

Written Testimony of
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*Rethinking our Defense Budget: Achieving
National Security through Sustainable Spending*

Before the
Subcommittee on Foreign Affairs & National Security
Committee on Oversight and Government Reform
United States House of Representatives

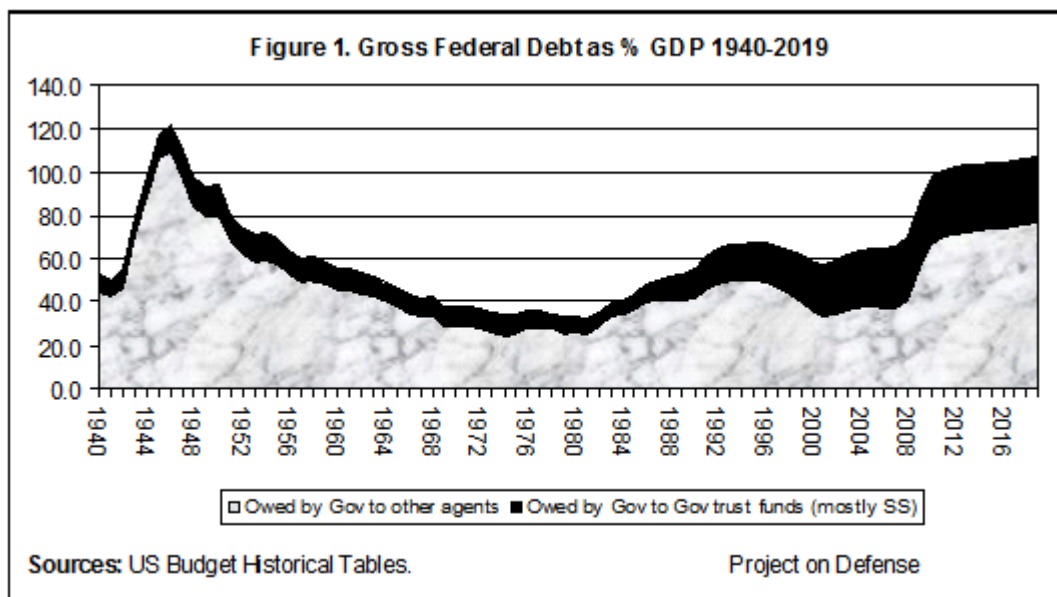
20 July 2010

Chairman Tierney, Congressman Flake, Members of the Committee, thank you for the opportunity to appear before you today to discuss with you the role of sustainable defense spending in achieving national security.

1. Introduction

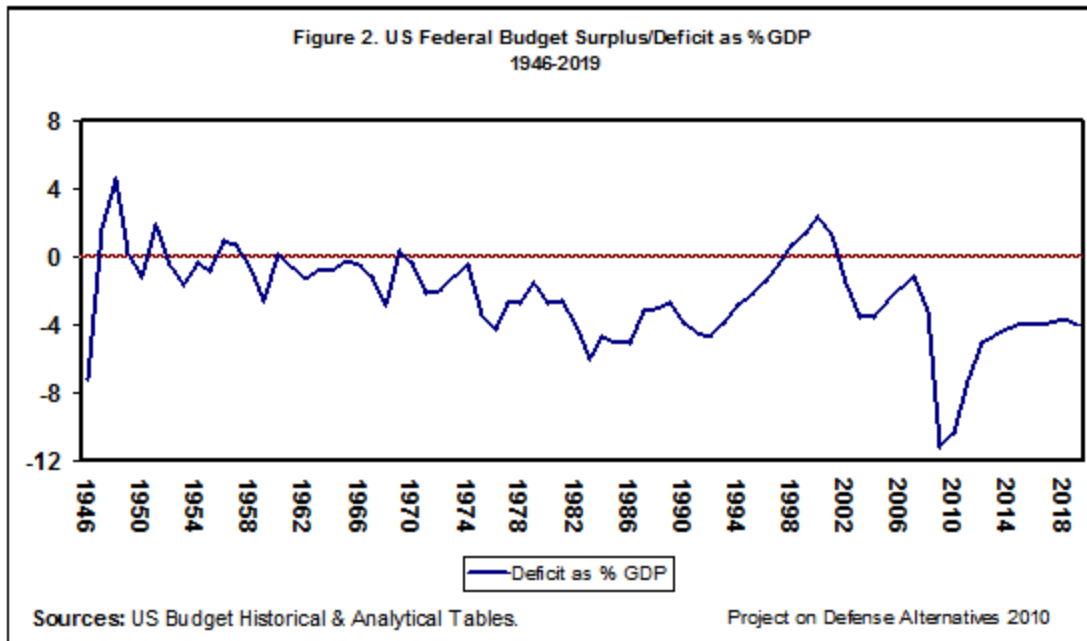
The process of rethinking our defense budget must begin with a recognition that the financial crisis and recession that commenced in 2007 has altered the context in which all federal policy must be assessed. In the area of national security, it is a development as portentous as the end of the Cold War and the events of 11 September 2001. This is because it – and the broader volatile process of globalization that conveyed and amplified it – bear critically on the preservation of American national strength for the long term. Looking 20 or 30 years into the future, America’s economic power and influence is less certain today than just four years ago – as is the disposition of our greatest national security asset, our most powerful national security instrument: the US dollar.

Among the most salient effects of the recent crisis has been a sharp rise in the burden of public and national debt. Figure 1 shows the change in debt, actual and projected, as a percentage of Gross Domestic Product (GDP) for the 80-year period 1940-2019.



Of course, what feeds debt accumulation is deficit spending. Figure 2. shows deficit spending as a percentage of GDP for the years 1946-2019. The period 1996 through 2001 stand out as “golden years” during which distinct progress was made in reducing accumulated debt. Between 2001 and 2007 that progress was erased.

Subsequently, during the crisis years 2007-2010, falling federal revenues and efforts to repair the financial system and economy dramatically increased the debt/GDP ratio.



The most ready comparison to America's current circumstance are the years of the Second World War. Back then, the level of debt rose higher than it has today, but the period during which the burden exceeded 100% of GDP lasted only 4 years. Today, by contrast, it looks as though the period during which debt will equal or exceed 100% of GDP will last for more than twice as long.

If we think of the mid-1940s as representing "the Mount Everest" of US debt accumulation, then the period after 2008 would represent "the Tibetan plateau" (which is not as high as Everest, but far wider). This analogy falters only in that current spending plans entail continued modest growth in the national debt. The Obama administration is set on a path of post-crisis deficit spending comparable (on average) to that of the period 1982-1993. This reflects the administration's decision to combine higher levels of domestic spending with high levels of defense expenditure.

There is no firm consensus on the likely effect of current levels of debt, although concern tends to focus on a possible weakening of the dollar and a rise in interest rates and inflation. Clearly, other factors – such as international context -- also affect the equation. What is the overall level of debt in a society? How are borrowed funds being put to use? How close is the nation to full employment? How attractive to foreign investors are the alternatives to dollar-based investment? All these question matter in determining the effect of debt levels.

Figure 3. Change in US Federal Discretionary Spending 2001-2010
(billions of current dollars)

Agency	2001	2010	\$ Change	% Change	% Share of Budget Increase
DoD incld war costs	316.3	693.42	377.13	119%	64.6%
(DoD w/o war costs)	316	531	215	68%	(36.9%)
Veterans Affairs	22.38	53.06	30.68	137%	5.3%
Health and Human Services	54.15	84.1	29.95	55%	5.1%
Homeland Security	16.05	43.28	27.24	170%	4.7%
State	7.77	29	21.23	273%	3.6%
HUD	28.36	43.58	15.22	54%	2.6%
Int'l Assistance Programs	12.59	23.4	10.81	86%	1.9%
Justice	18.4	27.65	9.25	50%	1.6%
Commerce	5.1	13.8	8.71	171%	1.5%
Agriculture	19.24	27.35	8.11	42%	1.4%
Transportation	14.68	21.78	7.1	48%	1.2%
Education	40.1	46.78	6.68	17%	1.1%
Energy	20.03	26.41	6.38	32%	1.1%
NASA	14.25	18.72	4.47	31%	0.8%
Other	22.77	26.61	3.84	17%	0.7%
Treasury	10.34	13.55	3.21	31%	0.6%
EPA	7.84	10.3	2.46	31%	0.4%
The Judiciary	3.99	6.44	2.45	61%	0.4%
National Science Foundation	4.43	6.87	2.44	55%	0.4%
Labor	11.96	14.27	2.31	19%	0.4%
Interior	10.27	12.15	1.89	18%	0.3%
Legislative Branch	2.85	4.73	1.89	66%	0.3%
Total Discretionary Authority	664	1247	583	88%	n.a.

Source: Office of Management and Budget, Historical Tables, Budget of the US Government, Fiscal Year 2011 (Washington DC: OMB, 2010), Table 5.4 Discretionary Budget Authority by Agency 1976-2015, p. 118

What can be said reliably is that when the level and duration of debt forecast by the administration are viewed together, they constitute a historically unprecedented situation for the United States. Similarly, our global context is new and changing rapidly. We are entering *terra incognita*. And this provides reason enough for caution.

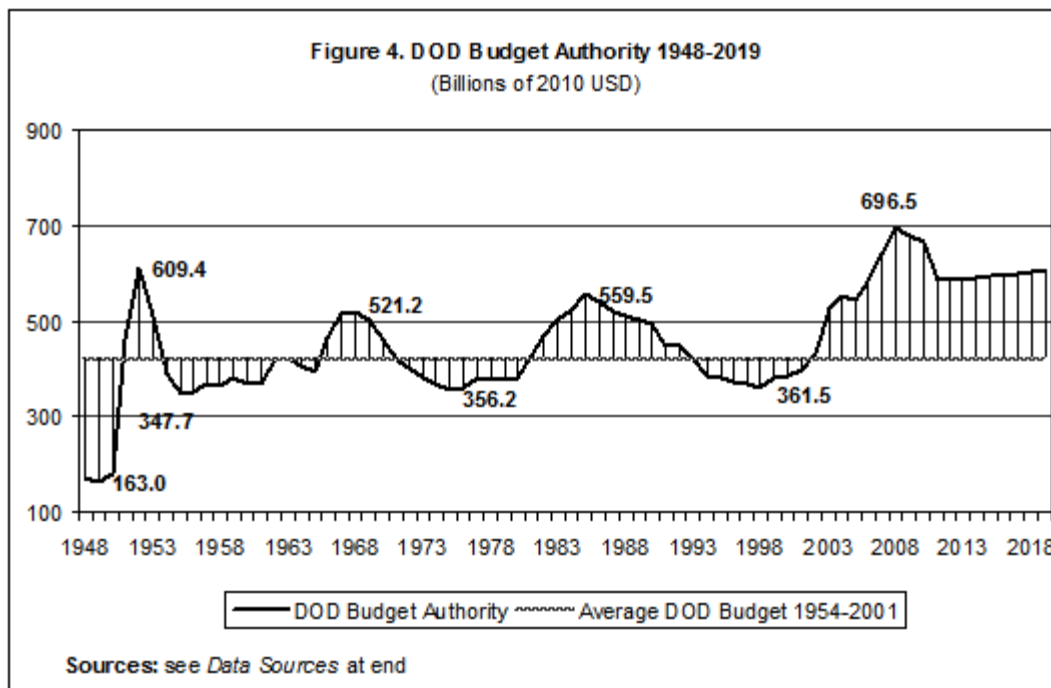
A moderate goal, once economic recovery is complete, would be to bring the level of deficit spending down below the growth rate of the economy so that the Debt/GDP ratio gradually declines. Depending on revenue and growth forecasts, this might

require federal spending cuts on the order of \$200 b. - \$300 b. per year. More would be needed should we want to accelerate debt relief.

A second certainty is that servicing the national debt will grow more costly as the debt grows in size and interest rates rebound. The President's FY 2011 budget foresees interest payments growing as a portion of all federal outlays from about 5% in 2010 to 15% in 2020. This, together with deficit reduction, will constrain our capacity to meet programmed needs and to deal with emerging challenges, such as rising health care costs, infrastructure recapitalization, energy independence, and global warming. An overarching challenge is to participate successfully and securely in an increasingly competitive and often volatile global marketplace. The depth of these challenges is sufficient to put the preservation of our national strength and vitality at issue. That is the touchstone, that is the caution that we must hold in mind as we turn to adjust our budget priorities.

2. Debt, Deficits, and Defense

The potential relevance of the defense budget to debt and deficit relief is obvious when we review discretionary spending over the past decade. Since 2001, annual discretionary spending rose \$583 billion. As Figure 3. shows, defense spending is responsible for nearly 65% of this increase. Discounting the war budget, the "peacetime" or base defense budget accounts for nearly 37% of discretionary budget growth. (See Figure 3; page 3)



Taking a somewhat longer view, the rise in US defense spending since 1998 has no precedent in all the years since the Korean war. (Figure 4.) The DoD budget reached its post-Cold War ebb in 1998: \$361.5 billion (2011 USD). Since then it has rebounded to \$708 billion – a 96% increase. The portion of the 2011 budget request that is unrelated to contingency operations (the so-called “base budget”) is \$549 billion, which is 54% higher in real terms than in 1998.

Whether one looks at the total DoD budget, or just that portion not attributable to today’s wars, US defense spending is now stabilizing at levels significantly above Cold War peaks (adjusted for inflation) and far above the Cold War average, in real terms. Measured in 2011 dollars, average DoD budget authority was:

- \$430 billion for the period 1954-2001;
- \$525 billion for the Reagan years; and,
- \$503 billion for the Vietnam War “high tide” years 1966-1970.

The most ready explanation for the post-1998 spending surge is that it is due largely to post-9/11 military operations. In fact, these operations account for just 22% of the 2011 budget request and about 52% of the total increase in expenditures since 2001. Moreover, the wars themselves have been exceptionally expensive by historical standards. Measured in 2010 dollars,

- The Korean conflict cost \$393,000 per person/year invested;
- The Vietnam conflict cost \$256,000; and,
- The Iraq and Afghanistan commitments, \$792,000 to date.

Rather than adequately explain the post-1998 spending surge, the high cost of recent military operations only adds to the explanatory burden.

Some insight into current cost drivers can be gleaned by comparing the recent surge in spending with two lesser ones that preceded it: the 1958-1968 surge of 43% and the 1975-1985 surge of 57%. The first of these involved the conduct of the Vietnam War and an effort to expand and transform the force. The second surge emphasized recapitalization and a modest increase in force size. Notably, the percentage rise in spending between 1998-2008 was nearly as great as both of these previous two surges combined.

This comparison illuminates one factor that distinguishes the post-1998 spending surge: *it reflects the combined effect of a major war effort and a major effort at force recapitalization.* During the Vietnam era, national leadership felt compelled to choose between the two.

A second contributing factor, especially pertinent to the high cost of operations in Iraq and Afghanistan, is that America’s armed forces entered the new century ill-suited to fighting very large-scale and protracted counter-insurgency campaigns. Given the voluntary basis of today’s armed services, long labor-intensive wars drive

personnel costs sharply upward, as DoD must bid higher and higher to recruit and retain personnel.

The high cost of today's military personnel also has led to increased dependence on contract labor. In 2009, the Central Command area hosted over 240,000 DoD contractors (compared to 280,000 military personnel supporting war operations there). This ratio of nearly one-to-one contrasts with a 5:1 ratio in Vietnam and 5:2 ratio in Korea. This means that today's wars are relatively larger than they seem. In fact, the combined total of military personnel and DoD contractors now operating in the CENTCOM area is just 17% less than the number deployed in Southeast Asia during the height of the Vietnam conflict.

To put this conundrum in more memorable terms: We have in recent years assumed military challenges and entertained military ambitions as great as those of Presidents Kennedy, Johnson, and Reagan combined. Moreover, we are attempting today to fight wars reminiscent of the conflict that bedeviled President Johnson – but to do so with armed forces whose cost dynamics more resemble those of the military that President Reagan built and commanded.

3. Strategic Choice and Consequences

Americans remain divided over the wisdom of the war in Iraq and the wisdom of the strategy employed in Afghanistan. But even among supporters, few seem eager to repeat the exercise elsewhere in the future. Can we draw a broader lesson from this? The fabulous cost, slow progress, and uncertain outcome of recent efforts at regime change, armed nation-building, and large-scale counter-insurgency make them a poor strategic choice, when other approaches are available for fighting terrorism and countering proliferation.

In the conventional realm, too, strategic choice has played a larger role than have hard-and-fast “requirements.” This much is suggested by the fact that the post-1998 surge in the base budget was not accompanied by a neck-and-neck race with a peer competitor, but instead by a surge in America's share of world military spending. In 1986, US military spending was only 60% as high as that of its adversaries (taken as a group). Today, America spends more than two and one-half times as much as the group of actual and potential adversary states, including Russia and China.

Had President Reagan sought to achieve such a spending balance in the 1980s, he would have had to quadruple his defense budgets.

So are we simply in a race with ourselves? There is more to it than that. Beginning with the end of the Cold War, we have set goals for our armed forces that reach beyond the traditional ones of simple defense and deterrence. Successive *US Defense Reviews* have put increased emphasis on various forms of preventative action – not

only preventative war and regime change, but also greater reliance on our military to “shape the strategic environment” and stem the very emergence of threats. Today we should doubt the ability of these stratagems to deliver what they promise.

We also have asked our armed forces in recent decades to conduct more types of missions and activities, faster and more frequently, across a broader expanse of the earth. And we have asked the Pentagon to assume functions and “authorities” that once had been the sole province of the State Department.

Have these ambitions proved to be worth the candle? In answering this question, reasonable people can disagree. What should be beyond dispute, however, is the notion that the answer depends partly on the nation’s economic circumstance at the time and on the challenges it faces in other areas of national strength. Our policy choices during the decade before the 2007 crash were conditioned by a sense of “surplus.” We should now recognize this euphoric condition as having been based substantially on speculative growth, debt accumulation, or both. This is no longer sustainable. Looking forward, we need a new criterion.

4. Toward a Sustainable Defense

Putting America’s defense policy on a more sustainable path depends on our willingness to:

- Rethink our national security commitments and goals to ensure they focus clearly on what concerns us the most;
- Reset our national security strategy so that it reflects a cost-effective balance among the security instruments at our disposal and uses those instruments in cost-effective ways; and
- Reform our system of producing defense assets so it provides what we truly need at an affordable cost.

One recent effort to do this is the 11 June 2010 report of the Sustainable Defense Task Force: “Debt, Deficits, and Defense: A Way Forward.” The Task Force was formed earlier in the year to explore possible DoD contributions to deficit reduction that would not compromise the essential security of the United States. In accord with this goal, the group looked to identify:

- DoD programs that are based on unreliable or unproven technologies,
- Current military missions that exhibit a poor cost-benefit payoff,

- Service capabilities that fail the test of cost-effectiveness or that possess a very limited utility,
- Assets and capabilities that mismatch or substantially over-match current and emerging military challenges, and
- Opportunities for providing needed capabilities and assets at lower cost via management reforms.

Applying these criteria, the Task Force identified a series of options that, taken together, could save up to \$960 billion between 2011 and 2020. The option set could be implemented in whole or part. Taken as a whole, it would entail:

- Reducing the US nuclear arsenal to 1000 warheads deployed on 160 Minuteman missiles and seven nuclear submarines,
- Bringing US military end strength down to 1.3 million full-time uniformed personnel – a reduction of approximately 200,000,
- Capping routine peacetime US military presence in Europe at 35,000 personnel and in Asia at 65,000, including personnel afloat,
- Reducing the size of the US Navy from its current strength of 287 battle force ships and 10 naval air wings to a future posture of 230 ships and 8 air wings,
- Rolling back the number of US Army active-component brigade combat teams from the current 45 to between 39 and 41,
- Retiring four of the 27 US Marine Corps infantry battalions along with a portion of the additional units that the Corps employs to constitute air-land task forces,
- Retiring three US Air Force tactical fighter wings,
- Ending or delaying procurement of a number of military systems – the F-35 Joint Strike Fighter, MV-22 Osprey, KC-X Aerial Refueling Tanker, and the Expeditionary Fighting Vehicle – and fielding less expensive alternatives,
- Reducing base budget spending on R&D by \$5 billion annually,
- Resetting the calculation of military compensation and reforming the provision of military health care to save \$115 billion in a decade,
- Implementing a variety of measures aiming to achieve new efficiencies in DoD's supply and equipment maintenance systems, and

- Setting a cost reduction imperative of \$10 billion annually for command, support, and infrastructure expenditures.

A fuller presentation of these options can be found in the Appendix.

How would these savings effect the next decade's budgets? The administration's FY 2011 budget allocates 6.522 trillion "then year" dollars to the National Defense function (050) over the period 2011-2020. This would be approximately \$6 billion in constant 2010 USD and would reflect a real increase of 13% across the period. By contrast, if fully implemented, the SDTF options would bring cumulative National Defense spending down to a little more than \$5 trillion in 2010 USD, entailing a 2020 base budget that was 10% below today's in real terms.

Figure 5. Effect of SDTF Options on FY 2011-2020 National Defense Plan
(050 Budget w/o war cost in billions USD)

	10	11	12	13	14	15	16	17	18	19	20
Obama Current Dollars	555	574	592	607	624	643	659	677	696	715	735
Obama 2010 USD	555	565	571	586	601	608	610	615	619	623	627
SDTF 2010 USD		544	518	516	517	503	496	492	485	494	500

Sources for Figure 4: US Department of Defense (DoD), National Defense Budget Estimates for FY 2010 (Washington DC: US DoD, June 2009), Table 6-8 and Table 7-5; DoD, FY 2010 Budget Request Summary Justification (Washington DC: US Department of Defense, May 2009), Figure 1.1; US Office of Management and Budget, Analytical Perspectives, Budget of the United States Government: Fiscal Year 2010 (Washington: GPO, May 2009), Table 26-1.



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5. Appendix: SDTF Options in Great Detail

Strategic capabilities – save \$195 billion over the coming decade

Options in this area would save nearly \$195 billion during the next decade. The United States should act now to accelerate the drawdown of nuclear weapons to a level of 1,000 warheads deployed on seven Ohio-class submarines and 160 Minuteman missiles. This is more than enough to ensure deterrence. Shifting to a nuclear “dyad” of land- and sea-based missiles would provide an optimal balance between efficiency and flexibility.

Missile defense efforts should be curtailed to focus on those systems and those missions most likely to succeed and provide real protection for our troops in the field. And we should roll back nuclear weapons research and limit efforts to modernize the weapon infrastructure. This best accords with a reduced emphasis on nuclear weapons, the smaller arsenal, and the general trend of arms control efforts.

Conventional force structure – save \$395 billion over the coming decade

No other nation or likely combination of nations comes close to matching US conventional warfare capabilities. Options in this area seek to match conventional force capabilities more closely with the actual requirements of defense and deterrence. These are the tasks most appropriate to the armed forces and most essential to the nation. Focusing on them helps ensure that America's investments are cost-effective. The options on conventional forces would save the United States almost \$395 billion from 2011-2020.

Ground forces: The Task Force proposes capping routine US military presence in Europe at 35,000 personnel and in Asia at 65,000 troops – and then reducing some force structure accordingly. We can rely on our incomparable capacities for rapid deployment to flexibly send more troops and assets to these regions if and when needed. The TF also proposes rolling back the recent growth in the Army and Marine Corps as progress in winding down the Iraq and Afghanistan wars allows. This option views future conduct of protracted, large-scale counter-insurgency campaigns by the United States as strategically unwise and largely avoidable. Certainly, there are better, more cost-effective ways to fight terrorism.

Air forces: The experience of the United States in recent conventional wars, including the first two months of the Iraq conflict, show that we can safely reduce our tactical air power – both Air Force and Navy. The capacity of the US military to deliver weapons by plane or missile substantially overmatches existing and emerging threats. And the gap continues to grow. Also, entirely new capabilities, notably remotely piloted vehicles, are joining our air fleets in growing numbers. This option envisions a future air attack capability comprising between 1,600 and 1,750 Air Force, Navy, and Marine Corps fighter-attack aircraft and bombers in combat squadrons. Remotely-piloted vehicles would be additional.

Sea power: The United States can reduce the size of its Navy from the current fleet of 287 battle force ships to 230, although this will require using our naval power differently. Included in this fleet would be nine aircraft carriers.

This option would keep fewer of our war ships permanently “on station,” partly by having them operate in smaller groups. It would put greater emphasis on surging naval power as

needed. The firepower of our naval assets has grown dramatically during the past 20 years. In this light, the smaller fleet that we propose can meet America's warfighting needs. The reduction in fleet size also reflects a smaller contingent of nuclear ballistic missile submarines, as proposed in the section on strategic capabilities.

Procurement

Regarding procurement, the options for saving \$88.7 billion from 2011-2020 focus mostly on cancelling or reducing systems with long histories of trouble and cost growth, such as the MV-22 Osprey and the Expeditionary Fighting Vehicle. These embody all that is wrong with the acquisition process. The Task Force also includes the option of cancelling the F-35 Lightning and replacing it, for the time being, with advanced versions of aircraft already in service. Development of the F-35 is rapidly going the way of the F-22 Raptor: late, over cost, and less capable than promised. However, even if this aircraft performed according to specifications, it would not be needed in order for us to defeat current and emerging challengers. America's air forces are today the best in the world by a wide margin – not principally due to our technology, but instead due to the combination of technology, skill, training, morale, support, and coordination.

Research and development

Research and development has experienced more spending growth since 2001 than any other major DoD appropriation category. Today it stands at \$80 billion annually – 33% above the Cold War peak in real terms. And yet, today, we face no competitor in military technology comparable to the Soviet Union. We seem increasingly in a race with ourselves. The results have been uneven in terms of producing affordable capabilities that serve the needs of war fighters, however. Individual efforts by the armed services and defense agencies are too often disjointed and seemingly at odds with each other. DoD needs to exercise more discipline in this area and Congress needs to exercise more oversight. The TF's modest proposal is that DoD set clearer priorities and seek \$5 billion in savings per year or \$50 billion during the coming decade.

Command, support, and infrastructure

The Task Force proposes that DoD seek more than \$100 billion in savings over the next decade in the areas of command, infrastructure, maintenance, supply, and other forms of support. The Congressional Budget Office and the Government Accountability Office have both outlined a variety of measures to achieve savings in these areas by means of streamlining, consolidation, and privatization. Additionally, the reductions we have proposed in force structure and procurement will reduce the demand on support services and infrastructure (albeit not proportionately). The goal we have set for savings in these areas is only 15% as much as what we propose for force structure and procurement. This much should be easily in DoD's reach.

Personnel costs

Cost growth in military compensation and health care is a serious and increasing concern of military planners and leaders. Over the past decade personnel costs rose by more than 50% in real terms, while health care costs rose 100%. Secretary of Defense Gates recently described the problem as “eating the Defense Department alive.”

The *Quadrennial Review of Military Compensation* has proposed that we recalibrate how military pay raises are set and that we increase health care fees and co-pays for some former military personnel between the ages of 38 and 65.5. The estimate for potential savings from such measures is \$120 billion over the decade, assuming gradual implementation as the wars wind down. In our opinion, however, these options involve more than matters of simple economics. They can only go forward as part of a broader program of change.

We are a nation at war and these measures affect those who are making the greatest sacrifice. We have a responsibility to them and, thus, great care is due. If the rise in personnel costs has been extraordinary, so have been the demands placed on our military personnel. It is not simply war that bears down on them, but also the way we have conducted it. Some force utilization policies have been unwise and some personnel policies have been both unwise and unfair.

If cost growth in this area is to be addressed, it must be addressed as part of a new compact that relieves our military personnel of the undue burdens of routine “stop loss” orders and long, repeated war rotations. Compensation levels for those fighting overseas must be protected and health care for the injured improved. Finally, we must accept that if we are to deploy 175,000 active-duty troops to war (as we do today), then we cannot also maintain another 142,000 troops overseas doing other jobs. Fiscal realities and proper treatment of our military personnel demand that we make choices.



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