – it starts in the top. Hillary Clinton, when she came in,

established a very clear, strong relationship with Bob Gates. And that has basically – has been pushed down throughout both of our buildings.

She made it very clear that we were going to work hand in hand with them in Afghanistan – the idea of kind of clear and hold, the idea that they would be clear that we'd be holding with our diplomatic presence.

What we're doing in Iraq – as you know, we're about ready to embark into the largest military-civilian transition since the Marshall Plan. What we're doing hand-in-hand in Pakistan is totally connected.

So first it started at the top. And I think, quite frankly, that relationship has created unbelievable synergy. I would think – and again, I may be delusional but I would say that if you asked people at the State Department, the relationship between us and the military has probably never been as good as it is today for a variety of reasons: One, personalities; two, that there is a need for coexistence, because, just as you point out, they can't do it without us and we can't do it without them.

But make it clear: We -- the chief of mission authority is extremely strong. At the end of the day – the role of Karl Eikenberry, having worked with General Petraeus and now with Ryan Crocker working with General John Allen – that relationship is completely equal. There is – I had a civits (ph) yesterday with both of them, and you can just sense from them the pure quality of their relationship. So I'm – and I watch this closely, because I certainly understand the issues around the State Department prerogatives, but if it's FMF, which is foreign military sales and activities, I feel that we, obviously, have an enormous say on how that proceeds – programs that we're working in Afghanistan, everything around transition.

There is a – there's a mutual respect, but there's also a mutual need. They need our help and we need theirs. And so I believe – and I think you'd have to ask my colleagues at the State Department but I think – I think we have the balance correct and I think, quite frankly, Leon Panetta – Defense Secretary Panetta and Secretary – and Secretary Clinton also have a long history of a relationship, as you know. And I think, again, that helps a great deal, because of a lot of this is personality-driven as well, throughout the building. So I feel pretty good about it, but Rich is – quite frankly, probably could even express views because he was – had been there at the beginning of the term. But I feel very good about where that is and the prerogatives that both buildings have.

MR. KORB: Rich, do you have a question for Tom? Or do you want to give us some of your experience trying to deal with the Hill to get them, you know, to not be so tough on your former employer there?

RICHARD VERMA: Sure. How long do you have to – for me to talk about this? I'll tell you, when we came in, we had a great team that knew the Hill. I mean, to have Jack Lew that worked for the speaker of the House, to have Jim Steinberg that worked for Senator Kennedy, and then to have Secretary Clinton, a former senator – these are people that not only understood the intricacies of the budget and appropriations process and how OMB worked, they

also understood what – the case they had to make to the American people and to their elected officials in order to get the money, and the first two years that they were there were very successful. And to have Tom come in right behind them and continue that obviously in a much different environment, it's definitely a tough go, but you know, this is, as you said, Larry, the best guy for the – for the job.

I do have a question, Tom, though, about this idea of diplomacy and development as national security. I know this is something that we've all argued for many years but now I wonder, is there some kind of perhaps buyer's remorse. Are we – is this a matter of be careful what you've asked for? Because now we're there, now the law has been changed so that security spending, you know, is subject to the – to the budget framework that was laid out at the end of July, early August. We are security spending: Still a good development, still the right thing to argue for?

MR. NIDES: Oh, without question. Listen, I – it's a question of which pot you want to be in, right? So obviously there is a – the thematic notion that development alongside defense and diplomacy alongside defense and development is a – is important symbolically, but in a rational world in where – let's be clear, Defense has substantially more money than the State Department and USAID do. Obviously, over the years, the Defense budget has been shielded from many of the cuts over the last five to seven years. So part of the strategy obviously is to be in the bucket where obviously the cuts have been shielded and symbolically and realistically.

I mean, go figure, of course, once we get that done, they start cutting some of the Defense spending, but that's – you know, that is obviously the reality of the world in which we're living. That said, if I had to ask the question would I rather be in the national security frame or could be competing with – you know, against dollars for education, health, the environment, I'd like to be where we are now. So I think that the argument you all made over the last few years is the right – not only symbolic because it's real and it's real on the ground. And now having spent time in Afghanistan and Pakistan and Iraq and these frontline states, I see it every day. I mean, I – when I go to Kandahar and I met a PRT and I – and I had the military, the generals and the – and the – and the military standing next to us and talking about the civilian importance of what they're doing within civil society, that's what it's all about. That's a – that's a combined national security argument.

On the – on the money, listen, we're going to have to – we're going to have to convince the Hill that the cuts need to be reasonable and they need to be balanced. And the good news is I think Defense Secretary Panetta understands that as a former OMB head, as a former member of Congress. Certainly – Admiral Mullen certainly has believed that and articulated that. So I think, Ned (ph), I'm – obviously I'm worried, as anyone would be, because these budget cuts are enormous and could have a devastating impact on what we do on health, on environment, you know, economic development.

But again, I think it is the right choice. It is the reality in which we can make case. And we're going to have to fight for every dollar that we get. And I believe we'll have a pretty good shot at attempting to try to keep the base budget, which I think is really the important debate here, at a reasonable level going into 2012.



MR. KORB: Rich, you want to follow up?

MR. VERMA: Yeah, I can just follow up on that. The other thing the agreement did is it did set these hard caps for security versus non-security. I think security is about at 680 (billion dollars) or 684 (billion dollars) for FY '12. Now, when you prepare the president's budget, you get spend a couple years – all the agencies get to work together and they get to show up to the Congress all singing off the same sheet of music as to how that budget should be allocated. Here you are, you know, now with a new set of agencies to basically – to compete with for that same allocation. Is there an agreement amongst the agencies in the security bucket as to how that 684 (billion dollars) should be divided or is that a work in progress? (Laughter.)

MR. NIDES: Oh, you know so much about this, Rich. (Laughter.) This is what we call a loaded question.

The food fight hasn't actually occurred yet. But, you know, we'll have, I think, reasonable discussions. Listen, let – I want to be – here's what – I just want to put this in perspective because I – it's somewhat confusing because only in Washington would you be just finishing '11, haven't even begun to fight about '12, and we are presenting '13 budget in January. I mean, it's – no one can imagine how this operates for those of you who've spent time in the – in Washington on the budget process. It is something of an enjoyment to say the least.

So what we have to be under – what State and USAID are really going to be fighting for in this budget is basically our base budget. Our base budget in 2011 was \$47 billion, OK? We wanted about 52 (billion dollars); we got 47 (billion dollars). We took a big cut in '11. So it's \$47 billion. And that \$47 billion, just to be abundantly clear, pays – has paid for everything. I mean, that's all foreign assistance, that's for all our billets for all our diplomats. It's for everything we do on health. It's the PEPFAR money, at 8 billion (dollars). It's everything, OK? That's the \$47 billion, the base budget. That is what we had in '11.

In '12 we asked for 53 (billion dollars) to \$54 billion, a fairly substantial increase in '12, for only one reason, which is Iraq. As you know, as I pointed out, we are taking on the transition in Iraq. As the military goes down to zero – or about zero, depending upon what happens, but basically virtual no military boots on the ground in Iraq, as under the agreement – State Department's picking up the diplomatic piece, so we have to pay for everything. It's our presence now in Iraq. And the cost of that is about an extra 5 ½ (billion dollars) to \$6 billion. The State Department has to come up with that money. That is why our number went up from '11 to '12. And quite frankly, the Hill gets that.

And so what we have done is, is that in '12 we got – because of Rich's good work, we got this thing called OCO, which I mentioned in my speech, which is a – which is a good thing, which has basically let us take the money for Afghanistan, Iraq and Pakistan and put it in a separate account called OCO. Defense Department's been doing this for years, OK? So you can see that our cost for the war costs are separate so when – as we draw down, that account becomes slower and slower. We used to do this through supplementals and now we're just going to be OCO. So we have that in place, and it's about \$8 billion for our OCO account in 2012.

Put that aside for a minute. We still have our base budget for everything else we do, right? For all of our diplomats, for all of our health programs, for environment, for all – we call ESF, all of our economic assistance around the world, for everything we do for Israel and Egypt. And so that base budget still needs to be about \$47 billion, OK?

Here's what's happened. The House took that \$47 billion and took it down to \$38 billion, OK, which is, as I pointed out in my speech, really enormously problematic and devastating to many of our programs. Now, we hope, to be honest, that reasonable people will – you know, the Senate will come in and they will work together and try to make sure that we take that number in the House and move that number to something reasonable for our base budget. So that is what we're going to be fighting for.

It's a very – you know, I will – (inaudible) – very simple: we must protect the base budget or, quite frankly, the impact of a 18 percent cut in our base budget – you know, well, those of you – you don't have to be math geniuses to figure out we will have to make some enormously compromising cuts, both with our diplomatic corps and our civil service corps and quite frankly, in programs, at a time, I think, would be – is critical.

And again, we understand we need to make cuts. And Rich knows that we're all practical here. We're all – we've already – we have to give, like everyone else has give. It's a question about rationality, and that's what we're dealing with.

MR. KORB: Let me follow up on Rich's point, go back to the executive branch. Do you think it would make sense if Jack Lew would come out and take whatever number is supposed to be there for 2013 and then, before you send it up to the Congress, for the three secretaries – Secretary Napolitano, Secretary Clinton, Secretary Panetta – to agree on a distribution, and if there's a disagreement take it up to OMB or to the White House? Because after all, that's what – the Department of Defense, when it first got started, it was War and Navy, and they each wanted their own budgets, and eventually they were – you know, had to complete with each other.

MR. NIDES: Yeah, I – listen, I believe that that will happen at some level. How it happens, the formality of it, I'm not an OMB expert. Many of you, probably, in the audience are. There's no question – they're not going to throw the – they're not going to throw the money in a – in a room and lock the doors and let us all kind of like fight for it. You know, I think – although that'd be kind of interesting, but – (laughter) – I'll bet on Hillary Clinton – but I – (laughter) – but that said, yeah, I think there'll be a reasonable – again, we are – (chuckles) – you know, it's kind of – it's, again, we are a very small percentage of not only the overall budget for the federal government, we're also a very small percentage of the national security budget, all which is very important.

My belief is that the good news here, from a bipartisan perspective – this is not just – I mean, I've been very pleased by the support we've had on the Republican side, especially in the Senate but also in the House. But guys like Lindsey Graham and Richard Lugar, and there's this – you know, a huge amount of support of people saying we need a balanced approach. So obviously that – also, listen, Hal Rogers has been a very big supporter of the State Department.

And I believe that he, along with other members of the Republican leadership, also understand that we're at a critical point here in how we divide up the pie, as we like to say. I think cooler heads will prevail and we will be able to have a – to make sure our base budget is at a level to sustain a funding level I think we all believe we need to.

MR. KORB: Good. All right, now, the secretary has to leave in about, I said, at 10:28. So what I'd like to do now –

MR. NIDES: I don't know where they came up with the 10:28, all right? (Laughter.) He was just joking, I'm sure. I hope.

MR. KORB: (Laughs.) OK. What I'd like to do now is open it up to the audience and get your questions directed to the secretary and then let Rich and Miriam chime in as necessary. I'd like to first go to the press. Any members of the press have questions? Yes, ma'am. And wait – please wait for the microphone and identify yourself.

Q: Hi. Kate Brannen, Defense News. I was curious if there is a State Department team working with the Pentagon on their strategic review of roles and missions and how you see that review influencing State's future missions, if at all? Thanks.

MR. NIDES: We have – we have constant conversations and constant planning, especially in those front-line states in particular. So we are working aggressively on a transition plan in Afghanistan. As you know, the president has committed to a plan for 2014. The troop withdrawal will obviously be happening this year, beginning. We have to begin transitioning a plan for Afghanistan about what you're – you know, what – where you'll be physically located, how many people will be in each location, where will the military be, where they will not be, when can we withdraw our civilian numbers as we draw down our military.

So we have a – we have a very sophisticated planning process led by General Allen, who is now our commander in Afghanistan, along with Ryan Crocker, who arguably is probably one of the finest diplomats the world has ever seen, the combination of those two working with Washington and the Pentagon. And we have deputies meetings at the White House every week on transition. So that is on Afghanistan.

Iraq, I should tell you, I probably spend a couple hours a day working with the Defense Department on the transition in Iraq. As you know, under the strategic agreement we will have no forces at the end of the year in Iraq. That is a massively big transition.

We are probably – or probably have 50,000 troops there now that are going to be going down. As they go down and withdraw, the State Department is stepping up the transition between the handoff. I mean, the mission set's obviously changing. The diplomats are not going to be doing the same mission set as the military. We're going to go back to a more normalized diplomatic mission in Iraq, but we're working hand in hand. You know, we all read what goes on in Pakistan. We continue to work very closely with the military and our – obviously other agencies as it relates to Pakistan.

So yes, we have very – by necessity and desire – I mean, necessity being you can't do these transactions without formal planning. And by desire, you know, you have to execute this in an effective way. And quite frankly, I've been very pleased on the kind of cooperation, as I said at the beginning of my talk, between the two departments. But they are ongoing on a daily basis.

MR. KORB: OK, the floor is now open for questions. I'll take a couple and then give you a chance to – OK, here – let's take – the hands that are up, Billy. Go to each of them. There are three.

Q: I'm Mitzi – is this on?

MR. KORB: Yes.

Q: I'm Mitzi Werthheim, with the Naval Postgraduate School. Mr. Secretary, I was really impressed with the way you talked about what the State Department offers and what the return is to the American taxpayer. I don't know that I've heard it expressed as well before, and I keep wondering about the importance of having really simple – not simple stories – complex stories told in a clear, simple way so the general public says, "My God, of course we need them." And we use too many words and not enough pictures. These are all flow diagrams, but I think it would help if you could figure out how to let folks in the middle of the country know what they're getting for what you're doing.

MR. KORB: OK. All right. Do you want to go ahead? Do you want to take each one? (Laughter.)

MR. NIDES: Yeah, I just – yeah, but you know, I – you're 100 percent – I was shocked. OK, first of all, I didn't – to be honest with you, I didn't know how much money on – as a percentage basis the State Department, USAID was part of the – of the – of the budget. You know, quite frankly, I was probably one of the people who thought it was 25 percent. (Laughs.)

And so the ROI, you know, which – as someone who comes from the business world as – I've been, you know, both in politics and business – is unbelievable. I mean, I just – I did something – or I didn't actually do it, Jonathan did it. But they put it on The Huffington Post a couple of days ago, the 10 things you didn't know about the State Department, which is basically talking about everything we do, about job creation and – I mean, all – I mean, significant, important things beyond what we're doing on health and what we're doing on the environment. I can't tell you how many people have called me. I mean, first of all, people must be – I mean, The Huffington Post is great, obviously. If anyone's here, it's perfect. But I mean, who's reading this stuff in August, right?

I mean, the calls that I got from people saying, "I didn't know that. I didn't realize you guys do that. I mean, I thought this was all – you know, I didn't get that." So I think you're 100 percent right.

Listen, I'm also realistic and understand when people are hurting here at home, OK, when people are worried about education and their health care and, quite frankly, their jobs, it's very hard to try to explain to someone the importance of what we're doing in Somalia, OK? It's sometimes very hard to explain why we need to do what we do on the Horn of Africa, because they're like, "Well, we've got – we've got problems here."

What we are trying to be clear to people is what we do is as much about defensive – playing defense as it is offense, because you know, I talk about this: For every dollar – you know, Mike Mullen will say, "For every dollar you guys spend, we save \$5, because we don't have to put boots on the ground. We don't" – you know, if there's a crisis, the military's going in. The American people expect it. If we can somehow avoid the crisis by diplomacy, by stuff like Feed the Future, which is – food programs, by things that we do around global health in Africa, that has enormous benefits, economic benefits and practical.

And listen, people want to say, "OK, if you're going to spend the money, tell me how this money is being spent. If you don't, don't spend it." So we have to be more practical, more exact. And I think, quite frankly, Secretary Clinton is as good a spokesperson as any, but we have to continually paint the picture.

Q: Is it on your website?

MR. NIDES: Yes.

MR. KORB: OK, let's go over here. We'll go back and forth. (Laughs.)

Q: (Off mic) – is this on? It is? OK. Charlie Henken (sp), C. Henken (sp) and Associates. So my question is a follow-on to my seat partner here, which concerned roles and missions and the strategy for – integrating a strategy towards holistic roles and missions on a whole-of-government basis. Let's take an example – Western Pacific driving the DOD budget. Do you have a (C ?) control versus a power projection capability in 2025 or in 2010 or whatever? And there's just a host of multibillion-dollar implications in that area, but it's hard because the State Department has to manage the perceptions of the day-to-day relationship with the Chinese on economic, political and so forth. So you can't be too open. You can't have all the bureaucracy working on all of the details together, but my sense is there hasn't been adequate coordination in, say, the Western Pacific dimension of roles and missions, as opposed to the Middle East.

MR. NIDES: Yeah, I don't – you know, I – again, I would probably suggest that it is not where it needs to be – (inaudible) – because listen, there needs to be clearly very defined roles for – one of the things having come out of where I've come from and many of you in this room: Someone needs to be responsible. One of the problems in government – group gropes is interesting, but a lot of things don't get done. And I think one of the ways – you have to have clear responsibilities and clear lines of command and lines – you know, lines of control and command, right? And, you know, that's why the State Department's prerogatives need to be preserved and where we begin as chief of mission authority, which is dictated by the president,

and where the military has their roles and responsibilities. And we could have a long debate about how that is formulated and especially in the areas where there's complete integration.

So I think we've made material progress, but listen, I see it in Afghanistan, where the Defense Department has enormous more money than the State Department has for many of the development programs that we're working on hand in hand and how that transitions back over to the State Department, because one of the problems is when the military leaves, so goes the money. That we've seen over and over again. And so there is a strong need for strong integration, but I still believe there needs to be clear roles and responsibilities, which I think you agree -- would agree, too. But I think we're making progress, but we're nowhere near where we need to be over the long haul, because as dollars get stretched, we need to make sure that we are avoiding the duplication and, quite frankly, to make sure that the programs are actually being validated to be successful.

MR. KORB: OK, anybody on that side? That gentleman back there.

Q: Thanks. Evan Coren from the Information Security Oversight Office. I was wondering if this would also do away with the distinction between the 050 and -- function and 150 budget distinctions that they draw between defense and foreign policy budgets, and if the NSC would also be considered lumped in with that rather than lumped in with the White House.

MR. NIDES: I'm not sure -- I'm not sure I understand your question. What is your question you're asking?

Q: So right now the --

MR. KORB: Yeah, don't move the mic, because when you move the mic, we lose your -- (laughs) --

Q: Right. So the Hill and the OMB put budgets into functions -- function 050 --

MR. NIDES: Yeah, I know. Yeah, I know that. Yeah.

Q: Yeah, so will this go away with -- do away with that distinction?

MR. NIDES: No.

Q: And also, is there any talk of including the national security staff within the lump of DOD, AID, State or leaving it still within the White House?

MR. NIDES: No, I -- no, I don't think that -- first of all, and Rich and I actually had this conversation yesterday. I mean, this is real, the national security budget's real, but let's be clear. We are not -- they're not changing the appropriations process on the Hill, OK? So we -- you know, Kay Granger is still the, you know, chairwoman of our appropriations committee. They're not changing the -- how the Hill deals with our budget beyond, you know, a national security framework where the budget allocations are due, but we'll still have subcommittees,

subcommittee discussions, markups within subcommittees and in the full committee. And those will also be in the – in the Senate.

Again, I think this is the first year. Over the next few years, as we get to a clear feeling of how this is working, you could potentially see other changes within the national security framework. But right now I think we're – we are at overall "chapeau," as they like to say, of the – of the overarching numbers. And then we'll continue the normal appropriations process, as they – as the committee process begins.

MR. VERMA: Larry, let me just follow up.

MR. KORB: Oh, go ahead.

MR. VERMA: Does it argue, though, for a new – without getting you in trouble with your Hill colleagues, one of the things that I know Miriam and Larry called for in the report was a different committee structure. And now that you've got one lump category, even though you have the subcommittees, should there be kind of a super or select kind of committee on security – (inaudible) –

MR. NIDES: You don't really think I'm going to answer that, do you?

MR. VERMA: (Laughs.)

MR. NIDES: Would you have answered that if you were in my job?

MR. VERMA: No, and that's why I'm asking you.

MR. NIDES: That's right. OK, yeah. (Laughs.)

You know, listen, I think – and I know the brilliance on the Hill. They'll figure it out, but I think – I'm serious. Oh, God, I'm getting myself in trouble. But I think that the – oh, yeah, I think over time they'll have to see how this works. I mean, again, in – they'll have to continue relooking how the structures work on the committees. But having been a Hill rat in an earlier part of my career, changing the appropriations processes and committees is a high order.

But if you would have told me that – you know, a year ago that the State Department and USAID would be now under the (chapeau ?) of a national security budget, not on the domestic side of the ledger, I would have said that was impossible, so anything is certainly possible in the future.

MR. KORBA: You can see Rich has made the transition from government to –

MR. VERMA: Oh, totally. You're going to get me in trouble. Perfect. (Laughter.)

Q: Serge Duss, International Medical Corps, international NGO – since my question is regarding Congress, I'll direct it away from Secretary Nides to the other panelists –

MR. NIDES: Thank you.

Q: – who were involved in writing this excellent report. What makes you think that the Republicans in Congress, particularly the House, will be much more sympathetic to diplomacy and development, just because this budget now comes in a new packaging?

MR. KORB: Miriam, do you want to –

MS. PEMBERTON: (Inaudible.) (Laughs.)

MR. KORB: I'll go ahead while you're thinking.

MS. PEMBERTON: OK.

MR. KORB: I think what you're seeing is a change in – the Republican Party is not the Republican Party of the neocons and George Bush, OK? You're beginning to see the Republican Party go back to some of its roots with the so-called tea party in many senses there, you know, Robert Taft Republicans. And remember it was – the Republicans back in the late '40s, Vandenberg and company, that supported the Marshall Plan when only 13 percent, you know, of the Americans – the Americans did.

I think the fact of the cost of doing it with Defense, as opposed, as the secretary said, in terms of, you know, what you can get for the – from the State – I think a key thing is going to be – assuming we get out, you know, and Maliki yesterday said he wants us out, you know, completely – when people take a look at how much we're spending in Iraq next year as compared to what we've spent this year, people say, why, that's not a bad – you know, that's not a bad – that's not a bad deal.

So I do think, you know, you're seeing, you know, differences. Now, you still have the neocons whose answer to everything is more military force, OK? But they're becoming, I think, a smaller and smaller portion of the – of the federal budget, and if you look at, you know, some of the candidates, you know, some of the things that they've said in terms of, you know, using military forces.

Now, you know, is there any guarantee? No, there isn't. But I do think – you know, this – you know, the very fact that the Republicans agree to lump security spending together – remember this is a bipartisan agreement – shows that people are beginning to think in those terms.

Miriam, do you want to –

MS. PEMBERTON: I guess I'd just add that, you know, we've all expressed the dangers of doing it this way, you know, as have you. And I just think we have to make the case that – you know, that the military increases unbroken for 13 years, that's unsustainable; that the deficit has been in part created by those increases, and that international affairs had nothing to do with



it; that if these people are really concerned about our security, we need to be looking at and they need to be looking at, you know, what is the most effective way to achieve security with limited dollars; and that those who are basically just concerned with the bottom line of defense contractors, you know, they are not deficit hawks and they are not security hawks, and we just need to call them out.

MR. VERMA: Can I add one point to that?

MR. KORB: Go ahead.

MR. VERMA: I think what the House did – if you talk to the House leaders, they'll say in their – even in their FY '12 mark, they'll say, look, we gave you everything – almost everything you wanted in your OCO. And so we gave there but we cut everywhere else. And so I think there's a little bit of risk to OCO, too, which is that becomes the category of wars and exigencies, and everything else – the Somalias, the Yemens, the Sudans – start to fall off the radar screen.

So maybe a question back to you, Tom, is, can – do you see OCO as being something beyond those three frontline states at some point down the road in order to maybe bootstrap some of the other programs?

MR. NIDES: You know, the OCO's got very clear parameters because – since you helped write it. And Jack Lew, who is a Boy Scout, he, you know, wrote it – the way in which was very defined about the frontline states. And we're obviously sticking to those parameters.

The biggest fear I have, which is yours, which is – you know, you can't – you know, talk about robbing Peter to pay Paul. You know, you give us the money because these are war costs that we all believe we need to spend. You know, for the transition in Iraq, we all believe we need to get the troops out. We need to do our diplomatic presence in Afghanistan. We need to get the troops out. Over a period of time, we need to transition. Pakistan is what we have talked about for our national security purposes.

If we find ourselves in a situation, which is we get fully funded OCO, which has been funded in the House and in – quite frankly, will be in the Senate, but if they just take those dollars and take it out of our base budget, that is a disaster for us, OK? That is a disaster. And we are making that case very clearly to the Hill that that can't be done. I think people understand that, will hopefully be focused on increasing that base budget.

What I don't want to see happen is, is put money out of our base budget – if we can help that – into a – the OCO account, because the OCO account is temporary by its nature. And as you start shrinking your base budget over time, you're going to wake up here – you know, I'll be long gone from this job, but for whoever has this job, you know, three or four years from now or five years from now or whenever it is, I don't want them to see a – they turn around and they have no money to do our diplomatic missions around the world. And so we have a crisis. You have the – you know, you have what's going on in Egypt and Tunisia and the Middle East. And I look around and I say, oh, I've got to take it of our base, but we have no base left. It's all being

funded there. So that's the balance we're working in. But we have clear-defined mission set of what the OCO needs to be, but we must, must make sure that the base budget is at a reasonable level to fund the activities for the – for the rest of the world.

MR. KORB: OK, we got three to five minutes depending on when you have to leave. What I'd like to do is get for the secretary – because Rich, Miriam and I will be staying until 11:00, when the program ends – succinct questions – you know, three to five, and you can answer whichever ones you want and also use your remarks to sum up.

OK, yeah, quickly.

Q: Hank Gaffney from CNA – worked 11 years in all this business. So just to clarify, we have the committee of 12, which is going to work the 684 (billion dollars) and make the division. And that's just for the year 2012, and then it all reverts to the usual 302(b) acquisition appropriation divisions.

MR. NIDES: No, let me just – let me clarify that. I know I'm supposed to let everyone speak, but – so I don't – remember your question. The committee of 12 has one task, which is to basically get a trillion and a half dollars out for – between '12 and the year 2020. That is – that is the goal of the committee, because remember they basically kick – not kick the can. They basically got enough to get the \$900 billion to get the debt ceiling raised, which they did. The supercommittee's role is to come up with that extra billion and a half – trillion and a half dollars.

If they do not achieve that, if they do not achieve that by Thanksgiving, a rescission takes place in 2013, which is 50 percent for DOD and 50 percent for domestic, OK? For that particular rescission, that does not have – the State Department is back in the – is back in the domestic pile, OK, for that rescission. And the whole idea behind that was to put pressure on everyone, right, including, you know, Republicans and Democrats. So that is the role.

Now, they could – and hopefully they'll think about a much broader, bigger deal than just trying to get the trillion and a half dollars that they're required to do by Thanksgiving and hopefully that they'll think about other – you know, other things that they possibly could do. But that is – for the sake of that conversation – I haven't screwed that up, did I, Rich? Is that right? OK.

MR. VERMA: (Inaudible) – the 684 (billion dollars) is still going to be managed by the Appropriations Committee.

MR. NIDES: By the – that has nothing to do – the 684 (billion dollars) has nothing to do with the supercommittee. They are not involved in that. That's the deal of the – of the – so that is totally disconnected.

MR. KORB: OK.

MR. NIDES: I'm sorry. I didn't follow your rules, Larry.

MR. KORB: I got to – I got to try and make it easy.

MR. NIDES: Well, I've got a – I've got a few – I've got a few more – I've got a few more minutes.

MR. KORB: All right. OK, go ahead. Please ask your questions.

Q: Karrie Braxton, Global Business Solutions, Inc. – as one of the companies from the taxpaying side of the development business, I wanted to let you know about the Coalition of International Development Companies. We have been putting together success stories to show how certain countries have been able to phase out of international assistance from the U.S. government. So you might want to take a look at what they're offering in terms of pictures, as opposed to words, because as we know, actually these days a picture's worth 10,000 words.

And also particularly with regard to small businesses that are doing work in international development, the Small Business Association of International Contractors are also putting together success stories to show the American people how much the increases in American assistance are helping bring down the deficit on this side. So I would take a look at those groups to help provide some pictures. Thank you so much.

MR. KORB: Thanks. Thank you. Over here then right there in the back, the gentleman in the back, and you will have the last question, sir.

Q: Larry Nowels with the Hewlett Foundation – a couple of weeks ago, OMB issued new guidance on agencies putting their 2013 budgets together, requiring options for 5 percent and 10 percent reductions from FY '11. Two questions – one, some agencies appear that they will be exempt from that exercise. I'm just wondering if you can comment on the position of the State Department.

MR. : (Laughs.)

And regardless of that, you do have for 2013 now a new reality of a hard cap for the security agencies that was not there a month ago. Is this going to change how you utilize these last few months in preparing the 2013? Will it be more collaborative working with these agencies so that you come – you come at that cap, rather than putting together a budget that you feel the State Department and USAID needs and then later engage in that discussion at OMB over how you make it all fit?

MR. NIDES: OK, yeah, I – let me just answer quickly. I think that the – I think the game of, you know, what your number is (and told ?) and what gets delivered to OMB, I'm learning that there's a little – sometimes it slips between the cup and the lip between what you're told and what happens. So how the guidance is given to the departments and what they expect – I mean, here's a dirty little secret.

You know, we don't know what will come out of the supercommittee. You know, who knows exactly what the Congress will do on '12 beyond what's currently put in place? So we're actually forming – formulating right now our '13 budget, and listen, I don't think you can

assume that you're going to be getting any more money than you got in '11, right? That's a pretty good assumption, right? So that's not – I think most people would wake up and say, that's probably assumption. And quite frankly, out of the – out of the '12 negotiations, they've obviously thought about this over the next five to seven years as to how they got there, quite frankly, how they got to \$900 billion – (inaudible) – future savings as well.

Listen, I think we're working closely with our colleagues over at the Pentagon and Veterans Affairs. I should tell you, we're not sitting around in meetings every day and dividing up the pie. I think – I think it was the question that was asked earlier. I think there's better coordination. How it all works – this is the first time it's happened. We hope there will be more coordination and more conversation. But again, the good news is the cooperation between certainly our departments and Defense has never been better, and I think that will help, I think, in these discussions.

MR. KORB: Mr. Secretary, on behalf of the audience and my colleagues here at CAP, thank you very much for coming and sharing your thoughts with you (sic). (Applause.) We wish you the best of luck as you deal with this.

MR. NIDES: All right. Thank you very much. And Miriam and Rich, thank you. I just would make one last comment. The one thing that I have been enormously impressed with was the quality of people at the State Department, and not just the foreign service officers but the civil service officers, the locally engaged folks that I meet around the world. And for those of you – not to get sappy, but for those of you who haven't had an opportunity to spend time and look at the – what goes on at AID and State, it really makes my job that much more – not only more important, but it's actually – it makes me feel like I'm actually doing something good to support the men and women who are, quite frankly, putting their lives on the line and wake up every day trying to make the United States a better place for the American people, but quite frankly – and how we are looked upon around the world. So I'm honored by being invited, and thank you all very much.

MR. KORB: Thank you. (Applause.)

All right. For those of you that would like to stay, we can get into more of these particular issues that we did in the – in the unified – Jonathan, thank you very much.

All right. Miriam, do you want to add anything? You've heard the secretary talk and, you know, you've been sort of the person who's pushed this idea for a long time – things that you might have said that, you know, the secretary wasn't able to say?

MS. PEMBERTON: What he wasn't able to say – well, what I was hoping to ask was – referring to one of the recommendations in the report, we talked about, you know, the extreme challenges of trying to change the congressional budget process. So I was more thinking of focusing on our recommendations having to do with the executive branch.

One of the most important, I think, of our recommendations for the executive branch would be the creation of a quadrennial national security review, which would include all of the

partners in the security portfolio that we've talked about. And it would also incorporate – you know, we've talked about the importance of OMB, so it would be a joint NSC/OMB process that would really do what the QDDR doesn't do, what the QDR doesn't do, which is to connect strategy and budgets and to really think about the kinds of trade-offs that we've talked about in this report, among different – you know, different ways of securing the nation.

So for example, you know, we talk about, you know, a trade-off between, you know, funding missile defense, as opposed to funding the Coast Guard and, you know, container security. So if – so if this body could look at, you know, how do we protect the country from, you know, a nuclear bomb, you know, that group would then look at, you know, what is the expert opinion on what's the most likely way that a bomb is going to come to the United States. And lo and behold, most experts believe that, you know, a missile threat is much less likely than, you know, a bomb coming in on a ship.

So with that in mind, that kind of idea in mind, then that group might look at, you know, shifting some of the budgetary resources, you know, from missile defense toward beefing up the Coast Guard's capabilities and the Homeland Security Department's capabilities to do container inspections. And so those are the kinds of trade-offs that we are – we think that – you know, are really at the heart of this – of this proposal. And I think that sort of agency within the federal government to link the budget people with the security people and to link strategy with budgets would be – you know, it's surprising that that really doesn't happen, and this would be a useful way to get it to happen, I guess.

MR. KORB: Let me add something to that, and the example – because we were talking, you know, with the secretary – obviously the things in terms of aid that you can do in particular countries. But when you take a look at this particular thing with the Coast Guard versus the Department of Defense, last year the Coast Guard budget went down. Why? Because they're in the Department of Homeland Security and they're competing against, you know, the 22 other agencies there, but there was nobody to say, well, you know, if we're worried about a nuclear attack on the United States, is somebody going to shoot a missile with a return address, which is what you're spending on missile defense, as opposed to more – putting it in a container? Well, the fact of the matter is we spend more on missile defense than the entire Coast Guard. And that does not get – it does not get in. And so if you're trying to, quote-unquote, “get more bang for the buck,” this is really what you need to think about.

Similarly, the Defense Department says one of the major threats to national security is climate change, OK? Well, if climate change is a threat, which agency can help you deal with that? It's not going to be the Department of Defense. You know, the Marines aren't going to change the climate. But if you're taking a look, for example, at other ways you might fund that – and until you start thinking holistically like that – and everybody says, well, the Congress will change. Well, maybe it will. Maybe it won't. But the executive can do that. They can sit down and say, OK, we got 684 billion (dollars). All right, let's sit down and see what we recommend here, you know, in terms of these – of these – of these trade-offs.

The problem has been basically after – toward the end of the Clinton administration and then after 9/11, it was very easy to just fund the military without thinking, whereas these other,

you know, programs had to, you know, fight for – you know, fight for every dollar. And as you go into this period of austerity, the fact of the matter is the defense budget has so much more room for reductions than the baseline State budget.

You know, for example, if you take – if the Defense Department should take the whole trillion dollars in cuts, the 350 billion (dollars) in the first thing plus – worst case, the – you end up with sequestration, and it's like \$950 billion, you would be back to where you were in real terms in 2007.

So I mean, when – and yet I don't remember too many people complaining about George Bush's next to last defense budget. And we need to do that and rather than go after the sort of the baseline – the baseline budget. And unless I – and it ought to be tough with the Congress, but unless the executive branch takes the lead in this when they send up the budget, I – you know, I don't think you're going to have these – have these things happen. And it will be fascinating to see what – you know, what they do with this first phase here. And I think that's the – you know, that's the – that's the key.

Rich, you want to have anything before we ask people in the audience?

MR. VERMA: Yeah, just a comment on this – having lived through the QDDR process at the State Department, it is a fairly internal process at State and USAID. Meanwhile, the Defense Department just finished its QDR, and the Department of Homeland Security finished its own quadrennial review. And so you had three different QDDRs, QDRs and other review at three major security agencies. The NSC of course tries to bring the agencies together at the conclusion for sign-off. And then there's also the National Security Strategy of the United States.

But I think what you're recommending, Miriam, is to bring those three agencies together in a more holistic way but also assign budget priorities to the policies that are recommended in the – in the particular reviews. And that really doesn't happen holistically. OMB does the best it can, but it – it's really hard to make those kind of trade-offs because it is still stovepiped; then we get to the Congress, and it's even more stovepiped.

MR. KORB: All right. (Inaudible) – the floor is open.

Yes, sir. Wait for the mic, if you will.

Q: Thank you. Michael – (2:05 inaudible) – also a former Hill rodent. Talking about the holistic approach and exigencies that are not yet foreseen but some that may be emerging and also referring to the sparkling intellects on the Hill, recently a number of Chinese officials have privately expressed amazement that national leadership, particularly in the House, was willing to sacrifice what most people would consider national security interests or certainly national standing for ideology. Now, in Chinese history in the '60s and '70s that's a familiar exercise that they're trying to get away from. So that surprise is very likely to play out in ramifications in their own policies.

So as the tea party – as you mentioned earlier, the revision – the sort of recidivism to the Taft era, if there is in fact a new profile on the Hill regarding priorities regarding China, as they perceive China, how did you find it? Whether some dimensions of it are a threat or whether or not the more consensus Republican view that it should be stability through business at all costs, how would a holistic approach survive the emergence of a virulent new, ideologically driven attitude, particularly in the House?

MR. KORB: Go ahead, you --

MR. VERMA: Yeah, I kind of lived through this a little bit, too, so I think – look, I think for those people that care about diplomacy and development, we have to do a better job making the case. And for a lot of the House of Representatives, there are a lot of new members that have no understanding or experience of what the State Department or USAID or NGOs around the world might be doing with U.S. taxpayer money. They've got bases in their district. They've got National Guardsmen and Reservists in their districts. They have – they may have military service. They have a much better appreciation for what DOD does. They know what boots on the ground does. But still, we have to admit that we're dealing with remnants of kind of foreign aid, of the past. And when people see State Department funding and AID funding, they think, foreign aid – it's going down a rat hole. It's going to some dictator in some third-world place, and that's an easy place to cut.

When we actually go in and talk to new members and explain what the money's actually for – and when you sit next to, say, someone from the joint staff or someone from the intel community, it's – they are surprised and shocked that you would be here together talking about the national security case. And what we try to talk about is national security as a continuum; not just the offensive part where actual combat is taking place. But we've been trying to talk about national security, as these guys do in the report, about a pre-conflict – a preventive – a preventive phase and a post-conflict phase.

And that pre-conflict part of the continuum, where you put diplomacy and development dollars at work, will hopefully save you lots of money down the road. And that's the investment case we've been making, and we – frankly, we need to do a better job of it. I think we can – we can make that case, but it's going to take a lot of work. And hopefully – you know, I understand there's a lot of ideological battles taking place right now. Hopefully, this is one that can penetrate the ideology.

MS. PEMBERTON: I'd just – I'd just add that I suspect that the Chinese have also been sitting back and looking in amazement as the U.S. for years has been looking at China as, you know, our next Cold War adversary and, you know, seeing it as this emerging military threat. Meanwhile, China is spreading its influence economically and, you know, kind of beating our time with its – with its economic influence, which I think has far more importance than its – than its military influence. And you know, I think they're, you know, kind of chuckling to themselves as each new person stands up in Congress and starts ranting about the specter of the Chinese military threat.

MR. KORB: Yeah. Yes, ma'am.

Q: Ashley Stover, Joint Economic Committee. On that point – on the previous two comments, it's been said that the State Department has to show how it can save money but also how it makes money for the United States in terms of what our economic officers are doing on the ground. And in the report, there's a part where you say there's not enough staffing of Foreign Service officers. And can you speak to the issue of staffing in the economic space in terms of making sure that our global footprint when it comes to economics is felt? Because I don't think that is something that is identified as a – not just preventative measure but keeps the United States and our national security at the top, where it is.

MS. PEMBERTON: (Inaudible) – defer to you.

MR. VERMA: Yeah, no, I'm – yeah, it would have been a great question for the deputy secretary, because he's got the actual specifics on where we're short, but I can tell you, you know, the plan was to grow the foreign service by about 20 (percent) to 25 percent, grow USAID by – I think the number was somewhere around a thousand additional foreign service professionals in AID. And Secretary Clinton is very good about making the case as to how – when we don't have an adequate number of people on the ground fighting for those kind of economic opportunities for our companies, for our businesses in very competitive environments in the world, where the Chinese, where the Russians, where the Europeans are out very aggressively pushing their companies and their products, it does impact U.S. business.

I mean, you talk to any small-business owner in the United States, it's very likely they have some international connection. Either they have a supply chain that comes internationally or they have a customer internationally. And it is the kind of quiet, behind-the-scenes work that economic case officers do every day for U.S. businesses around the world. It's an untold story. I think we have to do a better job telling that story and really beefing up that capability and that capacity.

MR. KORB: Yeah, we – you know, in the report, we try and get into this. We still have 80,000 troops in Europe. The Cold War ended 20 years ago. And so we say, "Take 800 out." And you could do that, 800 – (laughs) – out of the 80,000. And that's the type of thing, I think, where you need to get, you know, people's – you know, people's attention because if that base State Department budget goes down, that's going to hurt, make it more difficult to – you know, to hire those folks. And remember this OCO money basically is to cover their operations, not to hire, you know, extra FSOs over there.

So, yeah, I mean, that's the type of thing – I mean, when you tell the American people – go back to the question I was asked before -- and even Republicans, you know: 80,000 troops in Europe 20 years after the end of the Cold War? People say, what, are you kidding? Europeans are cutting their defense budget because they know we're there. So they can do that to deal with their – you know, their deficit and put the money into other things.

MS. PEMBERTON: And I'd just add – back to the OCO issue, I thought – I thought the secretary did a good job of explaining, you know, the problems with this being where the money for the State Department is going. It's also, it seems to me, creating a different set of capacities



and a different set of skills to deal with, you know, mopping up after this – after this disaster. And, you know, so I worry that we're building capacities that are going to be of limited value to, you know, preventing conflicts to, you know, expanding, you know, economic ties and influence and all the sorts of things that you've been talking about. I don't see the people coming out of – out of Iraq as particularly having those kinds of skills that can be, you know, plugged right into the broader conflict prevention, you know, kind of engagement with the world that we need and that we're trying to build.

MR. KORB: Okay. Yeah, back there, and then up here.

Q: Hi, thanks. Ben Freeman with the Project On Government Oversight – we do a lot of work on contractors, and so I was sort of curious to not hear a lot about that so far and then get your thoughts on that. The DOD's budget, the majority of it actually, goes to contractors, and even some individual contractors actually get more taxpayer dollars every year than the entire State Department. So I was just curious to hear your thoughts on the contractor issue.

MR. KORB: Well, you know, if you read today – the report of the commission on, you know, contracting came out, and they talk about the big waste and lack of control and the fact that the Department of Defense didn't plan for this. And you know, and I – you know, that's a really key issue, you know, going forward: how much you want to rely on the government, how much you want to rely on the private sector, and have we crossed the line, I mean, you know, with the private sector, giving them inherently governmental – you know, governmental, you know, functions, not to mention the waste but the problems they've caused by – they basically have ignored the directives of the people they're working for.

Remember the big incident you had in Iraq were State Department contractors that, you know, basically started, you know, shooting. And I remember when I was there in 2007 doing some work for the State Department, they had this private security firm, and I had these two fellows in front of their SUV driving us around, and they were former South African military people who my guess is left when, you know, apartheid ended. And basically, you know, they would shoot first and ask questions later. You know, I mean, it was really – I mean, and I do think that's a whole separate issue, and that goes back to the fact that if you cut government people, which we did in the '90s when Senator Helms was, you know, ravaging the State Department, then you're going to have to – you know, have to do this when these emergencies come up. And I think, you know, that that is – is a – is a key issue that until you get your budget where it needs to be, you're going to have to do that every time you have an emergency.

MS. PEMBERTON: I'd just add, the other issue with relying so much on contractors is the political contributions that they put into our – you know, influencing the state of our politics and, you know, the influence they have had and can have on, you know, shaping the budget; preserving, you know, new increases in military spending that may not be in our – in our security interest or our financial interest.

MR. KORB: OK, this young lady up here –

Q: Ellen Milhiser, editor of Synopsis newsletter – I am very fascinated by the cuts you suggest in the defense budget. And I just have two questions. First, the personnel you pull out of Europe, you still have those people to deal with. You still have to pay for them here, you know, also. An increasing portion of the defense budget has nothing to do with weapons, and it's personnel costs. It's retirement. It's health care, all of those costs. Do you have any suggestions on dealing with that and on actually making our defense spending pay for defense and not taking care of all the people who, thankfully, gave us their service but, you know –

MR. VERMA: Well, we put out other reports and we've done two things: One on the – on you know, the – cutting defense. And we're going to take half of those people out of Europe and take them out of the force. That's how you would save money. We've also – and we had a very contentious meeting here with the head of the Military Officers Association in terms of doing something about the military – you know, the military health care system. So, yes, we do get into that.

And if you go on our website, we have compared our proposals to Tom Coburn, who by the way – really very, very radical proposal; and the deficit commission, Simpson-Bowles; and the Gang of Six, and we've shown all of the things that, you know, we have in common. But you know, we do – we do – and your point is well-taken because, yeah, if you take them home from Europe, you're not going to save any money. You've got to – you've got to take them out of – out of – out of the force.

Yes, sir. And you get the last question, and –

Q: My name is Jonathan (sp) – (inaudible) – from the Osgood Center for International Studies. Mr. Korb, you mention that a trillion dollars in defense cuts over the next 10 years is doable without significant harm to the – to the prowess of our national defense. Secretary Gates critiqued that and said that anything over 350 (billion dollars) would harm it. And the main argument – and I've seen it floated in sources such as The Weekly Standard – was that those kinds of cuts on that scale don't take into account the need to replace hardware that was purchased in the '80s during the Reagan defense buildup. Do you mind commenting on that?

MR. KORB: Yeah, and of course – and Secretary Panetta's also said the same thing, that these cuts would be, you know, devastating. The problem with the Pentagon and in the procurement area has not been the amount of money; it's how well it has been managed. You realize when we – you know, we pointed that out in our – in our recent report that you've had \$50 billion of – that they've spent on weapons systems, which they've cancelled, OK? They also have cost overruns of three (hundred billion dollars) to \$400 billion on the existing. That's the reason they're not replacing it. It's not a question of money, and I want to -- and I think it's very important to keep in mind, if you want to run the Pentagon well, it's not the secretary because that man and hopefully someday soon a woman, you know, has an awful lot of things, you know, to – you know to do; it's the deputy. And we've done studies and we showed how with a good deputy, you can do this without it.

Nixon came in and basically he hired Melvin Laird, who was a political person, a congressman from Wisconsin, as secretary. Who was the deputy? David Packard. Harold

Brown came in under Carter. Brown was a scientist. Who was his deputy? Charlie Duncan from Coca-Cola, OK? Dick Cheney – you know, and after reading his book here, I hesitate to say anything nice about him, but I think the fact he was a very good secretary of defense. And you know why? Because before he took the job, the White House said, Don Atwood, the vice chairman of General Motors is going to run the place. We haven't had that. Wolfowitz – OK. Gordon England was pretty good but he wasn't there that long. And that's what you need: a big-time business executive to go in there and – that's been the problem -- not the amount of money -- because when the money was there, they didn't have to make any – well, we'll do this; we'll do that, you know; we'll build this with – you know. And that was the – and that was the problem.

So I know – I've heard all the arguments: Well, they haven't replaced it, you know, since the Reagan years, and all of that. The problem is that in fact you haven't handled your money well, and go – and that's so to say, you go back and you look at those periods where the declining – a defense budget that was \$200 billion in real terms than you are now, and we seem to do it.

Well, on that – OK, Rich and Miriam, you have any thoughtful words here?

MS. PEMBERTON: (Laughs.)

MR. VERMA: No, thank you very much for this – inviting me --

MR. KORB: Listen, I want to thank you all, A, for coming; and B, for staying – (laughter) – after the secretary left. And I want to really thank my colleagues, particularly Miriam, who has really – you know, started this, you know, program seven or eight years ago when nobody was thinking about it and really has persevered, you know, to get this. And I think we're making some progress.

So thank you all very much. (Applause.)

(END)