



Center for Strategic and Budgetary Assessments

AMERICA'S STRATEGIC CHOICES: DEFENSE SPENDING IN A POST-COVID-19 WORLD

The Economics of Defense
in the Nuclear Age

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The Ronald Reagan Institute, the Washington, DC, office of the Ronald Reagan Presidential Foundation and Institute, promotes our 40th President's ideals, vision, and leadership example through substantive, issue-driven forums, academic and young professional programming, and scholarly work.



We face increasingly difficult strategic choices in the decade ahead. Abroad, China and Russia continue to modernize their militaries and challenge U.S. leadership. At home, rising deficits and growing national debt, combined with economic challenges imposed by COVID-19 and the response to it, will place pressure on government spending in general, and the defense budget in particular. In upcoming spending debates, policymakers must understand the consequences that defense budget adjustments pose for U.S. strategy, force structure, and modernization.

Aligning Budgets with Strategy

To clarify the choices policymakers face, the Center for Strategic and Budgetary Assessments (CSBA) and the Ronald Reagan Institute (RRI) organized two one-day exercises in October 2020 with bipartisan groups of leading defense policy and budget experts. These sessions

assessed the impact of fiscally constrained adjustments to U.S. defense strategy and military forces over the coming decade. Participants were subdivided into teams, with four teams in total across both exercises. All teams were instructed to develop the parameters of a notional 2022 National Defense Strategy (NDS), with the 2018 NDS as a starting point, and align force structure and modernization accordingly within a given budget constraint. More specifically, small teams were asked three foundational questions:



- What are your primary strategic objectives?
- What are the most important missions and attributes of the future joint force?
- What resource tradeoffs would you make (near- and long-term), and where and when will you accept risk?

After independently answering the above questions, each team used CSBA's Strategic Choices Tool (SCT) to implement changes in U.S.

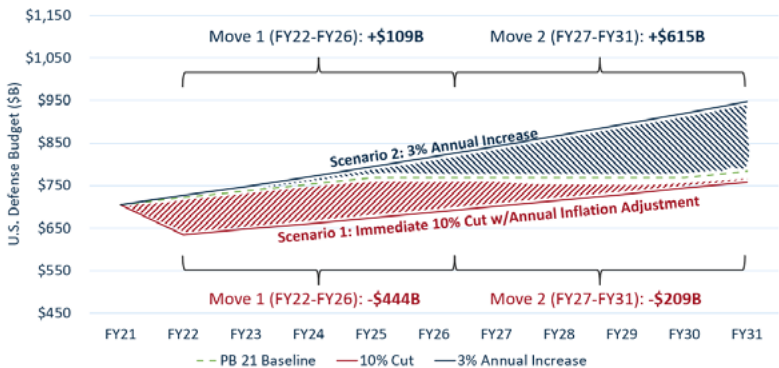


defense spending over the Fiscal Year (FY) 2022 to FY2031 time period. CSBA's SCT is an interactive decision-making tool that allows participants to adjust U.S. modernization programs and force structure over a ten-year period within a

given budget constraint. Within the tool, teams make choices over two five-year moves (i.e. “Move 1” and “Move 2”), essentially one Future Years Defense Program (FYDP) followed by a second FYDP. Rather than having to build a budget and military from the ground up, the existing Department of Defense (DoD) program of record for the next ten years is already built into the tool, so all decisions teams make are either additions or cuts to planned spending.¹ Users choose to add or cut programs and force structure based on their overarching strategy and concepts, while remaining within a given budget constraint.

In October’s exercises, teams were asked to use the SCT to adjust U.S. defense spending under two distinct budget scenarios: 1) an immediate 10 percent cut to defense spending, followed by annual inflation increases; and 2) an annual 3 percent increase in defense spending (Figure 1).

FIGURE 1: PARTICIPANTS CONFRONTED TWO BUDGET SCENARIOS



1 The program of record force is primarily determined by President’s Budget 2021 (PB21).

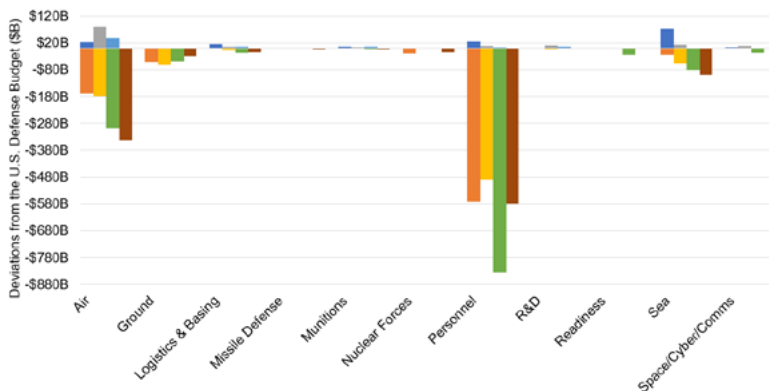
The insights below represent the general areas of consensus and disagreement among the participants on U.S. strategy, operational requirements, and defense investments. The SCT simplifies the complex defense budgeting process for a strategic-level exercise, but the difficulties and tradeoffs that teams struggled with were realistic, and the resulting insights are instructive for policymakers in Congress, the Defense Department, and the White House.

Grappling with Strategic Choices Under a Severe Budget Cut

In the 10 percent defense budget cut scenario, teams were required to cut \$444 billion in Move 1 (FY2022–FY2026) and \$209 billion in Move 2 (FY2027–FY2031), compared to the forecasted PB21 defense budget. This budgetary target forced participants to make heroic political and strategic assumptions. For example, teams had to make large-scale cuts to personnel, force structure, and modernization that have heretofore proven to be politically unpalatable. Moreover, the force that remained after these cuts was incapable of carrying out the current National Defense Strategy. It lacked the ability to respond to the range of military contingencies that the United States could reasonably expect to face and was too small and brittle to respond to unforeseen changes.



FIGURE 2: TEAM REBALANCING BY CATEGORY, 10 PERCENT BUDGET CUT SCENARIO



The investment and divestment choices made by each of the four teams are shown above by category. Savings were primarily generated in the air, ground, sea, and personnel categories. Although ground category cuts appear relatively small, the associated ground personnel that were cut produced large savings.

Priority Areas of Investment and Divestment

Teams began the exercise by identifying their top strategic priorities as well as the capabilities that need to be preserved or increased in order to execute their defense strategy. The four teams' choices are portrayed in Figure 2. Most teams made the following major choices:

- Nuclear Modernization:** Nearly all teams chose to preserve all elements of the nuclear triad (bombers, submarines, and land-based intercontinental ballistic missiles [ICBMs]). No team reduced the submarine leg of the triad.
- Attack Submarines:** All teams chose either to maintain or increase the size of the attack submarine fleet. Participants believed these platforms are critical for operating forward in the face of increasingly capable anti-access/area denial (A2/AD) networks.

- *Attributable Assets:* All teams emphasized unmanned assets, to include attributable systems. Participants believed unmanned sea and air platforms should be procured in sufficient numbers for a protracted conflict against a capable adversary, to include the capability to field platforms rapidly as attrition mounts.
- *Long-Range Fires:* Teams maximized the joint force's ability to deliver precise long-range fires from land, air, and sea. With the U.S. withdrawal from the Intermediate-Range Nuclear Forces Treaty, teams developed conventional ground-launched ballistic and cruise missiles. They also procured long-range anti-ship missiles.

To generate the resources necessary for the above priorities, teams made several difficult offsetting cuts, including to tactical fighter aircraft (TACAIR), aircraft carriers, ground force structure units, and personnel. All teams heavily reduced planned procurement of TACAIR. Although most teams wanted to focus cuts on legacy fourth-generation aircraft, they ultimately were forced to reduce fifth-generation aircraft to find needed cost savings. In both the near- and long-term, cuts to fifth-generation aircraft may inhibit the joint force's ability to defeat adversary A2/AD and gain air superiority in conflicts.

All teams also chose to reduce the aircraft carrier fleet by two, bringing the total down from eleven to nine ships. Although partly driven by



an effort to move towards a more distributed fleet, this was also a budget-driven decision to generate cost savings. A decision to reduce carriers would limit the Navy's forward presence and carrier strike



group rotations, requiring the Navy to rethink its model for projecting power.

All teams cut Army force structure, with average cuts of four Armored Brigade Combat Teams (BCTs), six Infantry BCTs, and five Stryker BCTs. This decision would reduce the Army's forward presence and diminish its ability to conduct large-scale, protracted operations.

Finally, teams made large reductions to civilian personnel and military end strength. Half of the personnel cuts displayed in Figure 2 were tied to divestments of platforms and force structure units, but teams also made standalone cuts to personnel. All teams cut the contractor and civilian workforce, resulting in reductions of approximately 10 percent and 30 percent, respectively. Although this decision was driven in part by the desire to rationalize the defense bureaucracy, these cuts primarily reflected the desire to find savings. If implemented in reality, the joint force would likely face large reductions in the support and expertise provided to warfighters.

Implications of a Severe Budget Cut

Risks to the Current and Future National Defense Strategy

One of the most important implications derived from this scenario is that a 10 percent budget cut would jeopardize the Defense Department's ability to maintain a force that can win one war while deterring another. For example, the decision to cut force structure might lead the

United States to emphasize one great-power competitor over another, but with a conflict's outcome still highly uncertain. All teams chose to accept the greatest risk in Europe while maintaining or expanding forward presence in the Pacific. The United States



would thus face the possibility of not merely having a one-war force, but a force designed for a particular geographic region. Indeed, severe cuts to force structure made all teams question America's ability to win a war, let alone deter another. Participants believed that although the post-cut force would be capable of conducting short-duration, high-intensity operations, it would likely be inadequate to wage a protracted conflict. Moreover, if the United States were to become involved in a protracted conflict in a given theater, opportunistic adversaries elsewhere could be tempted to take advantage of the United States' preoccupation.

Force Structure versus Modernization

The need to balance force size with modernization is a perennial concern. Although teams preferred to make near-term force struc-



ture reductions to preserve modernization, the magnitude of the budget cut forced teams to reduce funding for modernization programs even with sharp force structure divestments.



The inability to sufficiently pursue modernization may risk the joint force's ability to field a modern force against increasingly capable adversaries. Divestments to TACAIR, large surface combatants, and Army ground

units, without counterbalancing investments in modernization, could also cause allies and partners to doubt American capability or resolve against a great power competitor.

Conventional force structure reductions would also inhibit the joint force's ability to win future wars and would thereby increase U.S. reliance on nuclear deterrence. With fewer conventional rungs in the escalation ladder, the United States would have limited flexibility to manage crisis escalation. In a great power conflict, Washington could be pressed to consider nuclear use to preserve the geopolitical status quo. Conflict may become even more likely because adversaries could question whether such a U.S. posture is even credible.

Increased Strain on the Remaining Force

The above cuts to force structure, modernization, and personnel present several near- and long-term implications, including an increased reliance on the reserve component and a reduction in operational tempo (OPTEMPO). Despite an initial preference to cut active-duty units over reserve units, teams both cut the joint force's active-duty units by an average of 17 percent and reduced reserve personnel by an average of 25 percent. Coupled with reductions to the active-component, remaining reserve and guard forces would likely be



under great strain to meet mission demands. Cuts to the active component would force a greater reliance on the reserves in the near-term, without the guarantee that the joint force can gain back active-duty personnel in the medium-term. Increased reliance on reserve and guard forces could result in overall slower mobilization times, as reserve units would require considerable training to become combat-ready for a potential conflict.

These force structure reductions would also force a reexamination of current OPTEMPO levels. If the joint force reduces its force structure without reducing the frequency of military operations, the strain on forces and equipment will increase. The ability of the services to provide ready capability and personnel could be compromised if operational demands are not reduced commensurate with this smaller force.

Economic Impact on the Defense Industrial Base

A healthy and stable U.S. defense industrial base (DIB)—and, even more broadly, a vibrant national security innovation base—is essential to U.S. strategic success. To implement the budget cut, all teams chose to accept risk in the short-term and greatly reduce planned buys, hoping the joint force could recuperate in the medium-term by buying back

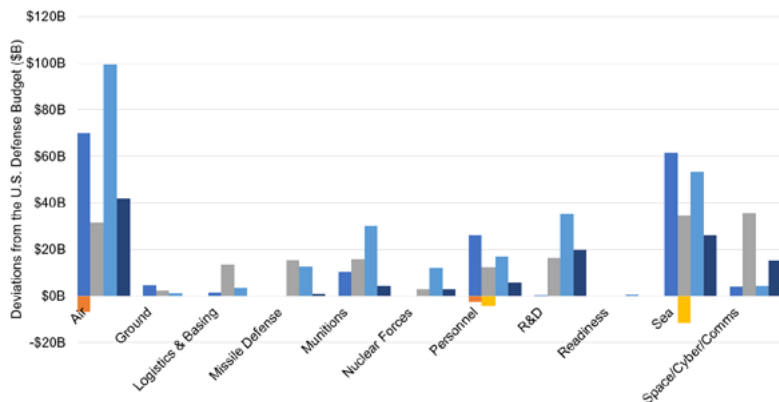
divested platforms. But sudden reductions and work stoppages would contract the industrial base and essential talent would be lost to other industries. Cuts of this scale would diminish the DIB's ability to reconstitute the joint force during a protracted conflict against near-peers. Finally, severe reductions to procurement would produce large and politically challenging job losses.

Exploring Strategic Choices Under a Sustained Moderate Budget Increase

In contrast with the budget cut scenario, teams also considered the impact of an annual 3 percent increase in defense spending over the FY2022-FY2031 time period. This increase reflects the level of resources that former Secretary of Defense Mattis, former Chairman of the Joint Chiefs of Staff Dunford, and the members of the congressionally-mandated National Defense Strategy Commission believe is required to fund fully the existing National Defense Strategy. In contrast with the severe budget cut scenario, teams were able to pursue modernization while maintaining force structure.² Priority areas of investment for all teams involved air and sea platforms (Figure 3). Several teams also emphasized additional investment in research and development, munitions, and space, cyber, and communications capabilities.

2 The lack of dramatic divestment and rebalancing likely reflects the limited time available during the one-day exercise. In the budget increase scenario, teams first focused on allocating the additional funds to their priority investment areas before considering cuts to the force. Alternatively, the absence of major cuts could indicate that at least some participants are satisfied with a large majority of existing plans and programs, and that many cuts under the 10 percent scenario were budget driven, rather than strategy driven.

FIGURE 3. TEAM REBALANCING BY CATEGORY, 3 PERCENT ANNUAL BUDGET INCREASE SCENARIO



The investment and divestment choices made by each of the four teams are shown above by category. Teams prioritized the air and sea categories and, to a lesser extent, the research and development, munitions, and space/cyber/comms categories.



Conclusion

A new presidential administration and a new Congress will likely begin re-assessing U.S. defense strategy, and the resources needed to fund it, early in 2021. The results of this exercise paint two starkly different pictures of U.S. defense spending and its strategic consequences over the next decade. In one scenario, the United States sharply reduced the military's size and curtailed its modernization, yielding a joint force that could, at best, win one war at a time. In the other, the military was able to maintain existing capabilities and make progress toward modernizing for the future. Policymakers must therefore carefully weigh downward pressure on defense spending. Sharp near-term spending cuts will likely curtail the joint force's ability to implement U.S. defense strategy, safeguard America's interests, and uphold the stable geopolitical balance of power the United States and its allies have enjoyed since 1945.

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