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THE FISCAL COMMISSION AND DEFENSE: STRATEGY IN AN AGE OF AUSTERITY

By Todd Harrison

With a federal budget deficit that exceeded \$1.3 trillion in FY 2010 and a rapidly mounting national debt, the findings of the Fiscal Commission established to identify ways to balance the budget have been much anticipated. Tackling the deficit is important to restoring the government's fiscal health and the nation's economic prosperity. It is also important to national security. History has demonstrated that in times of major conflict, the fiscal might of the United States and the ability to mobilize resources on a massive level have been a source of enduring strategic advantage. But with the deficit near record levels, the debt load rising, and interest payments on the debt consuming a greater share of the budget each year, this advantage is rapidly eroding.

Unlike like many national security challenges, which can be ill-defined and intractable, the fiscal challenge the nation faces is relatively straightforward to solve in a technical sense. Indeed, a virtually infinite array of solutions is possible to achieve the goal of a balanced budget, including changes both to revenues and spending. And the metrics to measure success—future deficit and debt levels—are relatively straightforward to compute. The difficulty is finding the right balance between spending cuts and revenue increases and building a political consensus to support it. This is the challenge the Fiscal Commission faces, and the co-chairs' draft report released on November 10th offers an excellent point of departure for this important debate.

Strategy should be central to any discussion of cuts to defense spending. Strategy and budgets are intimately connected—a strategy the nation cannot afford is not a good strategy, and a budget disconnected from strategy wastes money. “Spend more” is not a national security strategy any more than are calls simply to “spend less.” As the nation embarks on what is likely to be a prolonged period of fiscal austerity, getting strategy right is more important now than ever, for if we do not consider the consequences of our decisions we may not have the necessary resources to correct our mistakes in the future.

The purpose of this backgrounder is to analyze the defense proposals contained in the co-chairs' report and place them in a strategic context. This analysis draws heavily from CSBA's Strategy for the Long Haul series of reports and annual budget analysis. In the Strategy for the Long Haul, CSBA laid out a set of recommendations that provide a coherent and comprehensive analytic foundation for thinking about key defense strategy, policy, resource, infrastructure, and program issues. In some cases, the co-chairs' proposals focus on entitlements, personnel, or contracting issues that are not directly tied to strategy.

These proposals are analyzed for the soundness of their recommendations, the budgetary effects they would produce, and consistency with the overall package of proposals.

Below is a summary of the major defense proposals in the co-chairs' report and CSBA's analysis:

Fiscal Commission Proposal	Analysis	CSBA Reference
Apply the overhead savings Secretary Gates has promised to deficit reduction	While achieving greater efficiencies and finding savings in overhead costs should always be a priority, past efforts have shown that the savings realized are far smaller than predicted. Relying on these savings for more than a quarter of the proposed savings in the defense budget is a risky assumption.	<i>Promoting Efficiency in the Department of Defense: Keep Trying, But Be Realistic</i> (Hale, 2002)
Freeze federal salaries, bonuses, and other compensation for the DoD civilian workforce and freeze non-combat military pay for 3 years	Military manpower requirements can be successfully met only if adequate resources are provided for recruitment and retention efforts, including appropriate types and levels of compensation. But given the fact that military and DoD civilian pay raises have exceeded raises in the private-sector each year for much of the past decade and recruiting and retention are robust due to high unemployment in the private sector, a temporary freeze in non-combat compensation levels would not likely have an adverse affect on the military.	<i>Strategy for the Long Haul: Military Manpower for the Long Haul</i> (Kosiak, 2008) <i>Analysis of the FY 2011 Defense Budget</i> (Harrison, 2010)
Double Secretary Gates' cuts to defense contracting	The reductions in contractor support already proposed by Secretary Gates will be difficult to achieve. Initial moves to close contractor-heavy organizations, such as JFCOM, appear to be a step in the right direction. What is needed is a more comprehensive, strategic approach to achieving savings in personnel (including uniformed military, DoD civilians, and contractors): first determine where risks can be taken in the military's ability to accomplish its assigned missions and meet its responsibilities, and then reduce head counts and infrastructure accordingly.	<i>Strategy for the Long Haul: Military Manpower for the Long Haul</i> (Kosiak, 2008) <i>Testimony Before the House Committee on the Budget</i> (Harrison, 2010)

<p>Reduce procurement by 15 percent.</p>	<p>An untargeted reduction in procurement spending such as this may result in something akin to the “procurement holiday” of the 1990s. If the services do not first prioritize investments in accordance with an overarching strategy, cuts are likely to be spread evenly across programs, slowing all modernization and recapitalization efforts. Targeted cuts, on the other hand, can protect high-priority programs and still support the fielding of new weapon systems and capabilities that are most important.</p>	<p><i>Strategy for the Long Haul: Defense Investment Strategies in an Uncertain World</i> (Krepinevich, 2008)</p>
<p>End procurement of the V-22 Osprey, cancel the Expeditionary Fighting Vehicle (EFV), and cancel the Marine Corps version of the F-35</p>	<p>These three Marine Corps acquisition efforts, the EFV, F-35B, and the MV-22 tilt-rotor aircraft, have been overtaken by technological advances in anti-armor, anti-air, and anti-ship weaponry or by new operational demands. The threat environment for which these platforms were designed over a decade ago has evolved more rapidly than anticipated and the pace of change is likely to accelerate over the next several years.</p>	<p><i>Strategy for the Long Haul: The US Marine Corps Fleet Marine Forces for the 21st Century</i> (Wood, 2008)</p>
<p>Substitute F-16 and F/A-18Es for half of the Air Force and Navy’s planned buys of F-35 fighter aircraft</p>	<p>The Air Force and Navy variants of the F-35 lack critical performance characteristics, specifically range, needed to meet high-end challenges and are over-specified and overpriced for low-end challenges. Reducing the Air Force buy from 1,763 F-35As to 858 and increasing the procurement rate to end in 2020 is a prudent alternative that would provide about thirty squadrons of F-35s by 2021 and allow the Air Force budget to absorb other needed programs like the next-generation bomber. Trading Navy F-35Cs for a longer range platform, such as the unmanned N-UCAS, would increase the flexibility and operational range of carriers in the future.</p>	<p><i>Strategy for the Long Haul: An Air Force Strategy for the Long Haul</i> (Ehrhard, 2009)</p> <p><i>Strategy for the Long Haul: Charting a Course for Tomorrow’s Fleet</i> (Work, 2008)</p>

<p>Cancel the Navy's Future Maritime Prepositioning Force</p>	<p>The new Future Maritime Prepositioning Force squadron is ill-conceived and ill-suited for both naval maneuver and WMD elimination missions, and generally too large for presence and engagement missions. Moreover, with some modifications, the legacy MPF squadrons can continue to excel in the maneuver support/rapid reinforcement role, while taking on additional capacities to support sea-based operations.</p>	<p><i>Strategy for the Long Haul: Charting a Course for Tomorrow's Fleet</i> (Work, 2008)</p>
<p>Cancel the new Joint Light Tactical Vehicle (JLTV), the Ground Combat Vehicle, and the Joint Tactical Radio.</p>	<p>The Army is incurring significant technical risk in these major modernization efforts that seek to incorporate new, unproven technologies and concepts of operation. The JTRS program dates back to 1997 and has encountered numerous technical challenges over the past 13 years. Production of radios has only recently begun, and while the radios have additional capabilities, they cost substantially more than the legacy radios they replace—ten times as much in the case of the JTRS Ground Mobile Radio. In light of the technical risks and costs of these programs, DoD would be wise to explore less expensive and less risky alternatives.</p>	<p><i>Strategy for the Long Haul: An Army at the Crossroads</i> (Krepinevich, 2008)</p> <p><i>Analysis of the FY 2011 Defense Budget</i> (Harrison, 2010)</p>
<p>Reduce military personnel stationed at overseas bases in Europe and Asia by one-third</p>	<p>America's current alliances and overseas basing are by and large an artifact of the Cold War. Any changes to these alliances, such as changes to the number of U.S. military personnel stationed in Europe and Asia, should be done as part of a comprehensive strategy that addresses the three overarching challenges the U.S. is likely to confront in the years ahead: violent Islamist extremism, a rising China, and nuclear proliferation.</p>	<p><i>Strategy for the Long Haul: Reshaping America's Alliances for the Long Haul</i> (Montgomery, 2009)</p>

<p>Modernize TRICARE, DOD healthcare</p>	<p>Military healthcare consumes \$50.7 billion in the FY 2011 budget request—nearly a tenth of the base budget. The fee charged to military retirees for enrollment in TRICARE was set in 1995 at \$460 for a family plan and has not increased with inflation since then. According to the Kaiser Family Foundation, the average annual premium paid by private-sector workers is now \$4,000. About 70 percent of military retirees have access to private-sector insurance, but because of this growing price differential more of them are choosing to stay in the military system. Another factor in the rising cost of military healthcare is the TRICARE for Life program, a Medicare supplemental insurance program for military retirees over the age of 65 that was enacted in 2001. Accrual payments to this trust fund now total \$11 billion annually. The proposed reforms are a step in the right direction and are consistent with similar measures proposed by the previous administration in the FY 2007, FY 2008, and FY 2009 budgets.</p>	<p><i>The New Guns Versus Butter Debate</i> (Harrison, 2010)</p>
<p>Replace military personnel performing commercial activities with civilians</p>	<p>Military personnel carry out a wide range of “infrastructure” functions, such as logistics, transportation and personnel support activities, that in some cases closely resemble or are identical to activities performed by civilians. In those cases, substitution may not only be possible, but may offer significant cost savings</p>	<p><i>Strategy for the Long Haul: Military Manpower for the Long Haul</i> (Kosiak, 2008)</p>

Reduce spending on Research, Development, Test & Evaluation by 10 percent	RDT&E funding remains near peak levels at \$76 billion in the FY 2011 request, compared to the previous peak in FY 1987 of \$62 billion (adjusting for inflation). But funding for basic and applied research—the long-term efforts that have the potential to produce significant advances in technology—is now a smaller portion of overall R&D funding. Congressional adds each year raise the RDT&E budget by 5 percent on average. While RDT&E funding could be reduced substantially, funding for basic and applied research should be protected to ensure the U.S. maintains its technological edge.	<i>Strategy for the Long Haul: Defense Investment Strategies in an Uncertain World</i> (Krepinevich, 2008) <i>Analysis of the FY 2011 Defense Budget</i> (Harrison, 2010)
Consolidate the Department of Defense's retail activities and integrate children of military personnel into local schools in the United States	The DoD Exchanges, Commissaries, and schools within the United States are an artifact of a by-gone era. The same quality of life services that these programs provide could be addressed at a lower cost through privatization of the Exchanges, replacement of the Commissaries with a greater subsistence allowance for troops, and allowing states to merge or takeover DoD-run schools in the U.S.	The New Guns Versus Butter Debate (Harrison, 2010)

Overall, the package of proposals presented by the Fiscal Commission's co-chairs lays out a substantial number of cuts to major DoD weapons and programs, totaling to more than \$100 billion in the FY 2015 budget. Many, but not all, of these proposals align well with CSBA's Strategy for the Long Haul and other budget analysis. But what is missing from the co-chairs' proposals is an overall strategy that unifies the cuts behind a common purpose or set of objectives.

Over the past decade, the base defense budget (not including the cost of the wars) has grown at a real annual rate of 4 percent while the size of the force has remained nearly constant at 1.5 million active duty troops and military capabilities have not advanced appreciably. This has led some to conclude that at least 2 to 3 percent real growth in the defense budget is necessary in the coming years to maintain the current force structure and capabilities. While this level of growth is consistent with the experiences of the past decade, there is no reason to accept that such growth must occur in the future. Moreover, simply maintaining the current force structure and capabilities is not a sound strategy for the future. As the past decade has shown, the spectrum of conflict is broadening and the pace of conflict is accelerating. DoD should use this opportunity to fundamentally

reshape the force, divesting itself of systems and programs it no longer needs and investing in the capabilities most important for the future. In a time of fiscal austerity, the Fiscal Commission, Congress, and the Defense Department must do the hard work of prioritizing investments and separating wants from needs.

About the Center for Strategic and Budgetary Assessments

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