

# National Defense in a Time of Change

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## MISSION STATEMENT

The Hamilton Project seeks to advance America's promise of opportunity, prosperity, and growth.

We believe that today's increasingly competitive global economy demands public policy ideas commensurate with the challenges of the 21st Century. The Project's economic strategy reflects a judgment that long-term prosperity is best achieved by fostering economic growth and broad participation in that growth, by enhancing individual economic security, and by embracing a role for effective government in making needed public investments.

Our strategy calls for combining public investment, a secure social safety net, and fiscal discipline. In that framework, the Project puts forward innovative proposals from leading economic thinkers — based on credible evidence and experience, not ideology or doctrine — to introduce new and effective policy options into the national debate.

The Project is named after Alexander Hamilton, the nation's first Treasury Secretary, who laid the foundation for the modern American economy. Hamilton stood for sound fiscal policy, believed that broad-based opportunity for advancement would drive American economic growth, and recognized that “prudent aids and encouragements on the part of government” are necessary to enhance and guide market forces. The guiding principles of the Project remain consistent with these views.





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NOTE: This discussion paper is a proposal from the authors. As emphasized in The Hamilton Project's original strategy paper, the Project was designed in part to provide a forum for leading thinkers across the nation to put forward innovative and potentially important economic policy ideas that share the Project's broad goals of promoting economic growth, broad-based participation in growth, and economic security. The authors are invited to express their own ideas in discussion papers, whether or not the Project's staff or advisory council agrees with the specific proposals. This discussion paper is offered in that spirit.

**BROOKINGS**

# Abstract

The current international order provides an opportunity for U.S. policymakers to put the defense budget in order, and the long-term federal budget outlook makes seizing this opportunity essential. Defense spending has come under scrutiny during budget negotiations; most recently, the Budget Control Act of 2011 (BCA) calls for reductions of \$500 billion in defense spending over the next ten years. Although defense can and should contribute to spending reductions, the BCA's across-the-board cuts would significantly impair the U.S. military's ability to execute its duties. Instead, responsible reductions in defense spending should be spread more practically across a ten-year period and be designed to strategically focus on the threats we are likely to face and to address internal pressures in the defense budget. Certain internal cost pressures in the defense budget make reductions in spending especially difficult, but unless these areas of cost growth are addressed, they will crowd out spending in other areas and begin to remove military capacity and capability. This paper lays out a strategy to address these challenges in three parts: (1) design a force better aligned to face future challenges, (2) improve the efficiency and efficacy of the acquisition system, and (3) control rising personnel costs. Together, these reforms set the stage for a sustainable defense budget—one that preserves our capability both to face challenges in the near future and to rebuild as new challenges arise.

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# Chapter 1: Introduction

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The U.S. Department of Defense (DoD) has been trimming its spending over the past three budget cycles, and will surely be asked to further reduce spending as political leaders wrestle with high national debt. Much of the defense-spending debate is waged in a vacuum that does not acknowledge that by 2025 debt servicing and entitlement programs like Social Security and Medicare will have crowded out all discretionary items in the federal budget (White House 2010a, 11). In our judgment, debt reduction is a crucial national security issue and failure to achieve it soon will drastically constrain America's military. While defense spending is not the cause of our explosive debt, reducing the federal government's deficit requires that difficult decisions and cuts be made in all federal spending categories, including defense. That said, we believe that \$500 billion in defense budget reductions over the next decade—if executed in the manner specified by the Budget Control Act of 2011 (BCA)—cannot be made without undermining our near- and long-term national security interests. To cut \$500 billion from the defense budget without compromising our military's ability to protect our nation, policymakers must systematically address the most significant line-item increases in the defense budget.

The real crisis for defense spending is not downward pressure on the defense budget, but rather problems from *within* that budget. Internal cost drivers are making defense procurement and our all-volunteer uniformed and civilian forces unsustainable: the acquisition process is too slow and expensive, and pay and benefits have expanded so significantly that, within a few decades, the DoD spending on personnel will crowd out procurement, modernization, and operations. As the problem exists within the defense budget, so too can the solution, but Congress must permit the DoD the latitude to rebalance its own spending.

But the DoD, too, deserves some share of the blame for the inaction. Until recently, the DoD had adopted the position that any planning and consideration for the budget reduction mandated in the BCA would encourage Congress to allow those harmful across-the-board cuts. This lack of willingness to devise a feasible plan for reducing defense spending puts important defense capabilities at risk; the longer the DoD avoids making its plans visible to Congress and the White

House, the weaker and less-capable our armed forces will be once inevitable reductions in spending occur. This is not responsible stewardship of our nation's defense.

The DoD must work with lawmakers to develop a plan for prudently reducing the defense budget. To that end, it should focus on three areas of reform that can align future military costs and needs:

1. A military force better designed to face modern security challenges;
2. A more effective and more efficient acquisition system with a more diverse defense industrial base; and
3. A more cost-effective pay and benefits structure that better satisfies the preferences of servicemen and servicewomen.

These reforms are not attention grabbers such as program cancellations or personnel cuts. These reforms are difficult from both an intellectual and a political point of view; reforming each area simultaneously is even more difficult. But tackling this now is imperative if we are to redress the disparity between requirements and resources and if we are serious about seeking a sounder way to operate in the constrained budget environment that could loom for more than a decade.

Few of the proposals set forth in this paper are new. Reforms such as these have been suggested before and then overlooked or avoided because of the complexity of the issues involved, difficulty in making changes, diffuse and vague accountability for producing outcomes, entrenched tendencies to preserve equal service shares in the budget, and established ways of thinking about military force design. Sound proposals that could fortify our ability to build and maintain a cost-effective defense have been made before and then not pursued, but the current economic and budgetary environments make concentrated, serious reengagement with these issues imperative. If we fail to address the pressing need for reform, the DoD will be transformed fundamentally from an agency protecting the nation to an agency administering benefit programs, capable of buying only limited quantities of irrelevant and overpriced equipment.

We do not make these recommendations without due consideration to the effect they may have on our military's

standing in the world. In fact, the current international order, though not without key challenges, is more conducive to reform than is generally thought. Unrest and violence lurk in most corners of the globe, but the international order is more fostering of our interests than generally credited, and our armed forces remain better-funded and stronger than any military in the world. If we use this moment of clarity to rethink and fundamentally restructure our defense enterprise, we can put our defense on sounder footing. Indeed, in the past we have used equally demanding periods of relative global calm to pursue important improvements to our armed forces' structure. In the waning days of the Vietnam War, the transition to the all-volunteer force truly transformed the U.S. military. It is time for similar bold moves.

This paper offers a view of reduced U.S. defense spending that provides and maintains a military force capable of protecting our national interests both at home and abroad. In formulating our proposals, we are guided by the magnitude of the reductions specified in the BCA, reductions that would return U.S. defense spending to the constant dollar value level of 2007. The BCA's across-the-board cuts at the program, project, and activity levels will result in a diminished military force incapable of

responding effectively to likely future security challenges. Instead, we propose changes that should be spread more practically across a ten-year period. We absorb these reductions by force redesign and management reform of the practices that most distort cost-effective spending by the DoD.

Accounting of our proposed reductions is the easy part; achieving them will be contentious, arduous, and painful. It will require high levels of trust between civilian and military leadership, and cooperation not recently seen between the president and Congress. But until the structural constraints that make our defense spending inefficient are thoughtfully addressed and fixed, the default settings for budget reductions are program cancellations, impulsive personnel reductions, and budget chimera. Developing and executing a defense program of the kind we advocate is extraordinarily difficult. Indeed, if it were not it already would have been done. But the coming decade of sustained austerity and the particular demands of the current defense system constrain our choices as never before. If we do not tackle the systemic drivers of spiraling cost in our entire defense program, we will be cutting sinew and chipping bone from our defense and removing the capacity and capability to regenerate in less-austere times.



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## Chapter 2: The Defense Budget in Context

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While U.S. defense spending is the world's highest, doubling since the attacks of September 11, there are real questions about whether we are adequately and appropriately funding our defense effort. Those who favor further cutting of defense base their arguments on the size of our defense budget, its rate of increase, and the relative defense spending of other countries. Yet questions justifiably arise about the adequacy of U.S. spending principally because of all that we expect our military to undertake globally within current and projected spending.

The issue becomes even more difficult to navigate when spending is cast as a proxy for supporting our military. With only 1 percent of Americans serving in our Air Force, Army, Coast Guard, Marine Corps, and Navy, there is a tendency in both the executive and the legislative branches to make money the measure of our appreciation for the dedicated service of our military. This is exacerbated by what we have demanded of our servicewomen and servicemen over the past eleven years, tasking them with the longest period of sustained combat in our nation's history.

Pressure has been building during the past several years for substantial reductions to U.S. defense spending, partly as a result of rising government debt and partly in expectation that drawing down the wars in Iraq and Afghanistan should allow for cutbacks. That pressure for further cuts to defense is likely to be sustained, and, in contrast to earlier defense reductions, the industrial base has become smaller, more brittle, and more unsure. And the spending of the past eleven years was not directed toward increasing the inventory of major capital assets that enable and sustain our global presence. Consequently, there is no excess inventory that can absorb a procurement holiday or assets that we can rapidly jettison and still support our global interests. The increasing costs of the all-volunteer force and the structure of the total force (military and civilian) are distorting distributions of spending within the DoD and crowding out procurement and operational spending. The reliance on contractors in operations has introduced new complications and costs. The United States cannot weather the fiscal and security environment of the coming decades without addressing these structural realities. We have created these fundamental problems, and we must address them now.

The FY 2002 budget, which reflected spending before the 9/11 attacks, requested budget authority of \$329 billion (DoD 2001). Even before significant increases in spending to protect the homeland, including the wars in Afghanistan and Iraq and the retooling of our military and intelligence forces toward antiterrorist operations, the United States reigned as the world's largest defense spender. In 2001, America constituted more than one-third of global defense outlays and alone comprised the total defense spending of the next eighteen countries (International Institute for Strategic Studies [IISS] 2000, 297–302). Adding in U.S. allies, our spending constituted 70 percent of the world's total.

After 9/11, U.S. defense spending rose substantially and has been sustained at high levels for more than a decade. The DoD has not yet experienced reductions in spending: it has only experienced reductions in expected increases, a slow ramping down of projections that nonetheless remain above prior spending levels. Even excluding expenditures on homeland security and our veterans, the DoD spending has doubled since 2001 (Congressional Budget Office [CBO] 2010, tab. F-7).

Encompassing both increases in U.S. spending and significant diminution of defense spending by other countries (unfortunately, these are principally among U.S. European allies where we enjoy the greatest operational alignment), our spending now constitutes 46 percent of the entire world's allotment (IISS 2012, 31). The next highest is China, with a reported budget of \$89 billion, although this figure is surely underreported and does not account for disparities in compensation, procurement, and infrastructure costs.

A remarkable chasm of commitment to strong military forces exists between the United States and most other countries. Comparisons of defense spending as a percentage of gross domestic product do not capture the magnitude of U.S. spending nearly as well as do per capita expenditures, which give a snapshot weighted by population but absolute in terms of input. Our country spends \$2,250 per person on our military forces every year; Russia spends \$301 per person, Iran \$137, and China \$57 (IISS 2012, 467–473).

But spending alone is not the appropriate metric for assessing whether our defense expenditures are at the right level. Three important factors weigh in the evaluation: commitments,

challenges, and the choices we make about how to engage those commitments and challenges. The question of whether the United States spends enough (or too much) on defense is relative to what we determine needs doing, how we undertake what needs doing, and how conducive the international environment is to our efforts.

We are the only military force that can command and control, and persistently and robustly sustain itself on a global scale—we are the only true global force. The United States has taken on significantly greater international security obligations than any other country. We are the guarantors of the global commons—the seaways and airways, and now the cyber conduits—through which people, money, and goods move. We have systemic interests in the advance of our political values and preservation of a rules-based order that penalizes countries opting out of that rubric. We have treaty commitments with long-standing allies in Europe and Asia, and, with the majority of countries in the world, friendly relations that would prejudice assistance in many types of international crises. We are so far superior to most other militaries, so obdurate in the belief that our values are universal, and so much more inclined to assist nations in crisis, that we stand ready and tend to be called on when others are not.

Yet Americans are war weary after eleven years of combat and the human cost of war. Even a substantial retrenchment of U.S. goals for the international order would see us retain far more obligations than other countries, and therefore necessitate greater military capacity and greater military spending than other countries.<sup>1</sup> But it is significant that isolationist policies draw little sustained public support, and no serious consideration from the executive branch irrespective of party affiliation. Regardless of military size, we assume the United States will continue to be the major security provider in the international order, counted on to use political heft and military force to protect our security and that of our allies, and to project ideas important to us.

## A CHANGING INTERNATIONAL LANDSCAPE

Consideration of changes to the budget must include an assessment of the global security environment. There exists a widespread perception that the current environment is more hostile to American interests than previous eras. The 2010 National Security Strategy states, “[G]lobalization has also intensified the dangers we face—from international terrorism and the spread of deadly technologies to economic upheaval and a changing climate” (White House 2010b). Defense Secretary Leon Panetta’s budget guidance to the department states, “The global security environment presents an increasingly complex set of challenges” (DoD 2012c, 1). We consider this to be an overstatement, given what earlier

policymakers faced. Our time is challenging and complex, but there have been darker days and more serious threats to the nation. What is different today is the speed and ubiquity of information that creates pressure to act, and an increasing impulse to prematurely translate violence and disorder into strategic threats.

In fact, the United States is well positioned to successfully cope with complexity, and the challenges we face are much less daunting to our capacities than those that have faced our nation at numerous points in our history. The threat of nuclear annihilation is lower than at almost any time in the nuclear age. No nation’s military forces pose a threat of conquest to our country. Our military is so far superior to the militaries of any potential adversary, or collection of adversaries, that it has driven enemies to asymmetric approaches. Terrorists gaining access to weapons of mass destruction is a grave danger, but our ability to monitor and attack those terrorists and neutralize those weapons has increased to a huge degree.

Far from losing the battle of ideas, more countries are seeking for themselves the values we claim to be universal. Our allies are the world’s most prosperous and peaceful countries, capable of contributing militarily to varying degrees and most often willing to act to advance our common values and interests. And while it may not be easily discernible amidst the messy upheaval of the Arab Spring, moderates are winning the debate in Muslim societies. None of the countries in transformation is seeking to emulate the political model of Iran or to assume the mantle of al-Qaeda. Of course, these changes produce difficulties of their own, but they are the problems associated with success, not those associated with failure of our ideas and endeavors. These changing societies will not replicate exactly our model of democracy, but the world is becoming more, not less, aligned with the American formula of free markets and free people as the path to domestic and international peace and prosperity.<sup>2</sup>

This does not mean we face a world without challenge to our interests. China has embraced free markets but not a free society, and its commitment to free markets is tilted toward freedom for China to operate in others’ markets more than it is to eliminating controls on others operating in the Chinese market. Its defense spending is significant and accelerating. China has developed consequential cyber, space, and regional capabilities that challenge freedom of action in the Western Pacific region, and is too forcefully contesting territorial boundaries in the East China and South China Seas. Transparency and broader military cooperation are lacking. That said, China does not pose a global military challenge to our activity nor does it present an ideological confrontation, and its political repression stifles both individual creativity

and civil society so crucial to the prosperity the Communist Party relies on for its legitimation.

Russia's authoritarian capitalism puts its interests in opposition to our own and squanders the opportunities afforded by the Obama administration's reset policy. Its economic program relies on oil earning an improbable \$129 per barrel, likely increasing the repression required to retain Vladimir Putin's hold on power. Russian refusal to allow the rules governing market access to apply to its companies portends friction with America's European allies and with the United States.

The outcome of the war in Afghanistan has yet to unfold but it is likely to disappoint. Underresourced early on, with an exit strategy whose political components become less and less tenable, the most probable outcome in 2014 is temporary military victory and, at best, a turbulent future: an Afghanistan insufficiently democratized to gain public support, Afghan security forces unable to continue the fight without American participation, international donors unwilling to continue or falling short in continued financial support, and an aggravated and restive Pakistan intruding to placate terrorist threats to itself. Consequently, the degree of difficulty associated with ultimately countering insurgencies is likely to cause the United States to choose alternative approaches to subduing terrorism, and those alternatives will be both less costly and less effective.

But our margin of error is also quite wide because of the diversity of tools we are now bringing to the fight: increased surveillance and more precise and timely intelligence attention, better border and immigration controls, layered defenses that provide more than one opportunity to identify and prevent access to suspicious individuals and organizations, and greater public awareness and resilience. The terrorist threat remains, and our country and others, sadly, will likely suffer terrorist attacks in the future, but our means to track and counter the terrorist threats ought not to be underrated. We have a much greater ability to collect information on gathering threats and a multiplicity of means to affect those threats; the balance favors our success, even in circumstances where we must be successful each time and terrorists need only succeed rarely.

What these threats make clear, however, is that there is not a pressing, systemic, or overwhelming challenge to our country. The threats we face are disorderly and disruptive, but not existential. As uncomfortable as we may be at times, the international order we crafted affords us an enviable position from which we can continue to prosper if our own house is in order.

The nature of disruptive threats makes for substantial predictive difficulty: it is harder to determine from where and under what circumstances threats may emerge. It poses

difficulties for the intelligence community and for political leaders who must identify priorities in determining where to commit resources and in training analysts with the ability both to understand specific threats in depth and to be able to weigh them against other factors. In facing such circumstances, we may, on occasion, be wrong in our judgments about where and how threats will materialize. (Even in instances of greater predictability, we are often wrong about where and how threats will materialize.) The crucial capacity is the agility to focus attention and resources on real threats as they materialize: to understand signal from noise early in the development of threats, and to bring information and decisions to bear in a timely enough way that we are not simply chasing events, or, if we must chase events, that we can overtake them.

Such a hedging approach requires identifying pockets of necessary attention and problems with strategic implications. In our judgment, the priority areas of attention should be, in this order, Iran, Pakistan, the Maghreb, the Levant, North Korea, and the Western Pacific. Each of these countries or regions has the potential to evolve in ways damaging to our interests and costly to repair. China we have already addressed, but in that case, as with the other countries and regions, our challenge is to widen our margin of error—that is, to build appropriate capacity to manage crises should they occur, and to generate proactive approaches that build both more stability into our alliance relationships and the ability to absorb any ensuing shocks.

Our ability to tend and react effectively to the areas of attention listed in the preceding paragraph requires an appropriate force design in capability and in capacity or quantity. The fragile nature of many countries' governing mandates or strong strains of nationalism will likely highlight sensitivities regarding sovereignty that will restrict or constrain access for the United States. These, of course, have always been delicate issues for governments, but the advent of modern communications is diminishing governments' space in which to be publicly critical and privately supportive. These political and societal restrictions inhibit physical access that aids intelligence and military activities. This will be especially true for large, visible ground units that require substantial foreign base infrastructure. Offshore presence will be much preferred.

Our wars of the past eleven years are characterized by a fusing of information into operations to an unprecedented level. The ability to be more aware of the battle space and to persistently track people or platforms of interest has been made possible by long-endurance, unmanned platforms. Demand for that ability is insatiable and will not diminish. We are also now faced with operating and fighting in a new domain—cyberspace. We have yet to get our arms around the technical, organizational, and policy complexities of this new

arena. There is a tendency to align organizations and efforts consistent with our existing geographic combatant command structure, consequently replicating activity and organizations several times over. Most of this replication is not in the highly skilled operators who work in this emerging space, but rather in oversight, or what is perhaps more accurately categorized as overhead. This is not the optimal approach for cyber from the standpoint of personnel and coordination. Great care must be taken and much thought must go in to effectively and efficiently posturing for the future.

Still, the international order is highly promising for America. There are problematic countries whose actions threaten our interests; there are systemic challenges that no country absent ours has the ability to engage. But none of these challenges rises to the level of threat that our country has previously managed well, and none justifies the ominous portents of a uniquely dangerous world. Militarily, we are not about to be overwhelmed, nor have we fallen behind potential challengers. With additional attention in several key areas, we can set ourselves up to be successful as the environment changes, even when one of the key changes will be fewer resources allocated to defense.

## WHERE IS THE MONEY?

Willie Sutton’s reported quip that he robbed banks “because that’s where the money is” applies just as well to budgetary considerations. We begin our evaluation with where the money is in the U.S. defense budget: what sectors of the budget have seen rapid, seemingly uncontrollable rates of increase; and whether those rates of increase are justifiable by increasing return on investment. Such an assessment, however, is somewhat difficult since the DoD’s budget math is often unsound, hindering efforts to evaluate rapidly spiraling costs. Even though the 1994 Government Management Reform Act requires departments to meet the standard of financial transparency applied in the private sector, the DoD has not been able to meet that standard. By its own timeline, the DoD will not meet the audit standard until 2017 (Office of the Under Secretary of Defense [Comptroller]/Chief Financial Officer 2012a, 3–4).

The DoD has requested \$525 billion for FY 2013. The projected spending, by the DoD’s description, will “roughly match or slightly exceed inflation after FY 2013,” which is to say that defense spending will continue to increase if Congress passes

TABLE 1.

### The Defense Budget Across Three Historical Periods: FY 1991, FY 2001, and FY 2013 (millions of current dollars)

Year	FY 1991 (Around the time the Cold War ended)	FY 2001 (Before the 9/11 increases)	FY 2013 (Current year) (Overseas contingency operations funds in parentheses)
Military personnel	82,060	75,802	135,112 (14,060)
Operation and maintenance	95,518	109,286	208,759 (63,986)
Procurement	91,894	60,270	98,823 (9,687)
Research, development, test, and evaluation	41,252	37,862	69,408 (246)
Military construction	5,937	4,549	9,572
Family housing	3,671	3,485	1,651
Management funds	940	1,154	2,124 (503)
<b>Budgetary authority</b>	<b>330,823</b>	<b>305,421</b>	<b>525,449</b> <b>(88,482)</b>

Source: Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer 1989, 5–6; 2000, 4–6; 2012a, 8-1.

defense appropriations bills consistent with the DoD requests across the Future Years Defense Program (DoD 2012a, 1).

A summary of budgetary authority appears in table 1. It traces the major budget categories across three periods: in 1990–1991, around the time the Cold War ended; in 2000–2001, before the 9/11 increases; and in 2012–2013, the current year. It is striking how consistent the proportions of spending are across the three snapshots: in each instance, personnel costs are roughly 25 percent of the budget. While the size of the force changed appreciably between FY 1991 and FY 2001, it has remained essentially constant between FY 2001 and today. In FY 1991, the DoD had 3,693,000 personnel, about 1.2 million being active duty military; in FY 2001, the DoD had 2,791,000, with 984,000 being active duty military. Since FY 2001, the active duty military has only increased by about 100,000 (DoD 2008, tab. 493).

Whereas DoD personnel costs have increased by 90 percent since 2001, the size of the workforce has increased by only 3 percent (DoD 2008). The apparent dichotomy is explained by the dramatic expansion of defense spending. Military personnel costs have remained a fixed percentage of the budget, but that budget has nearly doubled.

Operation and maintenance spending varies widely across the three views, climbing substantially between FY 1991 and FY 2001 before hitting the current high of 55 percent of

spending. Procurement also changes significantly across the three periods, dropping from 28 percent of DoD spending in FY 1991 to 20 percent in FY 2001 and 18 percent in the FY 2013 request. Research, development, testing and evaluation likewise remains nearly constant across the three time slices, dipping slightly from 13 percent of the DoD budget in FY 1991 and FY 2001 to 11 percent in FY 2013.

As shown, the dramatic expansion of defense spending in the past decade has been predominantly in the area of operation and maintenance, in the fighting of the wars. Personnel costs; research, development, testing and evaluation; and other costs have all doubled as the budget has doubled. But procurement has not: its share of the budget has been reduced by 10 percent since FY 1991 and has manifested in our arsenal of aged aircraft and fewer ships.

How should we look at the force we have today and plan for the future? In the words of former Deputy Secretary of Defense Gordon England, “You are what you buy.” What we buy are things and people (which make up our force design) and activity (training and operations). In addressing the things we buy, we must consider the source of that equipment and technology, the nation’s industrial base. In chapter 3, we discuss how the DoD can organize and procure these assets more effectively, to create a force better able to respond to the challenges of the modern world, and to exist within the budget proscribed by the BCA.

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## Chapter 3: A Way Forward

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**D**efense cuts are inevitable and necessary. Furthermore, it is possible to both reduce the defense budget by more than the \$480 billion already wrung out of the DoD *and* to sustain a military force equipped for the security environment we have described. Historically, and as proffered by most individuals today, the tendency in spending reductions is to cancel major weapons systems and to reduce operating and maintenance funding too sharply. That should not be done because this time *is* different. We do not have the benefit of excess major platforms or the resiliency in the defense industrial base as we have had before. Reforming defense spending responsibly for the future necessitates addressing the systemic problems we have identified. If we do not, we are guaranteeing an ever-shrinking and imbalanced force structure.

Most of the changes we propose cannot deliver annual reductions immediately because of the time necessary to reform related legislation. These management reforms are not internal efficiencies of the kind frequently pursued, but never properly realized, in budgets put forward by secretaries of defense. For example, the FY 2012 Future Years Defense Program was brought into balance by banking on \$150 billion dollars in such phantom cuts, and the FY 2013 budget anticipates an even further cut of \$61 billion (Office of the Under Secretary of Defense [Comptroller]/Chief Financial Officer 2012a). Such “efficiencies” never produce the timely savings imagined. To achieve true, sustainable reform of the defense budget, we must undertake structural changes to the actual drivers of costs.

Our recommended budget reductions focus on force design, the acquisition process associated with that design, and on exploding personnel costs. The savings we attach are derived from our collective judgment rather than from specific line-item associations. But, if implemented, we believe savings are achievable and generally consistent with the White House Office of Management and Budget (OMB) scoring of the budget. We also accept that some of these changes cannot be made immediately because of the slow speed of legislative change, but—if the matter is approached with a sense of urgency—most can be in place in the near term. Accordingly, the ten-year budget reduction objective may not be strictly met, but we will be far better positioned for the long term and the fiscal pressures that will be with us for some time.

### FORCE REDESIGN

Our current force design has not adapted to changing global and budgetary circumstances. Budgeting continues to be dominated by roughly equal service shares among branches of the armed forces, rather than by more-cost-effective strategies for fighting wars and meeting the other challenges we face. Even the Pentagon’s own 2012 strategy is somewhat at odds with the force it buys—one that is too heavily invested in a large ground force, does not provide for adequate speed of response to conflicts in Asia, shifts too little risk to allies, relies too much on a growing civilian force, and spends too little to redress crucial vulnerabilities in our forces. We have not been making the appropriate strategic investments, and now—with limited funds—we will be required to do so. We believe a careful force redesign and the associated reduction in infrastructure could save nearly \$25 billion per year in personnel costs, operations and maintenance, military housing, and other support costs.

The fundamental questions regarding force design are, what capabilities and infrastructure does our military need, and how is our military positioned in the world? It is a matter of public record, many times over, that the military infrastructure exceeds need. Even in 2004, suggestions were that as much as 30 percent of infrastructure was excess. The force is smaller today and will be reduced further, yet we have not been able recently to size supporting infrastructure consistent with our overall force design.

The new strategic guidance posits a world in which our advantages in access, rapid reinforcement, uncontested airspace, reach-back to secure facilities, and reliable communications will be increasingly contested symmetrically and asymmetrically. Our own assessment of the international environment presented in chapter 2 highlights those challenges even further, but differs from the DoD guidance in how much time we have to adapt and the numerous advantages that can be capitalized upon in that time. Still, both the DoD guidance and our strategic outlook necessitate resetting the military’s role.

We believe the current strategy is right to consider fighting manpower-intensive, sustained ground combat or counterinsurgency operations unlikely, and we choose to accept risk in this element of our force design because it is unlikely that political leaders will choose that approach for

at least a decade. Declining to fight counterinsurgencies with large-scale American military involvement, as we advocate, means that we will be sending fewer forces to theaters of conflict, but we will expect those we do send to arrive faster. Our forces will also encounter increased area-denial challenges and must be cognizant of sovereignty concerns, and this suggests that offshore basing and presence will be imperative. While the number of personnel stationed on foreign shores should be decreased, those remaining forces must be able to act rapidly. The reshaping of the international order gives us time now to restructure our forces to better match these operating environments.

Restructuring or redesigning the force is always a difficult subject that touches on numerous sensitivities of service value and self-worth. In the past decade, the Army and Marine Corps have borne a burden far greater than their sister services, and they have done so with forces smaller than the requirements of the wars in which we have been engaged. Our servicemen and servicewomen have endured repeated deployments while successfully recruiting—from a very small segment of our population with a propensity to serve—a ground force of 100,000 additional soldiers and Marines during wartime, feats that deserve our continuing admiration. The Air Force and Navy have also contributed, certainly, both in reducing their own manpower and in assisting in the fight where they could. In 2008, for instance, the Navy had more sailors onshore in Iraq and Afghanistan than it had at sea in the Middle East. Even so, the brunt of these battles has been borne by our land services.

The defense strategy set forth by Defense Secretary Panetta in January 2012—a significant departure from prior Defense Secretary Robert Gates’ focus on winning our current land wars—seeks to rebalance our force toward facing emergent challenges, which will be predominantly air and maritime in nature. We agree with this general vision, but the current force design unfortunately does not carry Secretary Panetta’s strategy through. The size and budgets of our armed forces are simply reverting to their pre-9/11 form rather than being reshaped for the new challenges identified in that strategy. Both the Army and the Marine Corps are being pared back almost exactly to their 2000 levels: an Army of 490,000 and a Marine Corps of 182,000. Their respective levels in 2000 were 480,000 and 175,000.

Strategic guidance, especially in an austere budget environment, demands a more thoughtful approach in determining the size and composition of our forces. The practice of managing terrorism beyond Iraq and Afghanistan has employed smaller engagements of specially trained and exceptionally lethal forces to work with affected countries and to carry out attacks. Yet the military’s current strategy sustains an Army that is far larger than necessary to face these

modern military challenges. This criticism is less true in the case of the Marine Corps, given their expeditionary nature and competence, but still, the Marines’ structure is too much dictated by Congress’ stipulations than it is by the needs of future challenges.

The DoD is continuing to pursue equal service budget shares, an approach to force structure that ensures continuity and harmony among branches but that does not align well with the implementation of the new strategic guidance. In the current cost-constrained environment, this is an expensive and inefficient indulgence that will leave us with an overcapacity for land warfare and an undercapacity for emerging air, maritime, and cyber challenges.

We must redesign our forces and budget to our strategy, and not to equal service share between branches. Given our assessment of the international order, we would recommend rebalancing the force to concentrate less on the fighting of sustained ground wars and more on providing for rapid response time in executing campaigns in Asia (perhaps, even, at the expense of response time in other regions), and to transfer much greater responsibility from our own forces to those of our allies.

The structure of a force that meets these needs would maintain the Navy and Air Force at current objectives—the Navy tasked with greater presence in Asia and the Middle East, and the Air Force tasked with prioritizing speed of response in the Asia and the Pacific region. The active duty Army would be reduced by 200,000 soldiers from the 490,000 planned in the FY 2013 budget, with an increase of 100,000 reservists and National Guardsmen closely entwined in the regular rotation whose principal mission would be arriving in a mature theater for sustained combat. Putting more of the responsibilities for ground combat into the combat-proven reserve component is both consistent with the new demands of the evolving international order and justified by the superb performance of National Guard and reserve units in our recent wars. The Navy and Air Force have principally devised the air-sea battle concept, and the Army should undertake a similar rethinking of its concept for future organization and employment. A Marine Corps of 172,000 would serve as the forced entry and initial-response capability, and all services, especially the Navy and Air Force, should be tasked with developing and sustaining concepts and technologies to counter access-denial strategies. We would revise war plans to extend reinforcement times of our own initial entry forces and allied forces. We would shift much greater responsibility to allied forces, especially in the Pacific, where speed matters most and our allies are more capable than either we or they currently give them credit for. In conjunction with these changes, an aggressive base closure and realignment should be undertaken immediately.

Redesigning a force consistent with this new strategy does not apply to only servicewomen and servicemen, but also to every component of the total force including civilians, contractors, and headquarter staffs. Headquarter staffs, particularly in Joint and Defense Agency headquarters, have grown rapidly in the past decade, entailing significant additional costs. We should eliminate as many headquarters staff as is feasible and create more-stringent staffing requirements. While contractors have played an increasingly prominent role on the battlefield, there has been no rigorous debate about whether their roles there are appropriate. Civilians have become ever-more important for their expertise in areas such as acquisition, but it is more difficult to use them as flexibly as their military counterparts.

Indeed, our all-volunteer force has produced a shadow phalanx of civilians performing formerly military functions in combat zones, and in some cases on the battlefield. In Afghanistan, the United States currently has more civilian contractors working for the DoD than it has service members deployed (Office of the Deputy Assistant Secretary of Defense for Program Support 2013). Civilians are employed not only in support functions in secure enclaves, but also in dangerous occupations such as convoy drivers and base guards (see Ron Nordland's article in the *New York Times*, "Risks of Afghan War Shift from Soldiers to Contractors," February 11, 2012). More civilian contractors than service members were killed in Afghanistan last year. Initially, shifting military functions to civilian employees was thought to be a cost-effective answer to the expense of a volunteer force, and as we consider reductions in the fighting force, plans are going forward to add a significant number of personnel to a predominantly civilian acquisition force. What was not, and is not, as carefully thought through are the unbudgeted costs of less-well-trained and, in many cases, less-disciplined personnel whose actions in theater can significantly affect our war effort.

The DoD directly employs 781,960 civilians, more than 60 percent of them graded at least GS-9 (Defense Civilian Personnel Advisory Service 2012), jobs paying \$42,000 before increases for locality pay, which often add a substantial amount (U.S. Office for Personnel and Management 2010). And plans are going forward to add significantly more personnel to a predominantly civilian acquisition force. As the number of uniformed service members has fluctuated, the number of civilians working in the DoD—currently roughly one-third of DoD personnel—has remained illogically stable over time, even as military end-strength has significantly decreased. The fundamental dependence of our military on civilian contractors gives a significant bargaining advantage to the providers of civilian employees in war zones: if the military cannot deploy or sustain the fight without those contractors, market pressures will bid up the cost of civilian contractors until the cost advantage is negligible. In fact, we

are probably already beyond that cost point. We would reduce civilian personnel by a greater proportion than uniformed force reductions.

In reducing civilian personnel, however, we must keep an important caveat in mind. Although disproportionately large, our defense civilian component is valued and integral to our effectiveness as a total force, and, similar to the uniformed force, there are important considerations to be made in attracting, recruiting, developing, and shaping that component. The current civilian personnel system prioritizes seniority, and if reductions are made to civilian defense personnel, under the current system those cuts are most likely to negatively impact the younger, more-recent additions to the workforce, exactly those individuals who are most needed to become the leaders of the future. Therefore, necessary cuts to civilian defense personnel must be made with careful attention to how those reductions will influence the propensity for future civilian government service. Accordingly, to best tailor, manage, and compensate the civilian workforce, we would reinstitute the National Security Personnel System, a pay structure that went out of effect in 2012.

Finally, a comprehensive force redesign also necessitates reevaluating the assets and investments that the military requires to carry out its missions. Major capital assets are the platforms by which the U.S. military projects power: ships, airplanes, tanks, and the like. Typically, these assets constitute approximately one-third of defense spending. For fiscal year 2013, the DoD has requested \$178.8 billion for acquisition—roughly in keeping with the historical average for weapons procurement; within acquisition, programs designated as major programs account for \$72.3 billion. What is masked within these budget numbers, however, is the shrinking pool of major capital assets (Office of the Under Secretary of Defense [Comptroller]/Chief Financial Officer 2012b).

Unique for a time of increased defense spending, the past decade did not see an increase in major capital assets corresponding to the budget increase. This can largely be explained by a prioritizing of wartime needs in Iraq and Afghanistan. For example, as improvised explosive devices (IEDs) claimed more lives in Iraq, armored plating was procured to shield vehicles against blast effects. The military later invested in up-armored vehicles, which in turn led to mine-resistant ambush protected vehicles (MRAPs), and budget processes improvised to deliver them faster than the DoD's procurement system could produce. This rolling modernization replaced equipment in similar quantities but with dramatically improved capabilities and at greater cost, and—given wartime demands—was certainly understandable.

But in other instances, we have been seduced by technology and capability and have lost sight of the importance of capacity or



numbers of units and the need to quickly get the new systems to our people. For example, DDG 1000, which was once to be a class of more than thirty ships, was pared down to seven ships and eventually truncated at three because the cost of the ship grew and it did not meet the needs of the Navy. The F22 was a marvel of technology that became too expensive to sustain the program. While the Joint Strike Fighter is critical for access in some environments, it is worth questioning the number of variants of the design that are being produced. Accordingly, major platforms, many of which were procured in the 1980s Reagan buildup, are not being replaced because of excess cost and development time. They have been and are being used at rates that significantly diminish their life expectancy, but even without the higher usage rate, the ships, submarines, and aircraft procured in the 1980s will reach the end of their projected service before the end of the 2020s. The current replacement numbers are far below what is needed to sustain the force level to meet the envisioned presence and response demand of the coming years.

Applications of major platforms to mission are, in some important cases, also of questionable benefit given their cost. Using sophisticated platforms and weaponry to attack targets that ought not require those assets aggravates a cost-exchange ratio that is already significantly favorable to our adversaries. For example, it is neither necessary nor cost-effective to deploy missile defense-capable ships to respond to piracy. But, in fact, the past decade has seen expanding application of high-tech platforms to low-tech problems. We are a military superb at effectiveness, but long out of practice at efficiency. We have aggressively pursued technology and produced a level of unsurpassed capability, but the consequence has been diminished capacity at a time when we will likely require more geographic dispersion and more routine presence.

## ACQUISITION

The uncertainty associated with developing and producing technologically advanced systems required for the U.S. military—especially on the ten- to twenty-year timelines now standard for designing and producing major platforms—is a significant disincentive for many businesses. This situation is aggravated by the fact that defense acquisition is subject to two features most businesses operate without: a highly bureaucratic requirements process, and increasingly demanding regulation by Congress. Neither feature is helpful in containing costs or providing equipment in a timely way. That is not to say there should not be a requirements process or congressional oversight since both are essential for an activity that involves \$400 billion a year in purchases with taxpayer money. But both processes should be reconsidered to better achieve their objectives. We believe that two steps—serious reform of the acquisition system and attention to broadening the industrial base—have the potential to produce savings of

tens of billions of dollars annually. The General Accounting Office (GAO) estimated that \$74 billion was squandered last year alone due to the deficiencies of our procurement system, which means that, even if new practices improve performance by only 20 percent, the annual savings would be \$15 billion.

Improving the affordability of DoD acquisitions is not rocket science: the Packard Commission in 1986 outlined an approach that would lead to greater accountability and affordability by having a centralized policy and decentralized management structure (President's Blue Ribbon Commission on Defense Management 1986, xi). In the intervening years, we seem to have developed the opposite: a system with far too little real accountability and far too much middling oversight that drives up the cost of systems that cannot pace the rate of technological development. As the Defense Business Board concluded, "DoD's acquisition system continues to take longer, cost more and deliver fewer quantities and capabilities than originally planned" (Defense Business Board 2012, 3).

The fundamental problem is that responsibility for acquisition outcomes is dispersed across many offices. The requirements, acquisition, and budgeting elements of the system are both formalized and separate. No one is accountable for an end-to-end process, or for ensuring requirements can be met by systems at a price the setters of requirements are willing to pay. Even the timelines of the three elements are distinct and not synchronized, and decisions in one facet of the process are not synchronized with the effects they have on the other domains. The Defense Business Board explains the central dilemma: "[A] Military Service Chief, who is a key decision-maker in the requirements and budget processes, is NOT involved in the acquisition phase. This hinders their ability to fully execute their responsibilities in Title 10 to 'equip' in support of the requirements of the Combatant Commands. ... The barriers between military-controlled requirements and civilian controlled acquisitions need to be removed" (Defense Business Board 2012, 15).

In addition to separating costs from benefit, the current system also stifles innovative approaches because alternatives are not directly comparable throughout the selection process. Service Chiefs may establish a requirement and at the end of the process find themselves confronted with either purchasing systems whose costs exceed what the Chiefs would have spent to meet the requirement, or systems that the Chiefs would have traded for different systems with greater ability to meet other requirements. Indeed, procurement timelines are now so protracted they are disconnected from the initial requirements established for platform design, and technology is advancing at a much faster rate than our process can pace, much less lead. Additional requirements are too easily tacked on throughout the process, resulting in an end product over

which those who set the requirements exercise little control. What the services are returned—and the bill that is presented to them—most often does not mirror their initial requests and almost always requires reducing the anticipated numbers of platforms purchased.

In its effort to ensure fairness and cost-effectiveness, Congress has so piled the process with regulation that productive dialogue between businesses and their DoD customers has grown more difficult and litigious. The Defense Federal Acquisition Regulation comprises nearly 2,000 pages. Arizona Senator John McCain, an adamant critic of the defense acquisition process, terms it the “military-industrial-congressional complex” to emphasize Congress’ culpability in the mess that exists. Companies now compete by legal challenge to outcome as much as by idea and price. The Defense Business Board concludes, “Multiple layers of legislation and DoD internal reforms have had the unintended consequence of orienting the processes to avoiding mistakes rather than timely delivery of warfighter capabilities at a reasonable cost” (Defense Business Board 2012, 10). Such an approach makes brittle a system that needs to be agile to bring cutting-edge technology and rapid innovation into our arsenal.

We therefore consider the two most important changes to the acquisition system to be freezing requirements and reconnecting requirements to costs. The Defense Business Board recommends, and we support, freezing requirements early after cost, schedule, and technical feasibility trade-offs, and allowing changes only by senior requirement-setting leadership, and only if funding is programmed (Defense Business Board 2012, 14). This alone would revolutionize the acquisitions process. Total lifecycle operating costs must become a fundamental acquisition factor so we can properly compare the full impact of bringing platforms and systems into the inventory. Fully accounting for the cost of manpower in the total operating cost is also imperative.

To bring requirements and costs back into alignment, someone must be held accountable for both requirements and costs. The Service Chiefs are best positioned to fill that role. Acquisition reforms built civilian programming and budgeting authority but bifurcated the process of requirements and budgeting. We believe the role of Service Chiefs has atrophied more than is good for the system, and Chiefs should be held accountable for both requirements and cost, with the secretary of defense providing oversight but not running a parallel process. To this end, we also support the proposal of the Center for Strategic and Budgetary Assessments to introduce a time-based metric that would be less subject to the manipulations that plague the current cost-based system (Watts 2008, xi). By holding businesses and the Service Chiefs to deadlines, this approach

could suppress the spiral of additional requirements that currently drive up costs and delay delivery.

We must also expand the industrial base. While government did not supervise or enforce a reduction in major defense firms during the 1990s, significant industrial consolidation occurred during that decade, and we are now approaching nearly monopoly production in all of the major capital platforms. Our nation’s six remaining major shipyards are owned by two companies, and there is effectively only one prime contractor for each of the fighter, transport, and tanker aircraft. Both the health and the structure of the industry are now at serious risk.

Altering our practices to incentivize diversification is very much in our interests, and competition will drive costs down and engender innovation. It used to be that military technology gradually made its way into the civilian economy, but in the modern age of rapidly expanding consumer technology it is more likely to be the reverse. The difficulty of contracting with the DoD, however, in addition to strict export controls, prevents many innovative firms from participating in the process and from working with the military to produce the technology necessary for confronting future challenges.

The FY 2013 DoD budget includes only one small and generic paragraph about the importance of strengthening the industrial base. It goes no further, and demonstrates no greater understanding of the challenge than to say, “DoD will execute contracts with industry which include appropriate incentives and drive fair business deals which protect the taxpayer’s interest while providing with reasonable profit opportunities and without putting industry at unacceptable risk” (Office of the Under Secretary of Defense [Comptroller]/Chief Financial Officer 2012a, 3-11). This is a woefully inadequate substitute for having an integrated strategy for a cooperative and—when appropriate—collaborative relationship with the defense industry.

Reforming both the policies and processes of procurement is an essential part of limbering up the system to meet the faster timelines demanded by areas of warfare (particularly cyber warfare) that innovate several generations in the average time of acquisition for defense equipment. The canonical example, used by former Deputy Secretary of Defense William Lynn, is that the average information technology acquisition in the DoD requires eighty-one months, from start to finish, whereas Apple produced the iPhone in only twenty-four months (Defense Business Board 2012, 21).

Revising export controls to enhance research and manufacturing partnerships and to generate more-attractive potential foreign sales is also an important component for ensuring we can capitalize on expertise and innovation. In the

seventy years during which the United States has maintained a defense industrial base, the unique requirements and government-imposed constraints have yielded a strictly protected market: no major platform has been foreign made. Export controls, and other burdensome regulations on the industrial base, further limit the increasingly few firms with which the U.S. military can do business. Policymakers in Congress and the DoD should revise these regulations in a way that protects the interest of our armed forces but also encourages competition to reduce costs in the acquisition process and makes our equipment the most attractive and obtainable by our allies and reliable partners.

## PERSONNEL COSTS

As described earlier, the most significant internal driver of defense spending has been the cost of the all-volunteer force. How we compensate the men and women who serve is a sensitive and emotional topic, and to argue for controlling personnel costs is often seen as devaluing our people. But we believe reforming and developing a sustainable compensation model values our servicemen and servicewomen. Simply put, if personnel costs are not brought under control in a way that sustains the all-volunteer force, these costs will crowd out vital spending on readiness and procurement. This will put our military at a significant operational and tactical disadvantage and will place men and women who will serve in the future at greater risk. Reductions in personnel costs, therefore, are essential to the future solvency of the defense budget, and we believe that sensible reforms to compensation to service personnel—particularly to military benefits—can save up to \$20 billion annually.

The conscript force of our past draft era could afford to treat manpower as essentially free, or at least as the most inexpensive of fixed inputs. As in other economic enterprises, when labor is the least costly factor of production, it tends not to be substituted for by labor-saving technology or to be subject to careful scrutiny of purpose. The all-volunteer force, given the environment in which it is used, by contrast, must recruit and retain extraordinary young men and women, and this leads to optimization of function. The menial busy work of past military life has disappeared. Additionally, warfare is becoming ever-more complex and technological, thus rewarding retention of trained personnel in most branches.<sup>3</sup>

For both military and civilian defense personnel, therefore, pay and benefits have increased steadily since the introduction of the all-volunteer force. Although the demands of military life make direct comparison with civilian careers difficult—and nonmonetary benefits provided to service members add to that difficulty—the GAO, the Quadrennial Commission on Military Pay (the Commission), and the Center for Naval Analyses all found that military pay compared favorably to

counterpart civilian professions (DoD 2012a; Farrell 2010; Grefer 2008). In fact, the Commission determined that, across all comparison groups, military compensation is higher than the wages of 90 percent of civilians, and is on average \$21,800 more than the median earnings for civilians in comparable groups (DoD 2012a). Military compensation also exceeds civilian compensation at every point along the twenty-year career period, with the greatest variance among those with only a high school diploma (DoD 2012a).

Military benefits, which include health care, retirement, and tax advantages, are an enormous factor in the military's favorable compensation profile. In fact, pay only accounts for 51 percent of military compensation, and it is benefits, not salaries, that are crowding out operational and procurement spending. Housing payments, for example, have increased 40 percent since 2001 (DoD 2012a, 16–30). Health care consumes \$52 billion of the DoD base budget, and another \$51 billion in spending on veterans' health care (Avik 2012). As Elisabeth Bumiller and Thom Shankar write in the *New York Times* ("Gates Seeking to Contain Military Health Costs," November 28, 2010), health care has increased from \$19 billion ten years ago, while, during that same period, fees paid by the military for that care have not increased. In recent years, military health-care costs, like those for the rest of the population, have exploded, exacerbated by the executive and legislative branches' unwillingness to have beneficiaries increase contributions for health-care coverage. Tricare, the military health-care system, is a defined-benefit rather than defined-contribution system; the result of burgeoning costs and fixed prices is that the share of costs borne by beneficiaries is significantly lower than what was envisioned when the program was established. Current programs have no enrollment fees for active-duty personnel and their families, and deductibles of \$300 for a family, irrespective of pay. Military retirees, for an annual fee of \$460 per family, can continue in the Tricare military medical system, and those fees have not increased since 1995, even though the cost of health care has risen dramatically and private-sector health-care fees have more than doubled.

The DoD's proposed FY 2013 budget would continue military and civilian compensation increases, although at slower rates. It would continue to increase allowances for housing in a time with minimal, if any, inflation in the housing market. Planned increases in the cost of medical care are limited to retirees under sixty-five (those presumably working in the civilian sector). Any changes to retirement programs were evaded by recommending establishment of a congressional review panel, and even within that, the DoD recommended grandfathering benefits to all active-duty servicewomen and servicemen (DoD 2012a, 14–15). The only actual proposals to reduce costs are modest Tricare enrollment fees and pharmaceutical copays phased in over five years.

Efforts to get Congress to agree to reductions in personnel and personnel costs have been significantly hampered by political challenges and the negative perception within the force associated with such reductions; Secretary Gates was thrice denied on this count. While we are sympathetic to these constraints, we do not consider the initiatives described above to be a significant effort to contain costs.

We would reverse the injunction against personnel costs being subject to reductions. Exempting personnel inhibits necessary force redesign, as personnel costs are the area of greatest cost growth. Without being able to reduce personnel, the budget-reduction burden falls too heavily on procurement and operation and maintenance accounts. We believe that changes in military compensation that generate significant savings and make military personnel more satisfied are within reach in the near term. Until recently, our understanding of what services and benefits attract and retain military men and women and their families to serve was largely anecdotal. But the Center for Strategic and Budgetary Assessments surveyed what our servicemen and servicewomen value most in compensation. While survey respondents were not completely representative of the population of service members, there were nevertheless a number of insightful findings:

- Basic pay is hugely important, especially in lower ranks, whereas performance bonuses are valued less than their costs.
- Junior to mid-career service members value pay significantly more than medical benefits currently offered and would make trade-offs very much to the cost advantage of the DoD.
- More than 75 percent of respondents in all ranks do not value child, youth, and school services at the rate of their cost.
- Military exchanges are valued above their cost to provide, but commissaries are not, and vacation days are valued above both.
- The ability to choose duty station and length of tour are valued much more highly than any other service (Harrison 2012, iii–v).

More important than the specific findings was the sheer attempt to understand with precision what is valued by the recipients and the possibility of tailoring compensation packages to eliminate or reduce costly benefits that are not particularly valued. While preferences expressed in surveys may not translate into choices by the men and women in our armed forces, that data, too, can be tracked and correlated over time to permit more-exact alignment of what is offered to them. The DoD is not making use of easily collected information at its disposal to more precisely tailor compensation packages. By offering compensation that is both cost-effective and highly valued by service members, the DoD has the potential for higher recruiting and retention and lower personnel costs.

We have promised the men and women who defend our country superb medical care, and we must honor our commitment. But we are not breaking faith if that care is assessed at a rate that can sustain the benefit for future service personnel. Given the ballooning cost of military health care, we would offer service members alternative compensation to reduce the DoD's liabilities. We would phase out Tricare for life and increase copays for medical and pharmaceutical costs, although we would grandfather in those who have served for more than ten years, and we would give servicewomen and servicemen the ability to choose a package of benefits tailored to their specific needs. As we stated before, we believe that these changes have the potential to result in savings of \$20 billion per year, with much of these savings beginning to accrue in the near term.

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## Chapter 4: Concluding Thoughts

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The nature of what we propose does not enable immediate reduction of the defense budget, but in contrast to the reductions in major platforms and to the program cancellations that are being considered today, our proposal puts the DoD on a sustainable footing. There is some risk. The military force we advocate would not be able to sustain the two major land wars in which we have been involved for the past decade. The force would not be able to reinforce allies as quickly or work with them as regularly to enhance our combined ability to manage mutual security interests. It would demand more-efficient development of new concepts and new weapons that can capitalize on our advantages, reduce our manpower requirements, and bring new capabilities into the force.

The force we propose accepts risk in the burden we are placing on our Army and Marine Corps by reducing the Army far below the personnel end-strength it has built, and forcing a reconsideration of its fundamental mission toward a reinforcing force that follows Marines, who would optimize toward forcible entry combat. It increases risk and the operating tempo for the Marine Corps. And it will surely be exasperating to the ground forces, especially the Army, given all that has been asked of it in the past decade. But the experience of the past decade has proven that ground forces can raise enlistments during extended combat and train to their level of professional excellence, and that National Guard units can become part of the regular rotation into combat as long as employers continue supporting Guard and reservists in regular call ups. It would require returning to civilian agencies (e.g., the Department of State and USAID) many functions that have migrated to the Pentagon in the past decade. While this will come as a relief to some, it will also reduce the money and personnel dedicated to development and assistance tasks that the military routinely performs.

The force we propose may require us to liberate allies rather than prevent attacks on them. One of the largest hidden taxes on U.S. military resources has been the creeping accrual of risk to the United States from allies for which it undertakes mutual defense obligations. Europe is a case in point. At NATO's founding in 1949, it had no standing military, and stationing U.S. forces in Europe was justified as a temporary measure until Europe regained its strength; from there, the

United States extended nuclear deterrence to Europe, and even expanded our conventional doctrine from reconquest to attacking second-echelon follow-on forces to preventing any incursion. The end of the Cold War threw the differentiated risk into sharp relief as Europeans reduced their own forces but not their expectations of our support. We are overdue to rebalance the risk we have accrued on behalf of allies.

But the demands on the force and the risks it will need to absorb are not the greatest risks our proposals incorporate. Perhaps greater than the risks incorporated by this force are the risks associated with transitioning to it. Given the woeful record of meaningful defense reform, there is risk that we will settle for cutting inventories without redesigning the force, that we will prove incapable of closing bases or adjusting compensation models, and that we will micromanage procurement such that responsible internal management becomes even less possible.

Wringing the kinds of savings that the BCA envisions requires accepting significant risk. But the prudential value of making risk visible and amenable to prioritization is that it allows building a basis of public and congressional support, something currently masked in opaque plans for meeting the BCA topline. Moreover, the risks we are accepting on our force must be balanced against the continuing risk of debt that could quickly become catastrophic to our country. Risks should be balanced against the hollowing out of our capabilities that across-the-board reductions will surely produce, or against buying a force incommensurate with our strategy.

All of the problems we identify are long-standing. None of the observations or what we are recommending is original to us. Experts with impressive credentials, credible experience, and intentions as well meaning as ours have advanced all these proposals previously. In the area of defense acquisition alone, there have been more than 300 studies since the original Packard Commission in 1986 (Defense Business Board 2012, 1). Any one of them would be an improvement over the system we currently have. Yet the problems and ineffectual ways of addressing them persist. Why?

The honest answer is because addressing them is hard. There are reasons, often good reasons, why the system exists as it does. Congress is not wrong to demand oversight and to legislate where representatives see inadequacies by the DoD.

Stakeholders in the system are not wrong to hold tightly to those authorities that remain in their power. They have constituents, and some of those constituents are young men and women risking their lives for our country.

We have entered an era of budget austerity, for defense, and, more broadly, for our nation. As the wars draw down and cherished domestic programs are cut back, it will be difficult and questionable to shield defense spending from reductions. We are fortunate that these straitened circumstances come with the time to effect change and the latitude to take advantage of the many positive developments in the current international environment.

Achieving the savings we envision in these proposals requires a profoundly different way of doing business, and not just within the DoD. Achieving the savings will require the president to work cooperatively with Congress to develop a plan satisfactory to both branches. It is nowhere near good enough for the president, secretary of defense, and chair of the Joint Chiefs of Staff to forestall planning for different

budget scenarios on the argument that only by reaching the point of disaster will Congress act. First, that is corrosive to the trust needed to enact major budget changes, whether our recommendations or any that sequestration and other programs will necessitate. Second, it puts the DoD at a disadvantage in terms of building a program that compensates for reductions by spreading risk. Third, it impoverishes our public discourse to have a take-it-or-leave-it budget late in the process. And fourth, it does not permit our defense industry the time to minimize deleterious effects to its business.

The DoD should be working conscientiously with members of Congress to identify areas for cutting spending. The DoD, and especially the Service Chiefs, should shield members of Congress from criticism for cutting military benefits. We must protect those who would help put our finances on sustainable footing, not castigate them for “breaking faith with our military.” We break faith with our military ourselves by not bringing our spending into alignment with our available resources. We must not miss this opportunity to address the coming austerity. We must put our house in better order.

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# Endnotes

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1. Mackenzie Eaglen has been particularly good in analyzing obligations and resources (see Eaglen 2010).
2. The 2011 Freedom in the World survey lends an important caution to this assessment, as freedom has significantly declined for the fifth straight year, with twenty-five countries experiencing a decline in freedom. Freedom House assesses eighty-seven countries to be free, and 115 to be democratic. Still, we believe the strength of the trend toward freedom in the past twenty-five years, and the absence of alternatives that attract popular support, continues to be positive (Freedom House 2011).
3. The Marine Corps is an exception, as they continue hewing to their model of recruiting for two enlistment terms.



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## Highlights

Adm. Gary Roughead, U.S. Navy (Ret.) and Kori Schake of the Hoover Institution propose systematic reforms to the United States defense budget that will reduce spending, while maintaining a strong and capable military force.

## The Proposal

- **Redesign the military force.** As the capability and infrastructure needs of the military—as well as the nation’s position in the world—change, the United States and our armed forces must adapt. The military must rebalance its force to face emergent challenges, which are predominantly air, maritime, and cyber in nature.
- **Improve efficiency in the acquisition process.** The current practices are not only costly, but also inflexible and unable to meet swiftly changing technological needs. Reforms to the acquisition process should be focused on incentivizing diversification and competition, encouraging innovation, expanding the manufacturing base, and improving contract cost and delivery.
- **Address personnel expenditures.** Rising personnel costs are a serious problem for the defense budget, but must be approached in a way that honors the sacrifices of our troops. In designing benefits and compensation packages, the DoD should be more attentive to the preferences of the troops and should phase out certain costly health-care measures that are less valued by our servicemen and servicewomen.

## Benefits

Roughead’s and Schake’s proposals will bring the military onto a more efficient, sustainable long-term path, while significantly reducing the federal budget deficit. Reductions totaling approximately \$500 billion across the next ten years can be more efficiently achieved by removing the most inefficient policies and practices within the DoD. Approached with a sense of urgency, these necessary reforms will set the foundation for a military that is more capable of protecting the interests of the American people and better positioned against future economic and security shocks.



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