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Thank you, Secretary Daley, for that kind introduction.

It's an honor to be at the Economic Club of Chicago. I certainly appreciate the special arrangements you made to have me here this afternoon.

I thank all the distinguished citizens of this great city who came here today – especially Mayor Daley and Secretary Daley. I am mindful I am speaking in the adopted hometown of my boss. President Obama sends his greetings, as do Rahm Emanuel and David Axelrod and the rest of the Chicago crew. They are no doubt discovering that Washington is the true “Windy City” – and I am not referring to Mid-Atlantic weather patterns.

The issue that brings me here today is central to the security of all Americans: the future of the United States military: How it should be organized, equipped – and funded – in the years ahead, to win the wars we are in while being prepared for threats on or beyond the horizon. Earlier this year, I recommended to President Obama – and he enthusiastically agreed – that we needed to fundamentally reshape the priorities of America's defense establishment and reform the way the Pentagon does business – in particular, the weapons we buy, and how we buy them. Above all, to prepare to wage future wars, rather than continuing the habit of rearming for previous ones.

I am here on relatively short notice to speak publicly about these matters because the Congress is, as we speak, debating the president's defense budget request for the next fiscal year, a budget request that implements many needed reforms and changes. Most of the proposals – especially those that increase support for the troops, their families, and the war effort – have been widely embraced. However, some of the crucial reforms that deal with major weapons programs have met with a less than enthusiastic reaction in the Congress, among defense contractors, and within some quarters of the Pentagon itself. And so I thought it appropriate to address some of these controversial issues here – in a place that is, appropriately enough not only the home of our Commander-in-Chief, but also a symbol of America's industrial might and economic power.

First, some context on how we got to this point. President Obama's budget proposal is, I believe, the nation's first truly 21st century defense budget. It explicitly recognizes that over the last two decades the nature of conflict has fundamentally changed – and that much of America's defense establishment has yet to fully adapt to the security realities of the post-Cold War era and this complex and dangerous new century.

During the 1990s, the United States celebrated the demise of the Soviet Union and the so-called “end of history” by making deep cuts in the funding for, and above all, the size of the U.S. military, including a 40 percent drop in the size of the Active Army. This took place even as a

post-Cold War world grew less stable, less predictable, and more turbulent. The U.S. military, with some advances in areas such as precision weaponry, essentially became a smaller version of the force that held off the Soviets in Germany for decades and expelled Iraq from Kuwait in 1991. There was little appetite for, or interest in, preparing for what we call “irregular warfare” – campaigns against insurgents, terrorists, militias, and other non-state groups. This was the bipartisan reality both in the White House and in Congress.

Of course, after September 11th, some things did change. The base defense budget – not counting spending for the wars – increased by some 70 percent over the next eight years. During this period there were important changes in the way U.S. forces were organized, based and deployed, and investments were made in new technologies such as unmanned aerial vehicles. However, when all was said and done, the way the Pentagon selected, evaluated, developed, and paid for major new weapons systems and equipment did not fundamentally change – even after September 11th.

Indeed, the kinds of equipment, programs, and capabilities needed to protect our troops and defeat the insurgencies in Iraq and Afghanistan were not the highest priority of much of the Defense Department, even after several years of war.

I learned about this lack of bureaucratic priority for the wars we are in the hard way – during my first few months on the job as the Iraq surge was getting underway. The challenges I faced in getting what our troops needed in the field stood in stark contrast to the support provided conventional modernization programs – weapons designed to fight other modern armies, navies, and air forces – that had been in the pipeline for many years and had acquired a loyal and enthusiastic following in the Pentagon, in the Congress, and in industry. The most pressing needs of today’s warfighter – on the battlefield, in the hospital, or at home – simply lacked place and power at the table when priorities were being set and long-term budget decisions were being made.

So the most important shift in President Obama’s first defense budget was to increase and institutionalize funding for programs that directly support those fighting America’s wars and their families. Those initiatives included more helicopter support, air lift, armored vehicles, personnel protection equipment, and intelligence, surveillance, and reconnaissance assets for our troops in Iraq and Afghanistan. In addition, we also increased funding for programs that provide long-term support to military families and treatment for the signature wounds of this conflict – such as traumatic brain injury and post traumatic stress.

But, while the world of terrorists and other violent extremists – of insurgents and IEDs – is with us for the long haul, we also recognize that another world has emerged. Growing numbers of countries and groups are employing the latest and increasingly accessible technologies to put the United States at risk in disruptive and unpredictable ways.

Other large nations – known in Pentagon lingo as “near-peer” competitors – are modernizing their militaries in ways that could, over time, pose a challenge to the United States. In some

cases, their programs take the form of traditional weapons systems such as more advanced fighter jets, missiles, and submarines.

But other nations have learned from the experience of Saddam Hussein's military in the first and second Iraq wars – that it is ill-advised, if not suicidal, to fight a conventional war head-to-head against the United States: fighter-to-fighter, ship-to-ship, tank-to-tank. They also learned from a bankrupted Soviet Union not to try to outspend us or match our overall capabilities. Instead, they are developing asymmetric means that take advantage of new technologies – and our vulnerabilities – to disrupt our lines of communication and our freedom of movement, to deny us access, and to narrow our military options and strategic choices.

At the same time, insurgents or militias are acquiring or seeking precision weapons, sophisticated communications, cyber capabilities, and even weapons of mass destruction. The Lebanese extremist group Hezbollah currently has more rockets and high-end munitions – many quite sophisticated and accurate – than all but a handful of countries.

In sum, the security challenges we now face, and will in the future, have changed, and our thinking must likewise change. The old paradigm of looking at potential conflict as either regular or irregular war, conventional or unconventional, high end or low – is no longer relevant. And as a result, the Defense Department needs to think about and prepare for war in a profoundly different way than what we have been accustomed to throughout the better part of the last century.

What is needed is a portfolio of military capabilities with maximum versatility across the widest possible spectrum of conflict. As a result, we must change the way we think and the way we plan – and fundamentally reform – the way the Pentagon does business and buys weapons. It simply will not do to base our strategy solely on continuing to design and buy – as we have for the last 60 years – only the most technologically advanced versions of weapons to keep up with or stay ahead of another superpower adversary – especially one that imploded nearly a generation ago.

To get there we must break the old habit of adding layer upon layer of cost, complexity, and delay to systems that are so expensive and so elaborate that only a small number can be built, and that are then usable only in a narrow range of low-probability scenarios.

We must also get control of what is called “requirements creep” – where more features and capabilities are added to a given piece of equipment, often to the point of absurdity. The most flamboyant example of this phenomenon is the new presidential helicopter – what President Obama referred to as defense procurement “run amok.” Once the analysis and requirements were done, we ended up with choppers that cost nearly half a billion dollars each and enabled the president to, among other things, cook dinner while in flight under nuclear attack.

We also had to take a hard look at a number of weapons programs that were grotesquely over budget, were having major performance problems, were reliant on unproven technology, or

were becoming increasingly detached from real world scenarios – as if September 11th and the wars that followed had never happened.

Those of you with experience in the technology or manufacturing sectors have at some point probably faced some combination of these challenges in your own businesses. But in the defense arena, we faced an additional, usually insurmountable obstacle to bring rationality to budget and acquisition decisions. Major weapons programs, irrespective of their problems or performance, have a habit of continuing long after they are wanted or needed, recalling Ronald Reagan's old joke that a government program represents the closest thing we'll ever see to eternal life on this earth.

First, there is the Congress, which is understandably concerned, especially in these tough economic times, about protecting jobs in certain states and congressional districts.

There is the defense and aerospace industry, which has an obvious financial stake in the survival and growth of these programs.

And there is the institutional military itself – within the Pentagon, and as expressed through an influential network of retired generals and admirals, some of whom are paid consultants to the defense industry, and some who often are quoted as experts in the news media.

As a result, plenty of past attempts by my predecessors to end failing or unnecessary programs went by the wayside. Nonetheless I determined, and the president agreed, that given the urgency of the wars we are in, the daunting global security environment we will inhabit for decades to come, and our country's economic problems, we simply cannot afford to move ahead with business as usual.

To this end, the president's budget request cut, curtailed, or ended a number of conventional modernization programs – satellites, ground vehicles, helicopters, fighters – that were either performing poorly or in excess to real-world needs. Conversely, future-oriented programs where the U.S. was relatively underinvested were accelerated or received more funding.

For example, we must sustain and continually improve our specialized strategic deterrent to ensure that our – and our allies' – security is always protected against nuclear-armed adversaries. In an initiative little noticed, the President's program includes money to begin a new generation of ballistic missile submarines and nearly \$700 million in additional funds to secure and assure America's nuclear deterrent.

Some of our proposed reforms are meeting real resistance. They are called risky. Or not meeting a certain military requirement. Or lacking in study and analysis. Those three words – requirements, risk, and, analysis – are commonly invoked in defense matters. If applied correctly, they help us make sound decisions. I've found, however, that more often they have become the holy trinity of business as usual.

In truth, preparing for conflict in the 21st century means investing in truly new concepts and new technologies. It means taking into account all the assets and capabilities we can bring to

the fight. It means measuring those capabilities against the real threats posed by real world adversaries with real limitations, not threats conjured up from enemies with unlimited time, resources, and technological acumen.

Air superiority and missile defense – two areas where the budget has attracted the most criticism – provide case studies. Let me start with the controversy over the F-22 fighter jet. We had to consider, when preparing for a future potential conventional state-on-state conflict, what is the right mix of the most advanced fighter aircraft and other weapons to deal with the known and projected threats to U.S. air supremacy? For example, we now have unmanned aerial vehicles that can simultaneously perform intelligence, reconnaissance, and surveillance missions as well as deliver precision-guided bombs and missiles. The president's budget request would buy 48 of the most advanced UAVs – aircraft that have a greater range than some of our manned fighters, in addition to the ability to loiter for hours over a target.

We also took into consideration the capabilities of the newest manned combat aircraft program, the stealth F-35 Joint Strike Fighter. The F-35 is 10 to 15 years newer than the F-22, carries a much larger suite of weapons, and is superior in a number of areas – most importantly, air-to-ground missions such as destroying sophisticated enemy air defenses. It is a versatile aircraft, less than half the total cost of the F-22, and can be produced in quantity with all the advantages produced by economies of scale – some 500 will be bought over the next five years, more than 2,400 over the life of the program. It has had development problems to be sure, as has every advanced military aircraft ever fielded. But if properly supported, the F-35 will be the backbone of America's tactical aviation fleet for decades to come if – and it is a big if – money is not drained away to spend on other aircraft that our military leadership considers of lower priority or excess to our needs.

Having said that, the F-22 is clearly a capability we do need – a niche, silver-bullet solution for one or two potential scenarios – specifically the defeat of a highly advanced enemy fighter fleet. The F-22, to be blunt, does not make much sense anywhere else in the spectrum of conflict. Nonetheless, supporters of the F-22 lately have promoted its use for an ever expanding list of potential missions. These range from protecting the homeland from seaborne cruise missiles to, as one retired general recommended on TV, using F-22s to go after Somali pirates who in many cases are teenagers with AK-47s – a job we know is better done by three Navy SEALs. These are examples of how far-fetched some of the arguments have become for a program that has cost \$65 billion – and counting – to produce 187 aircraft, not to mention the thousands of uniformed Air Force positions that were sacrificed to help pay for it.

In light of all these factors, and with the support of the Air Force leadership, I concluded that 187 – the program of record since 2005, plus four more added in the FY 09 supplemental – was a sufficient number of F-22s and recommended as such to the president.

The reaction from parts of the Washington establishment has been predictable for many of the reasons I described before. The most substantive criticism is that completing the F-22 program means we are risking the future of U.S. air supremacy. To assess this risk, it is worth looking at

real-world potential threats and assessing the capabilities that other countries have now or in the pipeline.

Consider that by 2020, the United States is projected to have nearly 2,500 manned combat aircraft of all kinds. Of those, nearly 1,100 will be the most advanced fifth generation F-35s and F-22s. China, by contrast, is projected to have no fifth generation aircraft by 2020. And by 2025, the gap only widens. The U.S. will have approximately 1,700 of the most advanced fifth generation fighters versus a handful of comparable aircraft for the Chinese. Nonetheless, some have portrayed this scenario as a dire threat to America's national security.

Correspondingly, the recent tests of a possible nuclear device and ballistic missiles by North Korea brought scrutiny to the changes in this budget that relate to missile defense. The risk to national security has again been invoked, mainly because the total missile defense budget was reduced from last year.

In fact, where the threat is real or growing – from rogue states or from short-to-medium range missiles that can hit our deployed troops – this budget sustains or increases funding. Most of the cuts in this area come from two programs that are designed to shoot down enemy missiles immediately after launch. This was a great idea, but the aspiration was overwhelmed by the escalating costs, operational problems, and technological challenges.

Consider the example of one of those programs – the Airborne Laser. This was supposed to put high-powered lasers on a fleet of 747s. After more than a decade of research and development, we have yet to achieve a laser with enough power to knock down a missile in boost phase more than 50 miles from the launch pad – thus requiring these huge planes to loiter deep in enemy air space to have a feasible chance at a direct hit. The 10 to 20 aircraft needed would cost about \$1.5 billion apiece plus tens of millions of dollars each in annual operating costs. The program and operating concept were fatally flawed and it was time to face reality. So we curtailed the existing program while keeping the prototype aircraft for research and development.

Many of these decisions – like the one I just described – were more clear-cut than others. But all of them, insofar as they involved hundreds of billions of dollars and the security of the American people, were treated with the utmost seriousness by the senior civilian and military leadership of the Pentagon. An enormous amount of thought, study, assessment, and analysis underpins these budget recommendations – including the National Defense Strategy issued last summer.

Some have called for yet more analysis before making any of the decisions in this budget. But when dealing with programs that were clearly out of control, performing poorly, and excess to the military's real requirements, we did not need more study, more debate, or more delay – in effect, paralysis through analysis. What was needed were three things – common sense, political will, and tough decisions. Qualities too often in short supply in Washington, D.C.

All of these decisions involved considering trade-offs, balancing risks, and setting priorities – separating nice-to-haves from have-to-haves, requirements from appetites. We cannot expect

to eliminate risk and danger by simply spending more – especially if we’re spending on the wrong things. But more to the point, we all – the military, the Congress, and industry – have to face some iron fiscal realities. Here, some recent history is important.

Consider that the last defense budget submitted by President George W. Bush for Fiscal Year 2009 was \$515 billion. In that budget the Bush administration proposed – at my recommendation – a Fiscal Year 2010 defense budget of \$524 billion. The budget just submitted by President Obama for FY 2010 was \$534 billion. Even after factoring inflation, and some of the war costs that were moved from supplemental appropriations, this defense request represents a modest but real increase over the last Bush budget. I know. I submitted both of them. In total, by one estimate, our budget adds up to about what the entire rest of the world combined – friend and foe alike – spends on defense. Only in the parallel universe that is Washington, D.C., would that be considered “gutting” defense.

The fact is that if the defense budget had been even higher, my recommendations to the president with respect to troubled programs would have been the same – for all the reasons I described earlier. There is a more fundamental point: If the Department of Defense can’t figure out a way to defend the United States on a budget of more than half a trillion dollars a year, then our problems are much bigger than anything that can be cured by a few more ships and planes.

What is important is to have a budget baseline with a steady, sustainable, and predictable rate of growth that avoids extreme peaks and valleys that are enormously harmful to sound budgeting and planning. From the very first defense budget I submitted for President Bush in January 2007, I have warned against doing what America has done multiple times over the last 90 years by slashing defense spending after a major conflict. The war in Iraq is winding down, and one day so too will the conflict in Afghanistan – whether in this administration, the next, or the next. When that day comes, the nation will again face pressure to cut back on defense spending, as we always have. It is simply the nature of the beast. And the higher our base budget is now, the harder it will be to sustain these necessary programs, and the more drastic and dangerous the drop-off will be later.

So where do we go from here? Authorization for more F-22s is in both versions of the defense bill working its way through the Congress. The president has indicated that he has real red lines in this budget, including the F-22. Some might ask: Why threaten a veto and risk a confrontation over a couple billion dollars for a dozen or so planes?

The grim reality is that with regard to the budget we have entered a zero-sum game. Every defense dollar diverted to fund excess or unneeded capacity – whether for more F-22s or anything else – is a dollar that will be unavailable to take care of our people, to win the wars we are in, to deter potential adversaries, and to improve capabilities in areas where America is underinvested and potentially vulnerable. That is a risk that I will not take and one that I cannot accept.

And, with regard to something like the F-22, irrespective of whether the number of aircraft at issue is 12 planes or 200, if we can't bring ourselves to make this tough but straightforward decision – reflecting the judgment of two very different presidents, two different secretaries of defense, two chairmen of the joint chiefs of staff, and the current Air Force Secretary and Chief of Staff, where do we draw the line? And if not now, when? If we can't get this right – what on earth can we get right? It is time to draw the line on doing Defense business as usual. The President has drawn that line. And that red line with regard to a veto is real.

On a personal note, I joined CIA more than 40 years ago to help protect my country. For just about my entire professional career in government I have generally been known as a hawk on national security. One criticism of me when I was at CIA was that I overestimated threats to the security of the United States.

Well, I haven't changed. I did not molt from a hawk into a dove on January 20, 2009. I continue to believe, as I always have, that the world is, and always will be, a dangerous and hostile place for my country with many who would do America harm and who hate everything we are and stand for. But, the nature of the threats to us has changed. And so too should the way our military is organized and equipped to meet them.

I believe – along with the senior military leadership of this nation – that the defense budget we proposed to President Obama and that he sent to Congress is the best we could design to protect the United States now and in the future. The best we could do to protect our men and women in uniform, to give them the tools they need to deter our enemies, and to win our wars today and tomorrow. We stand by this reform budget, and we are prepared to fight for it.

A final thought. I arrived in Washington 43 years ago this summer. Of all people, I am well aware of the realities of Washington and know that things do not change overnight. After all, the influence of politics and parochial interests in defense matters is as old as the Republic itself. Henry Knox, the first secretary of war, was charged with building the first American fleet. To get the support of Congress, Knox eventually ended up with six frigates being built in six different shipyards in six different states.

But the stakes today are very high – with the nation at war, and a security landscape steadily growing more dangerous and unpredictable. I am deeply concerned about the long-term challenges facing our defense establishment – and just as concerned that the political state of play does not reflect the reality that major reforms are needed, or that tough choices are necessary.

We stand at a crossroads. We simply cannot risk continuing down the same path – where our spending and program priorities are increasingly divorced from the very real threats of today and the growing ones of tomorrow. These threats demand that all of our nation's leaders rise above the politics and parochialism that have too often plagued considerations of our nation's defense – from industry to interest groups, from the Pentagon to Foggy Bottom, from one end of Pennsylvania Avenue to the other. The time has come to draw a line and take a stand against the business-as-usual approach to national defense. We must all fulfill our obligation to the

American people to ensure that the United States remains safe and strong. Just as our men and women in uniform are doing their duty to this end, we in Washington must now do ours.

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