

MEMORANDUM

TO: President Obama
FROM: Michael O'Hanlon
DATE: January 17, 2013
BIG BET: Right-Sizing Defense Budget Cuts



Your administration is considering cuts to the defense budget beyond the reductions already imposed by the 2011 provisions of the Budget Control Act. Many politicians and the public alike find it difficult to make sense of the huge numbers tossed around like so many chips in a Las Vegas poker game. In the national debate to date, some assume that immediate cuts will yield huge savings with little risk while others say that no more savings can be made without endangering America's security. You need to frame this debate in a way that relates potential savings to capabilities and advances the nation's understanding of national security in the coming decade.

Recommendation:

You should frame the debate as between two choices for U.S. defense policy. One approach would pursue relatively modest savings from additional efficiencies but stay within the parameters of existing national security strategy. The second approach would change that strategy in important ways, or otherwise seek fairly dramatic changes in how the Department of Defense goes about implementing its global responsibilities. Within that framing, you should argue for the first approach that, while difficult, is worth attempting given the nation's fiscal plight. The risks associated with the second approach would not be worth the benefits.

Background:

The 10-year cuts already mandated from the 2011 Budget Control Act will reduce the budgets of the armed forces by \$350 billion. These figures do not include war costs or Veterans Affairs budgets. Sequestration, like the Simpson-Bowles and Rivlin-Domenici deficit reduction commissions of 2010, would cut another \$500 billion or so over ten years.

Your administration's current military plan incorporates those assumed cuts from the first round of the Budget Control Act (though not from possible sequestration). It will scale down the military from about 1.5 million

active-duty uniformed personnel to its pre-9/11 total of 1.4 million, or two-thirds the Cold War norm. It chips away at modernization programs but preserves most major ones, with one or two notable exceptions. It levels off various forms of military pay and benefits. But most troops will continue to be compensated better than private-sector cohorts of similar age, education, and technical skill. It also holds out ambitious hopes for achieving efficiencies from various unspecified reforms that would save \$60 billion over a decade, and makes the optimistic assumption that weapons systems will be delivered at currently projected costs.

Conceptually, your administration's approach is built on time-tested principles of American defense policy, modified only modestly in recent years. The Persian Gulf and Western Pacific remain the two principal theaters of overseas concern – though your administration's "rebalancing" policy seeks to emphasize the broader Middle East somewhat less and the Pacific somewhat more. A two-war capability of sorts is retained, even if two full-scale simultaneous regional operations are assessed as less likely than before, and large-scale stabilization missions are also considered less likely. Of course, these latter assumptions must be tempered by the fact that possible enemies get a say in our decisions too. In the short term, force planning must also account for two specific matters of acute concern: the ongoing operation in Afghanistan, where 68,000 American troops remain, and possible operations in the coming year or two against Iran's nuclear facilities.

The First Approach: Seek Efficiencies, Not Major Cuts:

Against this backdrop, the first approach to achieving further defense cuts might seek additional savings of \$100–200 billion over a decade, beyond those now scheduled. Some of those savings might be counterbalanced by higher-than-expected costs in other parts of the Pentagon budget, so the net savings could be less than some hope – an important reality to bear in mind in all discussions of future defense reforms. We may need to cut more forces and weapons just to achieve the budget targets already assumed by existing law and policy. And such cuts would themselves be difficult. Under this approach:

- The size of the active-duty Army and Marine Corps could be reduced modestly below their 1990s levels (to say 450,000 soldiers and 160,000 Marines); current plans are to keep them slightly above those levels.

- Rather than increase its fleet, the Navy could employ innovative approaches like "sea swap," by which some crews are rotated via airplane while ships stay forward deployed longer, to get by with its current 286 ships or even 12-24 less ships.
- The F-35 joint strike fighter, a good plane but an expensive one, would be scaled back by roughly half from its current intended buy of 2,500 airframes.
- Rather than design a new submarine to carry ballistic missiles, the Navy might simply refurbish the existing Trident submarine or reopen that production line.
- Military compensation would be streamlined further as well, despite Congress's recent reluctance to go along with even the modest changes proposed in 2012 by your administration. Stateside commissaries and exchanges might be closed, and military health care premiums increased somewhat more than first proposed. Military pensions might be reformed too, with somewhat lower payments for working-age military retirees having 20 years or more of service, and introduction of a 401k-like plan for those who never reach 20 years (and currently receive nothing). This could be done in a way that would achieve modest net savings.

Another idea in this vein could save substantial sums too, though it would require help from allies and would have to be phased in with time. At present we rely almost exclusively on aircraft carriers, each carrying about 72 aircraft, to have short-range jets in position for possible conflict with Iran in particular. Over the past decade, land-based jets in Saudi Arabia, Kuwait, and Iraq have largely come home. While we occasionally rotate fighter jets through the small states of the Gulf Cooperation Council, and while we maintain command and control and support assets in states like Qatar and the United Arab Emirates, our permanent ashore combat power is very limited. By seeking two or more places to station Air Force combat jets continuously in Gulf Arab states, we could facilitate a reduction of one or two carrier battle groups. (In theory, we could cut the aircraft carrier fleet even more this way, since the Navy currently needs about five carriers in the fleet to sustain one always on station, but the unpredictabilities of such foreign basing would counsel a more hedged approach.) Cutting two carrier battle groups could eventually save up to \$15 billion a year.

The Second Approach: Make Major Strategic Changes:

If big cuts, like those proposed by the Simpson-Bowles commission, are to be achieved, the second approach would require what might be called a strategic shift – a more profound reorientation of America's role in the world. It would be an overstatement to say that it would emasculate the country, deprive it of superpower status, or require explicit abandonment of any ally. But it would accept substantially greater risk to our national security.

If the big cuts proved necessary, two of the least debilitating ways to carry them out might be as follows. First, rather than being simply streamlined to sizes slightly below Clinton-era levels, the active-duty Army and Marine Corps might be cut by 25 percent, going much further than your administration now plans. This would likely deprive the nation of the prompt capacity to conduct anything more than one large ground operation at a time.

To make the math work, under this approach the active-duty Army might wind up with 400,000 soldiers, in contrast to more than 500,000 now and to some 475,000 in the Clinton and early Bush years. This would be enough for one major operation, such as the unlikely but not unthinkable contingency of another war in Korea. It would also likely keep the Army large enough to retain its prestige as the world's best ground combat force and to facilitate foreign engagement globally in peacetime. But it would not allow enough capability for that mission as well as an ongoing mission similar to the one in Afghanistan today – or to a substantial role in a future Syria operation, for example – at the same time. It would effectively move ground force planning away from the two-war standard that has, however imperfectly and inexactly, undergirded American military strategy for decades.

The second major change—in military compensation – could be introduced gradually. No one likes to talk about this at a time of war, given the remarkable service of our all-volunteer force. But with war winding down, perhaps this can be rethought, as long as help for wounded veterans and survivors is left untouched, and if entitlement reform in other parts of the federal budget creates a national sense of shared sacrifice. Military compensation, now \$25,000 greater per person than at the start of the Bush administration, might be gradually returned towards 2001 levels. At one level, it does not seem dramatic given past pay levels; at another level, it would mean a major risk for a nation that relies on an all-volunteer military to protect its security.

Each idea could save up to \$30 billion a year once phased in, generating combined savings above and beyond those in the first approach of perhaps another \$300 billion over the next ten years. When added to the savings from the first approach, the levels would then reach the additional \$500 billion in defense cuts as required by sequestration or Simpson-Bowles.

Conclusion:

It is time to link possible savings in defense spending to reductions in military capability and associated impact on our national security. Dramatic cuts will necessitate a dramatic change in strategy. Such a change is unwarranted given present conditions in the world today. More modest cuts, while difficult, are justified given the nation's fiscal challenges.