

Kate Bachelder Odell ([00:04](#)):

Good afternoon. Thank you so much for joining us this afternoon. It's really an honor and a pleasure to be with you. I'm Kate Bachelder Odell. I'm an editorial writer for the Wall Street Journal. I'm joined by these four distinguished gentlemen here. And I first want to remind everybody that we are taking audience questions and we would love to get your questions so you can send them in on the app or on Twitter, and they will be beamed to me on this iPad and I'd love to ask some of them. Please feel welcome. All budget wonks, all journalists, come all.

Kate Bachelder Odell ([00:35](#)):

Today, we're having this budget discussion at a very interesting moment in Washington machinations, which we will get to shortly, but I do want to start out a little more broadly and I want to go down the line and I want to know what is your top priority for the defense budget in the coming years? I'll let you interpret the question how you like, but I want to know what is your core priority? What are you focused on? What must the country do, or else, over the next five years?

Kate Bachelder Odell ([01:06](#)):

With that, like I said, we're across the hall. They're talking about the China challenge in the Pacific, but here we're focused on the resources that will ultimately back up that challenge. Chairman Smith, we will start with you. What is your top defense spending priority?

Chairman Smith ([01:21](#)):

Well, first of all, my top defense spending priority would be to get the Appropriations Bills done so that we actually spend the money. And I don't really mean that facetiously because it's really important. We're trapped in battles over a thousand different things, but the basic running of the government continues to be enormously important and we've got to make sure that Congress functions to do that because a CR at, I don't know, \$740 billion is worse than a full appropriations budget at 700. I don't want to alarm all of you out there about the 700 number.

Chairman Smith ([01:57](#)):

But my point is to actually have the ability to do the appropriations normally is invaluable as anyone who works in this will tell you, but beyond that, the other huge priority is innovation in updating and integrating our weapon systems so that they're more survivable and our information systems work better, that's where war fighting is going. We've seen it all across the globe, it's the JADC2, however you want to put it, the idea of making sure that our systems are more survivable, better protected, and more clearly and easily communicate with one another, that's the future. And we have to get there as soon as possible.

Kate Bachelder Odell ([02:38](#)):

Secretary Kendall?

Secretary Kendall ([02:39](#)):

Where to begin? Well, I guess at the moment, I would say that a high priority is to avoid an extension of the CR that we currently have. A year long CR would be absolutely devastating to the department. That's small ball in my mind, let me get a little bit broader than that.

Secretary Kendall ([02:57](#)):

We need stability obviously, so that we can do planning. If there were one ask I would have of the Congress, it would be to allow the air force to retire its old and irrelevant airplanes so that we can free up the resources we need, to do what the secretary of defense just talked about so eloquently, which is to confront China and respond to what they're doing in their military modernization program. Our old iron, if you will, our 30 year average airplane is an anchor holding back the air force right now, and we've got to get rid of some of those aircraft so they can free up resources and get on with modernization. That's very high on my list.

Kate Bachelder Odell ([03:33](#)):

Senator Talent?

Senator Jim Talent ([03:34](#)):

Sure. I think you're going to find unanimity on agreeing that we need appropriations bills instead of CRs and those who are not aware, it almost handcuffs the department when we do that. And as an old Congressman and Senator, I'm disappointed that we don't have top level leadership decisions on a bipartisan basis to get that done.

Senator Jim Talent ([03:54](#)):

Look, I would say my priority is that we come to grips with what we're going to have to do really through the life of this fit up. And then I think more in a 10 year timeframe, which is not only to do the RDT&E, which I think is essential for all the reasons that has been said here and which the secretary went on again. And by the way, Bob Work and I co-chaired a task force for the Reagan Institute on innovation.

Senator Jim Talent ([04:21](#)):

We don't win the battle for innovation, we don't win. That's really clear, but we have to have a force through the rest of this decade. And the problem is, that we have not recapitalized the force since the 1980s, essentially we're using the inventory that was created during the Cold War years. And this began in the nineties. I mean, I've lived through this whole thing, my career has gone through this whole thing.

Senator Jim Talent ([04:48](#)):

We have a force, a structure, which is too small, which is worn out, pardon me, secretary Kendall's service is flying airframes that are on average 30 years old and we don't have the rest of this decade to wait until we can feel the force that can deter aggressors and potential aggressors around the world. So I think we have to have a top line increase. Jim Mattis said four years ago, he needed three to 5% real increase every year.

Senator Jim Talent ([05:17](#)):

I think Mark Esper said the same thing. The strategy commission said the same thing and Kath Hicks, the dep sec was on the strategy commission. If we had that by fiscal 23, we would have a top line that was anywhere from about 70 to \$170 billion above the president's projected budgets. That's how far off we are. Now with the additional money, secretaries, I would accelerate F-35 buys. I do think we have to invest in the shipyards. We're going to have to be able to compete with China in particular, in terms of Naval strength and we don't have the shipyard capacity to do it. And then I would buy ships.

Senator Jim Talent ([05:56](#)):

I think we have to invest some in personnel. We got to keep buying back readiness and fund the Marine and army transformation. They're doing what we wanted them to do. They're transforming, we got to fund that. I'd say we've got to have more money now.

Chairman Smith ([06:11](#)):

You're only allowed one. One priority.

Senator Jim Talent ([06:17](#)):

What did you say?

Chairman Smith ([06:17](#)):

I said it's one priority.

Senator Jim Talent ([06:19](#)):

When your first priority is to increase the top line, then you can add more priorities.

Secretary Kendall ([06:22](#)):

Yeah, other things under that.

Kate Bachelder Odell ([06:24](#)):

Mr. Taiclet.

Mr. Taiclet ([06:25](#)):

Sure. Kate, I think from a defense enterprise point of view, and by that, I mean the military civilian leadership in Congress, I think the most important priority is to set ourselves up, to take advantage of the opportunity to accelerate digital world commercial technologies into the defense enterprise and do it to enable much more rapid capability development along the way of developing platforms and programs in our traditional sense.

Mr. Taiclet ([06:50](#)):

And I think that's the huge opportunity and there'll be probably some modifications to the budget and the procurement system to be able to do that effectively. But I do think that's a priority worth going after.

Kate Bachelder Odell ([07:02](#)):

Chairman Smith, what can we expect from Congress over the next 30 days? How do you see the current scenario playing out and what confidence do you have that we're not heading back to the continuing resolution future, where those are governing the military more frequently?

Chairman Smith ([07:16](#)):

Well, I don't have a lot of confidence. I'll give you the bad news and the good news. The bad news is increasingly, as we've seen Congress, it's become very difficult because it's more individuals than it is collective action. Everybody's got their priority and their mission is to force that priority, whatever

damage is done. There's not as many people in Congress that are focused on knowing that, well, we have to pass appropriations bills, we have to pass the defense bill, we have to raise the debt ceiling, by the way, we haven't mentioned that yet today, but that would be a catastrophe if we did not.

Chairman Smith ([07:50](#)):

Increasingly members of Congress, it's, I guess, wrong to say that there's too many that are focused on being celebrities instead of legislators, but it's not wrong to say that they're focused more on winning the message of the day than they are on the hard work of getting done. And I'm in the middle of that right now, trying to negotiate the NDAA and it's like squeezing a balloon, or I have a space invaders analogy. I clear one screen and then all of a sudden there's a whole bunch more. I got to have this. I got to have that. I got to have this.

Chairman Smith ([08:15](#)):

We got to get the work done and increasingly the country, and not just Congress, but the country is rewarding that type of individual approach to legislation. You can blame it on Congress if you want, but we're not the ones electing to people who are going back and acting like that. And I'm sorry to get specific, Marjorie Taylor Greene raised \$3 million in the first quarter of this year. Apparently, there's a lot of people out there who likes her approach, and I understand that's right and left, but that's a huge problem.

Chairman Smith ([08:47](#)):

The good news is there are still a lot of people, the members who are here who do understand all of that, understand we have to pass appropriations bills, we have to raise the debt ceiling, we have to pass the NDAA. We still have that skillset in Congress that is determined to get it done, but it's going to be real difficult because the way it works, we try to do it and then someone says, well, I'm against it. And if I'm against it, I'll bring all these other people with me and you won't have the votes and you won't be able to bring it down.

Chairman Smith ([09:12](#)):

The days of us being able to go off in a room, cut the deal, come back and everybody going, "Yeah, good, let's vote and go home," are gone. We got to bring all these people in. I think it's a 50 50 call.

Chairman Smith ([09:22](#)):

I mean, it's clear what we're going to try to do. Most important thing is between now and February 18th, to get all of the appropriators in a room and actually start negotiating. You can not start negotiating from the premise of, you have to agree to everything I want and then we'll sit down and talk. We have caucuses to represent, even if we know in the end, we're not going to get what it is that our caucuses are asking for, we do have to at least try.

Chairman Smith ([09:51](#)):

I would say that next 30 days isn't the issue. It's now to February 18th. We know what we have to do and I'd say it's 50/50, whether or not we're able to do it.

Kate Bachelder Odell ([10:01](#)):

Secretary Kendall, what are some of the Air Force's priorities that would be in the most urgent danger from another continuing resolution?

Secretary Kendall ([10:09](#)):

They're across the board. One thing that obviously is on the table would be a pay raise. The planned pay raise for cost of living increases alone, that's in jeopardy, that's not fair to our airmen guardians or anybody else, who's in uniform.

Secretary Kendall ([10:25](#)):

We have a number of programs that need to scale up their level of effort, in research and development. We have production programs that would need to scale up to get more efficient rates. We have programs we just need to move forward. One of the biggest problems of a year long CR is that you lose time. Time is not a recoverable asset. You can't get it back. We lose that time, we lose ground relative to our pacing challenge as Secretary Austin talked about. The race we're in with China particularly is for military modernization and the introduction of innovation into the force.

Secretary Kendall ([10:58](#)):

You also heard a lot from the secretary about innovation and the importance of that. As we sit under a CR, we can't move our programs forward. And importantly, we can't do new starts. We can't start the things that we don't have funded currently and currently authorized. It's a devastating outcome to have that impact. And we need to do everything we can to avoid it.

Kate Bachelder Odell ([11:17](#)):

Is there an operational impact, by which I mean about a year ago, there was a report from the Commission on National Military Aviation Safety, connecting the dots between continuing resolutions and less proficient pilots and preventable accidents. Are you concerned about that dynamic replaying, if we do go back to dysfunctional budgeting?

Secretary Kendall ([11:36](#)):

There can be, we would do everything we could to try to manage what we had to avoid that sort of a thing. We try to support our war fighters. Obviously try to keep readiness as high as we could, but we have cost of living increases in all of those areas. And ultimately, there is risk. There are risk to things like safety and certainly to readiness associated with that.

Kate Bachelder Odell ([11:53](#)):

Senator Talent, while we're talking about the readiness issue, you worked on readiness while you were in Congress and looked at it closely. How would you rate readiness currently where we are today versus how you've seen it over the course of your career?

Senator Jim Talent ([12:08](#)):

Well, I think after this sequester and everybody understands this, I think secretary Panetta was here, he said it was going to be like shooting ourselves in the head and it was, and because of the way it happened, it was terrible to take that much money because of the way it happened, there was no way the department could get it out of anything except current readiness.

Senator Jim Talent ([12:27](#)):

We already had backlogs in training, maintenance, Depot maintenance, all the rest of it. Everybody took an enormous hit. I think Jim Mattis was able to buy back a lot of the readiness. I think, from what I understand, about two thirds of the Army Brigade Combat Teams are fully ready. The secretary can speak for his service and I'm sure he's done an evaluation of that, but I think it's improved. It was in very bad condition a few years ago, and I'm really pleased with the way the Marines have grasped the nettle of the transformation that we want to happen and are moving ahead with it.

Senator Jim Talent ([13:10](#)):

I am very concerned about Naval readiness and we don't have the Navy here, but certainly the outward signs are not good, with what we've seen in terms of the accidents. I'm concerned about the reputation that projects in INDOPACOM, which is a maritime theater.

Senator Jim Talent ([13:28](#)):

I think we're going to have to continue working on readiness and you can't recover from losing a half a trillion dollars to the budgets that Secretary Gates had projected over the course of about six or seven years without having an enormous knock-on effects down the road.

Kate Bachelder Odell ([13:48](#)):

I do want to talk more in detail about the Navy, but before I do, let's ask Mr. Taiclet, how does the budget dysfunction in Washington affect your planning cycles? How do you look at it and think about it?

Mr. Taiclet ([13:58](#)):

It makes it really difficult for us to pivot to the priorities that Secretary Kendall and the chairman have just talked about. Three of them I would point to is, one would be hypersonics. We expected an increase in hypersonic R&D and investment and pre-production that won't be able to happen, as you said, Secretary Kendall, losing a year in that race with China and Russia is unaffordable, I don't know if there's an anomaly to be had here, if that's the case to do it.

Mr. Taiclet ([14:30](#)):

A second one, it's equally important, is there's modernization for the F-35 that we need to start now to make sure it's done in time for the threat increase, that's going to come a few years down the road. If we can't get the increase in that budget at least by transitioning from other budgets, again, it's going to be a year you lose that is essential to just readiness and performance and competitiveness.

Mr. Taiclet ([14:53](#)):

Those are a couple and a third one I would point to is joint all domain operations. There's really no funding vehicle of size for that today. It's one of the areas where I think we can really drive these digital technologies in and get rapid advances and capability and missions. But if there's never any way to allocate funds for that, because there's a CR for yet another year, we'll be behind as well in that area. Those are three, at least that I can think of right off the bat.

Kate Bachelder Odell ([15:21](#)):

Secretary Kendall, you brought up immediately that the air force would like to retire some of its older aging assets. What do you make of the criticism that a, quote, divest invest strategy leaves the air force

extremely vulnerable, say over the next six years, what many analysts are calling the Davidson Window after Phil Davidson? How does the air force plan to manage that vulnerability on the divestment plan it has?

Secretary Kendall ([15:47](#)):

We have a number of assets that the way I put it when I did the budget review when I first came to office was, if it doesn't threaten China, why are we doing it? And we have a number of assets that we acquired that were very useful in the counterinsurgencies that we've been fighting for the last 20 years, that aren't not all that threatening to China.

Secretary Kendall ([16:04](#)):

And we have to refocus, you heard the secretary go on and on about the Chinese threat and the challenge that poses. What I've been watching for over 10 years, and it goes back 20 years before that, is China's modernization, which is focused directly on defeating the American ability to project power. And they have been at it since roughly the first Gulf war 30 years ago. And they have acquired a number of systems that threaten our high value assets of which the numbers are fairly low.

Secretary Kendall ([16:34](#)):

We have got to respond to that, or we can't credibly project power in the Western Pacific. Time is our enemy and so is the reluctance to move resources into the places where they're needed to do the things we need to confront that threat. The assets that are obviously there are things Reapers, some C-130s, some of our older tankers, A-10s, these are all programs that have had great value to the department, but they're aging and their utility against the pacing challenge is very limited.

Secretary Kendall ([17:09](#)):

We have to make some changes there. And what I encountered is, I was coming up for confirmation is, I would talk to Senator after Senator who would tell me how much they understood the threat of China, and then the next sentence, or maybe in the same sentence, would say, but don't touch my fill in the blank aircraft that are in my state. We've got to get by that. We've got to get a common understanding of the seriousness of this threat and a sense of urgency about addressing it. And I don't think we have enough of that in the Congress right now.

Kate Bachelder Odell ([17:37](#)):

Senator Talent. How would you advise your Republican colleagues in the Senate now to think about that question about the urgent need to modernize, but also the need to be ready tomorrow?

Senator Jim Talent ([17:46](#)):

Sure. We keep coming back to what is the elephant in the room, which is that we are not able to provide and prepare for all the threats to the country because the top line is too low. Now having sufficient funding is not sufficient by itself to do what we need to do. It is necessary, but is not sufficient. All the great things that secretary Kendall's doing in all his career for a number of years, the chairman's Yemen work.

Senator Jim Talent ([18:16](#)):

What industry is doing is tremendously important, but we have to have the funding and we don't. It's one thing to make hard choices, it's another thing to make, what are effectively, Sophie's choices, where we are deciding to guard against one threat, but not another, because we don't have the funding to build the capacity to guard against both. I just have to say, as we say Missouri, you can't pour 10 pounds of potatoes in a five pound sack.

Senator Jim Talent ([18:48](#)):

Now, these actors are great. They could do 10 pounds, probably in an eight and a half pound sack or a nine pound sack. We're going to have to get funding up. In the meantime, it's a very difficult choice because the secretary is right, China is no question, the pacing threat, it is a maritime domain. It is a different kind of warfare, certainly than counter insurgency or Eastern Europe.

Senator Jim Talent ([19:12](#)):

At the same time, Bob Gates said a few years ago, we have a perfect record of predicting the next war. We've never been right. We're 100% wrong and I always think that one big threat is thinking that you only have to guard against the greatest threat because the enemy or the adversary has a choice. I know I've not answered the question.

Senator Jim Talent ([19:34](#)):

I suppose, if I had to do it, I think China's so dangerous and it was the only way you'd get the money, I'd say retire them but for heavens sakes, get us airframes for it. Not five years down. If I was still in the Senate, not five years down the road, get me airframes now.

Chairman Smith ([19:50](#)):

Yeah. I'm sorry, I'm going to talk about this.

Kate Bachelder Odell ([19:51](#)):

Chairman Smith, please come in.

Chairman Smith ([19:53](#)):

Couple things about this, first of all, when it comes to threat environment, well, number one big thing, it also matters how you spend the money. And I come to these things every seven or eight years, and we don't really talk a lot about that. We talk about how much more we need and one of the big things that the Pentagon needs to do, and in this chart that you haven't put up yet down here, that we can see, I don't know if they can see it.

Kate Bachelder Odell ([20:18](#)):

Chairman Smith would like the chart.

Chairman Smith ([20:20](#)):

Tell us about where the American public is at, on where we're spending our money. And basically it asks too much or too little. Infrastructure education, healthcare, border security. 61% say we're not spending enough on infrastructure 50, I can't read that far, 8%, I think say education, 56 healthcare, 47% border security, 27% say it's the military.

Chairman Smith ([20:47](#)):

We've got a problem in the country with not really agreeing that the most urgent thing that we're facing is to spend more money at the Pentagon. We got to ask ourselves that question. Why? Why does the public feel this way? And there's a whole lot of reasons, but two rather important ones are, number one, the spectacular amount of money that the Pentagon, with the able help of Congress fully admit, has wasted over the course of the last 20 years. And when we look at a variety of different programs out there, that have not come in where we're supposed to come in, and I know we're amongst friends here, so we're not supposed to mention specifics, but this is really important, so we have to. You want more money then you can't dance around the fact, well, I don't want to offend that guy.

Chairman Smith ([21:29](#)):

The fact that that program is two billion over budget and didn't deliver, hell, stuff happens, we shouldn't talk about it. The public sees that. I don't care about all of you and all of us and everything. They're like, you're telling me we need more money for the Pentagon and I just read a story that the sustainment costs and the F-35, I don't know, a hell of a lot higher than they should have been. And the tanker that we were supposed to deliver is way crazy over budget. Future combat systems became an epic disaster. Maybe if we actually cleaned everything up and fixed it and did it as efficiently as it can be done, and I understand, and I argue with my constituents all the time about this, that it's not as easy as it looks.

Chairman Smith ([22:13](#)):

It's really complicated. We're trying to have a system that can survive and accomplish, about all that. But there, I don't think there's a single person in this room that if you were asked, honestly, even with all of those difficulties, couldn't we do a hell of a lot better than we've been doing, wouldn't say yes and yet we don't really talk about that, that much. If we want that chart to get better, then we've got to convince people that we're trying.

Chairman Smith ([22:37](#)):

That's number one. Number two, is there's an increasing number of people in this country on the left and on the right, who look at the rest of the world and say, what are we doing? China's not our problem. I'm worried about my infrastructure. I'm worried about my education. I'm worried about my healthcare. We just spent 20 years in Afghanistan and all that money and all those lives. And I got what for that?

Chairman Smith ([23:01](#)):

Now here's the thing, please understand, I disagree with those people and I'll sum it up very simply. The world is a better place in my view, if the US has more influence in it and Russia and China have less and you don't get there unless you're actively engaged, unless you have a robust military, but we in Congress are elected, not by you so much, but by our constituents. And if our constituents look at it and go, I don't know what you're talking about, so you got to make the case, number one, you got to spend that money really well. You're not just going to spend it. You're going to spend it really well. And you're going to learn from your mistakes.

Chairman Smith ([23:39](#)):

And number two, what we're doing in the world matters. We're not making that case. We're arguing about, we should have 10% more. We should have 20% more, should have 5% more, 5%, whatever. And the country's going, what the hell are you talking about? And then we, in Congress, have to deal with

that. You got to fix those two problems before you come back and say that we need three to 5% a year over inflation. I think everybody and everything they do in life says, I'd like three to 5% over inflation. But you got to deliver, if the American public is going to support it, and then Congress is going to support it.

Kate Bachelder Odell ([24:13](#)):

Is that case undermined by a multi-trillion dollar spending bill on other priorities? It seems difficult to tell

Chairman Smith ([24:20](#)):

No, it's not undermined. Well, let me say this, it's undermined by that in the following sense, and I've said this to my constituents who are busting my chops about supporting a 5% increase, for those of you who don't know, I represent a 70% democratic district who would be very much on the 26% side of that military chart.

Chairman Smith ([24:38](#)):

And I argue with them, I supported the 5% increase that we actually put in as we pass bill forward. And I said, we just spent \$8 trillion in the last year on everything, but defense. I think we got a good argument. I'm not saying that, on that piece. Yes, it is undermined, if you come along and say, we don't have enough money to spend on defense because we've spent all this other money, but you also have to make those other two points. If we don't, we're going to have a hard time getting there. That's all I'm saying.

Kate Bachelder Odell ([25:10](#)):

Secretary Kendall, did you want to jump in?

Secretary Kendall ([25:12](#)):

Yeah. Let me go back to the comments about the budget size a little bit, and the different elements of the budget. All budgets are an attempt to balance various risks. China is a pacing challenge, there's no question about that. And it's an aggressively, increasingly difficult challenge for us as they continue to invest. It's not the only problem we have.

Secretary Kendall ([25:33](#)):

We talked about the Ukraine a lot downstairs, a few moments ago, there are still violent extremists in the world. There are still concerns about countries like North Korea and Iran. Those problems aren't going to go away and they're not going to be ignored. And I will tell you that every president I've ever watched or had experience with over 50 years in national security has always submitted a budget to the Congress that he or she, it's always been a he, I guess, thinks is adequate to secure the nation to do the things that we need to do.

Secretary Kendall ([26:04](#)):

That was true, even under sequestration, all the years, we labored under that, under president Obama. President Biden will submit a budget that he thinks can meet those national security needs of the United States, I can guarantee that. Within that we need flexibility to allocate resources to the problems that

are most pressing. And we will indeed deal with these other challenges that I mentioned, but we've got to be allowed to make some changes.

Secretary Kendall ([26:27](#)):

And the numbers are important here. The budget that was submitted in 22 was one and a half percentage points, I believe, below what the Trump administration had planned to submit. One and a half percentage points. Now, the defense department's good at spending money and whatever money was appropriate for the defense department, we would find a way which we would spend it, which hopefully would be beneficial to the national security and limit waste.

Secretary Kendall ([26:50](#)):

But one and a half points, doesn't move the needle. We've got to have more flexibility with the money that we do get to orient it towards the problems that are most severe. That's what moves the needle and that's what we're going to have if we're going to deal with the threat that we're confronting now, particularly with China.

Kate Bachelder Odell ([27:05](#)):

Mr. Taiclet, you've got a background in telecom and you come to this process, what do you see in the budget process where Lockheed might be able to improve the way DOD does business? How might you start to do that?

Mr. Taiclet ([27:17](#)):

Sure. I think it really hinges on what secretary Kendall just said about flexibility and that is within programs and across programs as well. I can give you an example of that, but I think the basic problem that we're facing is there is an advancing threat, as you just said, Frank, and there's no denying that it's a multi-front, we're in space and cyber, where we never really had to contend before in any concerning level like we have today.

Mr. Taiclet ([27:45](#)):

And there's going to be a roughly flattish budget environment to do that in. And then that drives you to an efficiency argument. How do we get more efficient with whatever budget Congress comes up with? And I think for industry, what we've done and been very good at is applying physical or Newtonian world technologies to the requirements as designated very specifically often, by the defense department and in delivering those programs and products and systems and platforms.

Mr. Taiclet ([28:14](#)):

I actually think we need to turn this whole process on its side and have more of a objectives and outcomes request to industry. Go ahead and compete on that, but have flexibility in how that goal is achieved rather than very, very specific requirements on how to achieve it. That's one place to add flexibility. The second place is this reallocation within the services, and maybe even have the combatant commanders have some flexibility on solving their problems because what we're finding in the year and a half, I've been out of the tech and telecom industry and back into defense and aerospace is that we've been demonstrating a few very interesting capabilities that were fairly cheap to put together.

Mr. Taiclet ([29:01](#)):

I'll give you one quick example is, we can tie together a THAAD missile system, a PAC-3 missile system, an Aegis radar, and a fire control system, that the Navy has onboarded ships already, and network them in a way and bring a network effect to those existing programs, which actually improve the defense ability of the fleet.

Mr. Taiclet ([29:22](#)):

We demonstrated that last year, an exercise in INDOPACOM and then we packed it all up after everybody loved it and took it home because there was no program for it. There was no funding for it. The COCOM doesn't have any funds, they're going to advocate for this, but it's in the process. More flexibility I think is really a key thing as secretary Kendall has said.

Kate Bachelder Odell ([29:46](#)):

This panel is called strategy based budgeting, and a lot of times it seems like we're talking about budget based strategy. How do you start to invert that to its proper role where we decide first, what our strategy is and what our needs are, and then let the budget flow down stream from that? I would welcome anyone's thoughts on this, but let's put it to secretary Kendall who looked interested.

Secretary Kendall ([30:10](#)):

It's one of my favorite topics actually. We do need to align the way we allocate resources to the strategy. And you heard from secretary Austin, I think a pretty good summary of what you can expect in the strategy that we'll produce. There's an interim national security strategy that's already out, that generally points in the same direction and certainly, president Biden, I think has been clear about what the pacing challenges are.

Secretary Kendall ([30:33](#)):

The question then after that is, and we've been working on this for the last few months I've been in government and before, is how do we align our resources and our planning and how do we balance risk over time? I mean, one thing we've been talking a lot about in the department is the way risks are changing and how we need to think about how we deal with current problems and current readiness, which is always a priority and support the various combatant commanders in their needs.

Secretary Kendall ([30:59](#)):

But at the same time, make the investments we need for an increasingly risky world that we're going to live in. I don't think there's anybody that says that the world is going to be less risky in five years or 10 years or 15 years. We have to deal with that. And part of our planning process is try to understand how to get that balance right. In the Pentagon, we are, to some degree, working the strategy in parallel with the budget, but they're not disconnected from each other. They're very tightly coupled.

Kate Bachelder Odell ([31:24](#)):

Chairman Smith?

Chairman Smith ([31:25](#)):

Yeah. And well, first of all, and many of you have heard me pontificate at length about this, so I won't, it's not really a choice between, do you focus on the strategy, do you focus on the budget? You got to focus on both. I mean, the world is a world of finite resources. And most of my time, as a legislator, has

been spent around groups of people who their first thing that they tried to do is convince you that money shouldn't be an object with what they want.

Chairman Smith ([31:48](#)):

And I can understand that, if you're coming from that perspective. I don't have any sympathy for that outlook whatsoever because we live in a world of finite resources. You can't strategy based budget, you got to deal with both. You got to try figure out how much money do we have to get there. I will also say that, and secretary Austin, when I said this to him, was not excited about the comment, but I had a VC who said to me one time, he has not yet found the entity that you can't cut 10% from and get better at what you're doing.

Chairman Smith ([32:16](#)):

There is something to be said for understanding that you have finite resources in the forcing mechanism that that has, and I'll throw the chord out again, gentlemen, we're out of money, now we have to think. It isn't just a matter of, gosh, give me more, you got to balance the two.

Chairman Smith ([32:31](#)):

Last thing. I'll say on the requirements piece. Arbitrarily, if we could just go into the code and cut 50% of the requirements, I think that would be an enormous improvement in terms of our ability to efficiently spend money. And what you said about set a goal and then be flexible as hell on how you get there. Single most important thing, I think we have to do to get to that place, to where we're spending the money better at the Pentagon.

Kate Bachelder Odell ([32:57](#)):

Senator Talent, do you want to jump in there?

Senator Jim Talent ([33:01](#)):

This is something, a question about how the department spends money, I get mostly when I talk to Republicans, although the chairman's right, everybody will raise it. And one of the things I say to my fellow Republicans is look, we're the ones who are always saying that the government cannot operate as efficiently as the private sector. That's a classic Republican theme. I think it's right.

Senator Jim Talent ([33:22](#)):

And then we tell the department, we're not going to give you the money you need until you can operate like Walmart. They're never going to. It is an agency of government. It responds to bureaucratic and political dynamics within those limits, it's pretty good. This is an agency of government that for about three point, what, 2% of the nation's GDP, just Frank's service, the number of missions that the air force is capable of performing at a moment's notice, moving forces.

Senator Jim Talent ([33:54](#)):

I went to TRANSCOM, the movement you guys do every day, every one of those services all over the world in a contested environment. And the reality is, I'm on the U.S.-China Commission, which is a senior advisory commission to the Congress, it's a standing commission on the Chinese American relationship. And we did our report last week, unanimous, it's totally bipartisan. China's at or near an initial invasion capability of Taiwan. This was one of the scenarios in the strategy commission.

Senator Jim Talent ([34:29](#)):

I came to Washington 27 years ago, every secretary has devoted himself to reforming the Pentagon. I'm all for it. It is not going to change the basic issue. We need to do a whole lot of different things, but in my opinion, we're going to continue accepting risk at far to eye level, to the Homeland and the vital national interest, unless we get realistic about the top line.

Senator Jim Talent ([34:57](#)):

Beyond that, I mean, I love the emphasis on innovation and modernization. I did a chapter, we did a report a couple years ago on China's advanced weapons programs, I think it is tremendous that we're doing that. If I had to choose, I guess I'd continue that. But I also think we need holes in the water and we need airframes and we need them now.

Kate Bachelder Odell ([35:19](#)):

Secretary Kendall, you wanted to jump in.

Secretary Kendall ([35:22](#)):

Yeah. I want to respond a little bit to Chairman Smith comments about waste and so on. I spent a good deal of my career trying to make programs execute efficiently and I'll give you an analogy. The thing that we tend to get criticized for the most in the defense industry and in the government is overruns in our development programs.

Secretary Kendall ([35:41](#)):

Our average development program overruns by about 25%. Now in the commercial world, programs overrun all the time also, it's just not visible because people aren't telling you about that, but it's very visible when the government does it. I would love to have gotten that number down to something like 10 or 15%. I think we did drive it down to a certain degree. But what you're doing when you do development is something that's never been done before.

Secretary Kendall ([36:06](#)):

And we have a tendency to ask our industry partners, if you will, to do very hard things that have never been done before, and then we ask them to bid against each other to try to tell us that they're going to do it faster than anybody else and cheaper. And we give the contract to that person. We still have a system that's set up to have overruns in development, it's designed almost so that's an inevitable result.

Secretary Kendall ([36:29](#)):

We don't want to stop asking industry to do hard things, because we need some of those things to defend the country, but we need to be willing to accept that's what we're going to get, when we have that kind of a thing. I get comments from the Hill that are like Chairman Smith's about waste and so on. And I also get an awful lot of comments that say, we're not taking enough risk. Why aren't you taking more risk? Well, when we're having 25% overruns on an average development program, I think we're taking a reasonable amount of risk.

Chairman Smith ([36:53](#)):

If I could just...

Kate Bachelder Odell ([36:54](#)):

Hold on.

Chairman Smith ([36:54](#)):

One quick comment about that. And I agree with you, by the way, I totally agree with you on that. And we haven't talked enough about the second point that I made about how do we get the public to agree with this? Because we got the numbers in front of us and they're worried about what we're doing in the world, but if you're consistently running 25% over, why don't you up the estimate up front so that you're not running over? And I think the answer to that question is because you want to sucker us in and then well, sorry, we're over 25.

Secretary Kendall ([37:19](#)):

That's not the answer.

Chairman Smith ([37:21](#)):

Not you, but a fair number of folks out in the audience, in the defense contractor world, certainly like to do this and let's deal with that. I mean, if it's going to be that high a number, set it, so you're not 25% over. It's like the airlines, if you keep saying, you're going to show up at 10 o'clock, you keep showing up at 10:30, why not just say, "Hey, we're going to show up at 10:30?" And then at least we have the expectations set in the right place. Just thought I'd throw that out there.

Senator Jim Talent ([37:45](#)):

And it's not about the top line, it's something different. I agree with what the chairman was just saying, but a couple of things, we've had an enormous consolidation in the defense industrial base. It's fragile and it's frail and I think we all agree, we need to do something about that. And obviously, fewer competitors, less competition, prices tend to go up and you also have supply chain issues that are huge problem.

Senator Jim Talent ([38:11](#)):

What I will say is, every time I've looked at this, every time I've read what I thought was a good book about it or talked to somebody who's really been successful and the way to get the procurement and acquisition and the best hope you have of getting good programs is centralized authority to the secretaries and the chiefs, tell them to come up with good plans for the things they want to build and hold them accountable.

Senator Jim Talent ([38:37](#)):

You need a tight chain of authority. We have too many desks having too much input and it has to be, chairman, I think, saw you nodding your head, it has to be the chiefs and the secretaries up through the OSD, of course, and then to the Congress. And get good people, like secretary Kendall, give them the authority and then hold them accountable. That's how John Lehman told me he built the Navy in the eighties.

Chairman Smith ([39:03](#)):

And I think...

Kate Bachelder Odell ([39:03](#)):

We're going to go there.

Secretary Kendall ([39:03](#)):

Okay now we're going to...

Kate Bachelder Odell ([39:06](#)):

We're going to go to Jim Taiclet, who's been waiting his turn.

Mr. Taiclet ([39:10](#)):

To the senator's point, though, if you give that flexibility and authority to a small number of people, we'll be able to go about things in a different way, because right now our industry responds to RFPs on products and platforms and very specific programs and narrow scope, if you will.

Mr. Taiclet ([39:30](#)):

What we're doing at our company, and I don't know if it's in a realm of the possible, but we're going to try it anyway, is to basically keep doing that and being good at it, but also turn ourselves on the side and basically say, we'll map out the missions that we think are important to the Department of Defense and we'll try to understand how we can network the existing platforms together in order, over time, to increase mission capability.

Mr. Taiclet ([39:56](#)):

Now that may cross services, it may cross to allies. It may cross to existing and development programs, but we're going to try to come up, at least with, we've got 14 missions we're after now, we've got three of them we think pretty close to done and we're showing the services. But if we could address the mission capability improvement versus give me a new or better product, I think you can accelerate change like General Brown is trying to do and do it more efficiently.

Mr. Taiclet ([40:28](#)):

And the last footnote I'll put on this, is when I go back to my old industry, I've had great success in talking to COs about working with us to help do that, to insert their IP and accelerate their technologies into mission solutions for our customers. And they also tell me, thank you, I don't want to deal with them directly, by the way, because they're one or two percent of my revenue or three at best, and I'm not going to set up the system that it takes to comply with the rigidity of that process.

Mr. Taiclet ([41:00](#)):

We think there's a way to do this by mission, but it's going to take a lot of change on part of government, Congress, and industry to do it, but we're going to move out and see if it sticks.

Kate Bachelder Odell ([41:10](#)):

All right. I want to move on to a couple more subjects and we're short on time, but quick, I want to do an audience question that came in for Rep. Smith. And if you've talked about the need for a compromise to get the appropriations bills done, what was one of your priorities that you gave up, this budget cycle?

Chairman Smith ([41:27](#)):

Oh gosh. There was about a thousand of them. It's a good time for that question. Well, I can't really get into it because if I tell you what I gave up, the deal's going to come out on Monday.

Kate Bachelder Odell ([41:37](#)):

That's what we asked.

Chairman Smith ([41:38](#)):

We're not supposed to announce outcomes before everyone gets to see it. And if I told you then my phone would light up with a hundred desperate phone calls telling me to change my mind on what I gave up on. I hate to do this, but in this particular moment, me answering that quite is just professionally hazardous. Ask me in a week and I'll be glad to give you the list.

Kate Bachelder Odell ([42:00](#)):

All right. Well, I know you get slightly exercised in discussions about a larger Navy, so I definitely want to hit that topic. You have been critical of some of more ambitious plans for a larger Navy, and we're dealing with a maritime challenge, conceding your points that of course the types of capabilities matter, of course, and it is not simply a numbers project, what do you see as the appropriate size and character of the Navy and what is that going to cost?

Chairman Smith ([42:28](#)):

Yeah. My main focus on that criticism was just to try to move us to that question. I don't pretend to know exactly what the answer to that question is, but I have some ideas, but others do as well. It's just every time we did one of these big studies, the main focus was, we got to have a big number so that we look ambitious and that drove me a little bit intellectually insane because we need to focus on capability and I'm not saying you could build a hundred ship Navy, and somehow all those hundred ships are going to be so magic that they're going to have all the capability you need.

Chairman Smith ([43:00](#)):

You need a certain number, but so much of the focus, so much of the discussion was 355. We can debate the relative capability of the LCS, but there is a certain way of thinking out there that the LCS was invented to meet a number as opposed to meet a capability. And that would be an excellent example of why I was so exercised about the idea that we kept obsessing about the number.

Chairman Smith ([43:27](#)):

Let's talk about the capability. And I think the point secretary Kendall made about, does this scare China, is a pretty good place to start. What's the capability of it? Now I will also say, and you made the point later, that we're not just fighting China. I mean, I had a conversation with the secretary of the Navy earlier today, Ethiopia is falling apart, as we speak, we got some Americans there, we might need to get them out, so that's going into a permissive environment, there's capabilities that we need for that. That's what I want the focus to be. I mean, I can't tell you in two sentences, here's the exact capabilities we need, but I know that the obsession with numbers is a problem and I'll tell you, because we had this debate and someone kept saying, we had more ships in the Navy, during World War I than we have right now.

Chairman Smith ([44:15](#)):

And I'm like, really, that's a point you're going to make? I could take 10 of the ships we have right now and totally blow that World War I Navy right out of the water. Can we just move on to the more intellectual point of what is the capability we need? And does that mean 320 ships or 250?

Chairman Smith ([44:32](#)):

I'm just trying to get us to the point of your question. And by the way, many people are very focused on answering it and it is good, but all these reports kept coming out. And what the hell was the number that they came out with a year ago? It was 500. I forget what the number was, but it was just... And I know first hand that was driven by the fact that the Trump administration wanted a big number. I want to get to the substantive discussion.

Kate Bachelder Odell ([44:58](#)):

Sure. Senator Talent, but how much time do we have for that substantive discussion, if China's building a blue water Navy pretty fast and we've spent the budget cycle haggling over a single destroyer?

Chairman Smith ([45:08](#)):

Let me just say, we don't have a lot of time, that's why we got to get started.

Kate Bachelder Odell ([45:14](#)):

But we've been doing assessments and core structures.

Senator Jim Talent ([45:16](#)):

I think the Chairman is asking the question, which is how should the Navy be sized and shaped? I think the answer at least begins with reference to the missions of the Navy, which is to win Naval battles and support the other services in preferably deterring, but if necessary, winning battles at sea, but also being present, carrying America's credibility and presence around the world. If we want to have allies and the secretary's talked about integrated deterrence, secretary Austin, absolutely correct, you need to be present, people need to see you. You do need numbers.

Senator Jim Talent ([45:56](#)):

The Chinese think numbers are important. I mean the Office of Naval Intelligence estimates they'll have 425 ships by 2030. And if we do not take actions quickly, we'll still be at 300. In fact, we may be lower because the Navy wants to retire the same position secretary Kendall's in, and I think that's a problem.

Senator Jim Talent ([46:25](#)):

I mean, generally speaking, at the end of the Cold War, Colin Powell estimated the force that we would need. And they drew down the Cold War force a lot, we thought we would need a 451 ship Navy, and this was in a unipolar moment. I mean, there really were no significant threats. There was no North Korean nuclear program, there was no Iranian nuclear program, there was no rising China. Russia was friendly, no global war and terror and he thought we needed 451 ships.

Senator Jim Talent ([47:01](#)):

I think no matter what index you look, I do think numbers matter, capabilities also matter. And the chairman's focus, this is the right question, let's get an unbiased answer to that question. I'm pretty convinced it'll mean a substantially increased Navy going forward.

Kate Bachelder Odell ([47:15](#)):

Secretary Kendall, did you want to weigh in?

Secretary Kendall ([47:17](#)):

Yeah, the last thing I'm going to talk about is how big a Navy we need. If Carlos was sitting up here talking about how big an air force we need, I'd be upset too. But I do want to talk about the nature of the conflict we have with China and what it requires. And I want to set the record straight because I've been misquoted in the media a couple times recently on this.

Secretary Kendall ([47:37](#)):

We are in a race, if you will, with China. It's a race about military modernization and innovation. It's a race about quality and the capabilities of the things that we have. It's not about quantity. It's not a race to try to build more battleships than they do, for example. They have very thoughtfully come after our key assets and they've bought things designed to do that for them as efficiently as possible.

Secretary Kendall ([48:02](#)):

We need to be just as thoughtful about what we buy to go after their vulnerabilities. And it isn't a one for one, it's not a symmetric situation. One of the things that they have been doing is experimenting with and starting to buy hypersonic weapons. They've already bought a great many conventional weapons, cruise and ballistic missiles of various types. That threat alone is enough to give us a challenge. We need to be thoughtful about this and we need to respond intelligently. And it's about modernization. It's not about quantity. And I think I need to make that clear. We are in a race with China but it's more of that nature than what was traditionally we'd call an arms race. It's a different kind of a race.

Mr. Taiclet ([48:40](#)):

And I think that the digital twin, if you will, of modernization is increasing the deterrent capacity, what we do have. And if you go back to Sun Tzu's writings and you believe that the Chinese government still looks at that, they like a 90 to 95% success rate before they take action. They'll prepare for a long time. They'll do things that are surreptitious and unseen, but when they think they've got the 90, 95%, they will do the physical attack and they will achieve their objective.

Mr. Taiclet ([49:10](#)):

The goal I've got for our basically digital twin, if you will, is to try to move the goal posts of when you can get to 90 to 95%, if you're the Chinese decision maker. And we can do that rapidly with some of the digital technologies by connecting space assets to air and ground and sea assets to have multiple paths of communications, command and control so that you can't cut just one and blind our leadership. Those are the kinds of things that I think, again, require a lot of change, because we're not used to driving mission capability across services, across domains, multi-dimensionally, but if we can keep moving those goal posts with every tool we have, including our commercial partners to get them involved in moving those goal posts, I think it could have a really positive effect in whatever budget environment we're in.

Kate Bachelder Odell ([50:00](#)):

Secretary Kendall, how are you looking at the threat of inflation on the air force budget?

Secretary Kendall ([50:07](#)):

We will manage our way through any inflation that occurs. I think a lot of the inflation, I'm not an economist, but I've spent a fair amount of time trying to understand economics. The inflation we're experiencing now is being driven by things that happened under COVID. It's not a normal spiraling type of inflation, that often happens in economies.

Secretary Kendall ([50:28](#)):

I think there's reason to be hopeful about the course of that and we'll see how it plays out over the next few months. I have a memory that goes back far enough to remember pretty well the hyperinflation we experienced in the seventies. I don't think we're looking at anything like that. I think this will be much more manageable and we will make adjustments. We'll manage to whatever rates we see. I don't think it's going to get out of control and it's not one of the things that keeps me up at night.

Kate Bachelder Odell ([50:53](#)):

I want to put up our second slide before we are short on time here, but we've been discussing a lot today about the loss of confidence in institutions generally, and we've been looking at the three year dip in...

Chairman Smith ([51:06](#)):

Sorry, I just got to say, I love this chart because you have to go a long way to construct a chart, entitled Trust and Confidence in U.S. Institutions, where Congress comes off the best. Your ability to do that is greatly admired.

Kate Bachelder Odell ([51:19](#)):

Yes. Well, anyway, we will take that under advisement for all future charts.

Senator Jim Talent ([51:25](#)):

I don't believe that poll.

Kate Bachelder Odell ([51:27](#)):

We've been looking at this chart in numerous panels today and at lunch. And I want to get your thoughts here on look, the military does still enjoy high levels, but it's under half here, we're at 45%. Some of that dip has been driven by Republicans since February '21. What is this going to do to your ability to get the services the resources they need? And I'd like to know from each of you, how you're going to use your position of influence to improve these numbers?

Chairman Smith ([51:57](#)):

Well, if you want to start with me. I mean, this is much of my life, is talking to my constituents and trying to convince them that our US government actually works better than they think it does. I think this is the central challenge that we face as a country is that we have become frustrated for a variety of different

reasons with the way government works, with the way institutions work and people are throwing up their hands and rejecting the very idea of working together to solve problems.

Chairman Smith ([52:27](#)):

That's it. And what we have to do. I think, number one, certainly we all have to try to do a better job, whether you're in Congress, be responsive to people, listen to them, there's a whole bunch of other things. But I think the other thing is we have stopped educating the American people about what government is, what representative democracy is, what politics is.

Chairman Smith ([52:46](#)):

All of a sudden they've set this level of expectation that cannot possibly be met, bringing diverse groups of people together and stopping them from killing each other as a starting point is an enormous challenge, bringing them together and getting them to figure out how to live together and decide, I give up this, you give up that so that we have peace, it's difficult. That's what representative democracy is. We don't teach about that.

Chairman Smith ([53:11](#)):

What we teach people increasingly about now is how to be activists, how to recognize what you don't have and to fight for it. That's great, but at the end of the day, that's really just a fundamentally selfish way of looking at the world. We don't educate people you want that, but what's the person across the street from you want. And if you don't work with them a little bit, well, they're going to be doing the same thing that you're going to be doing and we're just not going to get along.

Chairman Smith ([53:34](#)):

And then they look to our institutions to solve this impossible problem where it seems like every negotiation begins from the premise of, okay, and this was my argument about the appropriations process, let's start here. I'm going to get everything I want and I'm not going to care about what you want. How does that work? It doesn't, we really got to start educating people because I think the frustration you see in that chart, people aren't happy with outcomes and we got to teach them about the process to build that level of support in all of our institutions.

Kate Bachelder Odell ([54:02](#)):

Sorry, we're just running short. I want to get through Secretary Kendall, give us the quick version, Churchill version.

Secretary Kendall ([54:09](#)):

Senator Duckworth and Brad Smith, I thought were very elegant about what's happening here this morning. We have two problems when it comes to trusting our institutions. One is that we're under external attack. We have a former KGB operative running a country, which is dedicating a lot of resources to dividing Americans and making them distrust their institutions. We've been under attack by the Russians in this way for some time. And it's been incredibly effective covert operation. There's nothing really covert about it. It's well understood that's what they're doing.

Secretary Kendall ([54:39](#)):

We are amplifying those messages ourselves to a large extent in the United States. I wrote a piece for Forbes before we came in that said that president Biden, if he's elected, his greatest challenge is going to be convincing half of Americans that the other half are not evil bent on the destruction of America. We have a large fraction of Americans right now who don't trust democracy because they don't see it working. We're doing this in part to ourselves and it's being done to us, in part by people outside the United States, who are doing it for their direct purpose of dividing us and tearing down our institutions. And sadly, as these numbers show, it's working.

Kate Bachelder Odell ([55:16](#)):

Jim?

Senator Jim Talent ([55:16](#)):

Okay. Agree with everything that's been said, especially the Chairman's point, which he really made earlier about the fact that too many people in institutions today, as compared to when I started and even when he started are using the institutions as platforms for performance, without loyalty to the norms and purposes of the institution itself. And that's not just the Congress, my guess is everybody here in this room is participating, at least to some degree, in an institution where that's happening. I'm not so sure what we can do about it, but it's a real problem.

Kate Bachelder Odell ([55:50](#)):

Mr. Taiclet, you get the last word.

Mr. Taiclet ([55:52](#)):

Sure. As an adjunct to the military and its reputation, I think industry's role here is to just keep getting better at what we're supposed to be doing operationally. Cost, quality and schedule, keep improving those as we go, not have any outliers that people can take a hook on and then color the military and the defense industry with it.

Kate Bachelder Odell ([56:13](#)):

Thank you gentlemen so much for spending this time with us and thanks to our guests for coming. We'll see you soon.

Chairman Smith ([56:18](#)):

Thank you. You're so right.