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THE DEFENSE BUDGET AND AMERICAN POWER

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## P R O C E E D I N G S

MR. INDYK: Good morning, everybody. Thanks very much for joining us. I'm Martin Indyk, the director of the Foreign Policy Program at the Brookings Institution,

As we are all by now aware, the burgeoning federal deficit and the way in which that it is adding to our national debt, which I think today represents something like 70 percent of GDP and, likely, in the next 10 years to equal 100 percent of GDP, presents a particular challenge when it comes to national security.

Indeed, the Chairman of the Joint Chiefs of Staff, General Mullen, declared, actually in this room, about six months ago that the greatest threat to our national security is not al Qaeda, or Iran, or the rise of China; it was, he said, the national debt. And so it is in that context that Michael O'Hanlon decided to return to his roots as a budget analyst, in particular of the defense budget, to look at the particular question of how to cut the defense budget as a way of helping to contribute to an austerity program that would lead to significant reductions in our deficit and, therefore, eventually in our debt.

"Defense Budgets and American Power" is the latest in the foreign policy paper series, and it's this analysis that we're here to discuss today. Mike O'Hanlon is the director of research in the Foreign Policy Program at Brookings. He is also senior fellow in the 21st Century Defense Initiative, the author of far too many books to mention. I'll just highlight his most recent: *Toughing it Out in Afghanistan*, which he wrote with Hassina Sherjan, published earlier this year, and *The Skeptics' Case for Global Zero*, also published this year.

Amongst others last year, he wrote a fairly inscrutable book called

*Budgeting for Hard Power*, which for all of those budgeteers in the audience I'm sure you'll find fascinating reading. But let's start with the policy paper that he's written today. Mike will be followed through his presentation by comments and discussion from two very distinguished panelists.

First of all, we're very grateful to Alice Rivlin for gracing us with her presence on the podium today. Alice is one of our most distinguished scholars at Brookings. It's not often that we have an opportunity to invite her to a foreign policy podium. She was the founding director of the Congressional Budget Office, has served as director of the Economic Studies Program at Brookings, and is now a senior fellow in that program, and a visiting professor at the Public Policy Institute at Georgetown University.

There, I think, hasn't been a commission to deal with issues of budgets and deficits that doesn't include Alice Rivlin, and that is, of course, the case for the latest in these efforts, the Commission chaired by Bowles and Simpson, Senator Simpson and Erskine Bowles, that recently came out with some important recommendations on how to cut the deficit which included recommendations on cutting the defense budget.

Alice is the author of many books, amongst them a series that she co-edits with Belle Sawhill called *Restoring Fiscal Sanity*, which is something we're going to try to do today.

And, finally, Bob Kagan. Bob is also senior fellow in the Foreign Policy Program in the Center on the U.S. and Europe here at Brookings. He is one of the preeminent experts and commentators on U.S. foreign policy, a historian by training and proud of it. He's the author of probably the most important recent book on U.S. foreign policy called *Dangerous Nation*, the first of a two-volume series on the history of

American foreign policy. But he's also famous for a number of other best-selling books, in particular *Of Paradise and Power* and *The Return of History and the End of Dreams*, both of which have been best sellers.

So to start us off today, Mike, why don't you give us a reprise of your argument in "Defense Budgets and American Power."

MR. O'HANLON: Well, thank you, Martin, and it's especially a treat for me as well to have Alice and Bob part of the panel. And thank you all for being here so close to Christmas. Thank you, C-SPAN, for being here, and some people might confuse this with how the Grinch stole Christmas or how the Grinch stole part of the defense budget systematically. But just as that story has a happy ending -- not to give any surprises away for those watching the Grinch for the first time this holiday season -- we hope, or I hope, that the ultimate goal here will be to shore up American national security for the long haul by contributing to deficit reduction and therefore a healthy economy.

And so that's the basic spirit with which I undertook this exercise was to investigate the possibility of what you might consider a proportionate caught in the defense budget, sort of defense doing its "fair share" to reduce the deficit, inspired in part by the commissions that Alice was working on and by scholars and colleagues in the field like Gordon Adams and Barry Posin, who had been arguing for some form of strategic restraint or defense budget restraint, and many others as well. But the basic idea here -- and I just want to explain the philosophy very briefly first -- was not to strongly advocate a 10 percent reduction in the peacetime defense budget, which is essentially the number I picked, but rather to say what if we tried to investigate whether the Pentagon could make that kind of a cut, and how would it look? How might you do it, and what's the case for considering it? And then try to leave it to the broader policy community and the reader to

decide for himself or herself if the kinds of reductions that might be necessary to achieve that seemed worth the risk to you.

So that was the spirit with which I undertook the paper without being convinced myself that a 10 percent cut in the real defense budget would be desirable. In fact, I think it's risky. I think there are some calculated gambles that are associated with the basic concept here, but the question is, as Admiral Mullen pointed out and Martin mentioned this earlier, there are huge risks associated with running a trillion-dollar-a-year deficit, not only for our economy but for our future national security and, therefore, can we afford to keep running those? And if we're really going to take a serious crack at reducing the deficit, is it realistic to think you can start asking or demanding that one big part of the budget or another be somehow protected and kept out of the exercise?

So the minute that someone says, well, defense is the top constitutional obligation of the federal government and therefore it should be protected regardless, and we should make our deficit reduction out of other accounts. If we start a conversation in those terms, then a big constituency is going to come up and say let's protect Social Security, or let's protect college loans for students because that's our future after all. Or let's protect science research or infrastructural development, and you get the idea pretty soon you've lost the spirit of shared sacrifice that I think is essential if we're going to have any hope of reducing the deficit in the coming years.

So that's the basic motivation. We're not probably going to reduce the deficit effectively, and therefore strengthen our long-term economy and the foundation for our long-term military power, if we don't establish a spirit of shared sacrifice.

Okay, so 10 percent reduction in the real defense budget becomes my number. I'm not going to go through detailed arithmetic here, orally, to explain how I got

to that number because I think I would probably confuse you and confuse myself in the process of trying to keep baselines straight and talk real dollars and nominal dollars.

The basic idea, though, here, is we're not talking about the wars. The wars are going to be debated and decided on their own terms; we're talking about the part of the defense establishment and defense budget that you could call the peacetime budget, or the base budget, sort of the regular normal budget that we would expect to essentially continue onward even as the war costs hopefully draw down in the next two to three, four years. And the question is, out of that base budget is a 10 percent reduction possible? And again, 10 percent in the real or inflation-adjusted amount, that's the basic notion. That seems roughly consistent with what you might expect the Pentagon to contribute as again its proportionate share of the federal budget if we're going to look at the overall federal spending and tax accounts and try to establish a way to get close to fiscal balance over the next half decade or so with roughly proportionate cuts in each area.

Okay, now let me start talking a little bit more specifically about defense itself and explain what I think needs to be grappled with, what kinds of reductions might be necessary if you were to aspire to this 10 percent reduction in the inflation-adjusted base defense budget. And I want to stay pretty conceptual, because again part of my goal in this paper was to try to be a bridge between the defense community and the inscrutable budget papers that, as Martin pointed out so kindly earlier, I've sometimes been a part of writing myself, but also the broader strategic community and the broader American policy debate so that everyone can begin to link what it would mean to cut the defense budget by 10 percent to what it might mean for our place in the world, and whether the risks are worth it.

And the overall concept here, 10 percent is a big cut; it's not an astronomical cut. So, you know, it's certainly not trivial. It's certainly going to hurt, but it is also not the sort of thing that's going to require us to instantly stop our engagement anywhere, whether it's Iraq, Afghanistan, Northeast Asia, Europe, or some other key part of the world where we have major interests. So the goal here is to essentially preserve most of our key strategic underpinnings but see if there are more economical ways to pursue, and with somewhat greater risk to pursue and protect our interests and those of our key allies.

There are two main ideas that I raise in the paper as sort of strategically meaningful concepts, I hope, for ways to understand the implications of this sort of cut. And there are a few nitty-gritty specifics as well in the spirit of some of what Secretary Gates has been trying to do with his management reforms and some of his more sort of business reforms with the Department of Defense. And I've got a few more ideas along those lines as well, but I want to emphasize the two big concepts that would account for most of the savings that I'm trying to illustrate and discuss.

And one of them is the size of our standing ground forces, the size of our Army and Marine Corps, and the other is the basic strategy by which we modernize weaponry. So let me just say a couple of words about what I think would be a somewhat more economical approach to each of those two big areas of American defense policy and then pass back the baton to Martin and Alice and Bob and you for further discussion.

First, on the issue of ground forces, let me please remind you first that we have increased the size of the ground forces, the Army and the Marine Corps by about 15 percent over the course of this past decade, and that's after having reduced the combined Army and Marine Corps by about 30 to 35 percent once the Cold War ended.

So we reduced by about a third in the '90s, and then we built back up almost half as much again in the last 10 years. So we're still much smaller today than we were during the Cold War during the 1980s, for example, but the combined strength of the active-duty Army and the active-duty Marine Corps is nearly 100,000 uniform personnel greater than it had been, let's say, in the 1990s.

Now, I supported this increase for the engagements that we've been involved in. There was no way to do the operation in Iraq over a sustained basis, no way to do the operation in Afghanistan over a sustained basis without increasing these numbers, and we already asked a great deal -- probably too much -- of our men and woman in uniform during the period when we were still building up. And we probably resisted too long, and I am not supportive of Secretary Rumsfeld's resistance to increasing the Army and Marine Corps, which, you know, he continued for most of his tenure in office. But we gradually built up, even on an interim basis during the Rumsfeld era, built up further in the Gates period and, as I say, we're not about 15 percent larger.

I'm suggesting, even though I do it reluctantly, that we may have to reverse that 15 percent increase once the war in Afghanistan begins to wind down so we go back to Clinton era levels on the Army and Marine Corps. That is one big strategic concept. It's a simple idea, didn't take any great creativity to come up with it, and we've been there before.

And so you can think through yourselves the implications of this. Obviously, if we were going to have another decade like the one we're now finishing, we probably wouldn't want to go to a smaller Army and Marine Corps. Obviously, if the mission in Afghanistan was going to take a lot longer at 100,000 troops, we would have to delay any consideration of this option. And, by the way, I'm not suggesting we should



do this next year in any event. I'm suggesting that these kinds of cuts probably most appropriately begin in the next president's term as the economy, hopefully, has begun to improve and as the war in Afghanistan has substantially wound down I hope by then. It would be a mistake to do these things prematurely.

But that's one big idea. We can talk about specific scenarios, if you like, in the discussion, which ones would be too demanding for that smaller Army and Marine Corps, but perhaps almost doable today. Well, let me just remind you that, very quickly in passing -- and I'll move on to the modernization question and wrap up -- that in terms of scenarios we could still handle, for example, our role in the early months of another Korea contingency if, heaven forbid, that happened. Because the longer-term operations in any future Korea contingency -- and here I'm speaking very hypothetically, and I'm certainly not predicting we're going to have another Korean war -- but as a defense planner you've got to think about these kinds of scenarios, the possibility of another Korean conflict would presumably lead, ultimately, to the occupation of North Korea.

But the good news here is that we have an ally, South Korea, that would presumably handle the lion's share of that longer-term mission, and our role would be primarily in the opening 6 to 12 months. Now, again, that may prove a debatable assumption, and we may want to discuss that. But I think we would still have ample forces to handle that sort of scenario even with a smaller Army and Marine Corps. That's just an example. I'm happy to talk about more scenarios with you later, if you like, and Alice and Bob and Martin may raise them themselves.

Let me now move quickly to modernization and then -- and try to be brief -- and then wrap up. How do we try to modernize weaponry with a more economical approach towards, you know, the basic idea of buying new weapons and researching

new weapons?

Well, today we're spending in the normal peacetime budget about \$100 billion a year on defense procurement, about another \$80 billion a year on research development test and evaluation, essentially creating the concepts and the prototypes for these weapons. And then spend several tens of billions more in what used to be called the supplemental budgets which have now been folded into the regular budget, the war costs. So we're spending a little more than \$200 billion a year on acquisition, broadly defined. And I think there's a possibility of being able to reduce that first by reduced war expenditures and then perhaps by another 10 percent or so. I think it would be hard to do a lot more than 10 percent, but if you take the following three ideas as guideposts, I think you might be able to accomplish this. And I'll just mention them now, briefly, we can have a fuller discussion later.

One is systems where there is redundancy in the way we are modernizing, because we're building several different things accomplishing essentially the same goal. And a good example here would be tactical aircraft modernization where we're building a Super Hornet for the Navy, planning to build three different kinds of F-35 for the Air Force, Navy, and Marine Corps, completing the purchase of the F-22 program using a lot more drone aircraft than we ever had before, and modernizing munitions that are capable of far more precise attack than had ever been possible in human history. So that full range of modernization efforts is perhaps arguably excessive.

And it doesn't mean that any one of them is gold-plated or wasteful, per se. I'm not trying to critique defense industry or the services, but I'm saying when you do calculated gambles about what's the healthiest way to build a long-term economy that's strong and therefore a national defense posture that's sustainable, you may decide to

take some risk and have a little bit less tactical air modernization as one example.

A second guidepost would be programs that go way over cost or otherwise underperform. And this is common sense and I'm not saying anything radical here. And the Army to its credit has adopted some of this philosophy in recent years with some help from the Office of the Secretary of Defense and cancelled its so-called future combat system, a troubled next generation vehicle system that was probably not doing very well in performance terms or financial terms and was the sort of thing we need to be willing to relook at, re-scrutinize, and potentially cancel. And that's a very important area as well.

And a third and more difficult area is military missions that, while perhaps still within the realm of the feasible, seem less likely than they had been before. And here a classic example might be Marine Corps amphibious assault. And I say this in the full knowledge that there may be Marines in this room who are going to do some assaulting of me in a minute if I'm not careful, because I don't pretend to suggest that forced-entry operations are altogether a thing of the past.

But we do have certain capabilities for carrying these out already, and two of the big Marine Corps modernization efforts, the so-called expeditionary fighting vehicle and the *Osprey* tilt-rotor aircraft, are both to my mind dubious ways to further our capabilities in this area. And if it's a mission that may seem to be sort of beyond the hey day of its likely application, this may be also an area of modernization that we're willing to run some more risks, not because the existing programs are wasteful but because again we've got to introduce a spirit of trading off perhaps short-term calculated gambles about how we can make do with a little bit less to shore up our longer-term economic foundations of national power for the future decades to come.

And with that, Martin, I'll turn it back to you.

MR. INDYK: Great. Thank you, Mike. Terrific.

Alice, put this in a quota budget context for us. How important is it to actually reduce defense expenditures?

MS. RIVLIN: I think my role is to say as well as I can, why are we having this conversation at all? And I think it's very, very important that we have it. Michael has written a very thoughtful and interesting paper which I think will help as people think about what might you do in defense, but why should you do anything at all is the first question.

Frankly, I think Admiral Mullen is absolutely right, and he's not the only military person saying this, the gravest national security threat we face is an economic catastrophe. And I don't say "catastrophe" lightly. I believe that we are now facing the possibility, the real possibility of an economic catastrophe, a real meltdown in the U.S. economy.

Now, the discussions of defense budget and how much is enough in national security have always started with a throw-away paragraph that said the most important thing for national security is to have a strong, resilient, growing economy. But then we moved on because we thought we had that, that we could take it for granted, we didn't need to worry about it, so the next question was how much should we spend for defense? But I would submit that that is no longer true.

Now, we worried, as Michael points out in his paper, somewhat in the '80s about the future of the American economy but we thought we fixed it. We got the budget deficit into surplus -- I'm very proud of that because I served in the Clinton Administration as budget director -- and we got the economy growing again. But what we

didn't fix was our national saving rate. We didn't fix the fact that we as an economy were living way beyond our means, and now we're facing a very new and different situation, and I think it's important to understand that.

The thing that is bothersome as worrisome is not the current level of the deficit although that's high, but it's related to the recession and the financial meltdown which we never should have had -- that was dumb policy, but we're here -- and we have to get out of it. But what is really scary is what happens to the projections of the federal deficit and rising debt. As you look beyond the recession, as the economy recovers, we are facing a budget deficit that does not go down, it keeps going up, and a debt that rises off the charts. And that's driven by the demographics, the aging population, and, more importantly, by our taste for expensive medical care which we have. We have to recognize that we have it and we need it, and the combination in the federal budget drives spending up faster than revenues can possibly go, and we're borrowing that from - - at least half of it -- from the rest of the world.

People say, yeah, the Japanese, they have a higher debt-to-GDP ratio than we do, but they owe it to themselves. We don't. We owe it in large part to the rest of the world. If you think about competition going forward, the long-run competition in the world with the Chinese, I would submit that the first thing we need is a strong growing a resilient American economy; the second thing we need is not to be dependent on them, or not very, for selling our debt; and way down the list is a strong military.

So that's just trying to explain what Admiral Mullen put rather more succinctly. We do have to worry that this rising debt is unsustainable. We can't borrow that much, and we will get to a point -- nobody knows exactly when, but it could come quite quickly; the Europeans have been surprised at how quickly it comes -- when we

simply can't market our debt except at astronomical interest rates. We have a spike in interest rates, a crash in the dollar, and we're into a deep and prolonged recession that will affect us for a generation.

Now, what does the defense budget have to do with this? That's the next serious question. These projections are not caused by rising defense spending. By assumption, everybody is making these projections say the wars wind down and the defense budget goes up at some rate, maybe at the rate of GDP growth or maybe inflation, but it's not what's driving the future spending. So why are we talking about defense?

Well, I think we're talking about defense because we have to do everything we possibly can, and we can't do it all on the health entitlement side because we are aging, and we do like to have medical care even if we do it more efficiently. So we have to look at spending the rest of our budget more effectively on the domestic side and the defense side and raising more revenue.

Now, that sounds like shared sacrifice, but I don't think shared sacrifice is really the way to think about it. I think it is -- we're in a bad situation with respect to our public debt. How do we use our resources more effectively and efficiency? And let's come back to the defense budget and talk about that.

Now, you serve on these commissions, as I've been doing, and you hear an awful lot about waste in defense, and there certainly is quite a bit, and that's a question of nomenclature. Mike is much more polite when he talks about things like the *Osprey*. He doesn't say it's wasteful. In fact, he made a point of not saying it was wasteful. He just said we don't need it anymore and it doesn't work very well. But you can have lots of conversations like that. But in the end you have to come back to where

Mike came: Do we need such a large force? And that also relates to the question of shared sacrifice, because much of the public does not believe that we need to go in and take over other people's countries because we don't do it very well, and it's awfully hard to get out.

And so if you're going to look at how do we use our resources better on the domestic side, you're going to have to convince a lot of people that you're also looking at do we need to spend so much on the defense side.

MR. INDYK: Great. Thank you, Alice.

Bob, let's put it in historical context. Now, Larry Summers, I think, is the one who said recently, asked the question: How long can the greatest power in the world remain the greatest power in the world while being the greatest borrower in the world? And there is an inherent tension here; it seems to me, between the need to solve the problem that Mike and Alice have so startlingly portrayed, but, on the other hand, the need to stay strong to protect our interests abroad. How do you reconcile those two competing demands.

MR. KAGAN: Well, first of all, let me just say I really appreciate the spirit with which Mike has approached this problem because it is a difficult problem, and I also appreciate the spirit with Alice Rivlin talks about this because it's easy to just say, well, let's just cut the defense budget. And I don't think either one of you are saying that that's an easy decision.

I worry sometimes that we're like -- it's like we have a gas-guzzling car with a huge gas-guzzling engine, and we're looking for ways to reduce the guzzling of gas. And one of the things we're going to do is remove the front bumper and the airbags as a means of improving fuel efficiency. Now, you could say that might be a shared

sacrifice along with reducing the power of the engine, but you might ask whether that was the right way to go about it.

And when we talk about -- I mean, there's a little bit of a danger of talking about our budget deficit as a national security problem if it means that the way we have to deal with it is to reduce our national security.

MR. INDYK: Right.

MR. KAGAN: And that's the problem that I guess I'm here to try to analyze. And, by the way, I take very seriously the budget deficit, but, as Alice says, the budget deficit is not primarily a defense budget problem; it's many other things. And so the question is what is the risk that we're going to take? And in order to assess that risk, I think you do need to put it in some historical context and ask:

A, what is the character of our nation in terms of our behavior in the world?

B, what is the character of the international situation, and where are we going? And then,

C, we need to make a kind of cost evaluation as to whether the savings that you might get in national security budget might actually lead to a more expensive situation because of the contingencies that you're not able to deal with. So let me just try to go briefly through each of those.

You know, I do know that the American people say that they don't -- the majority say they don't want to get in the business of invading other countries and using their force abroad in various contingencies. But I have to say that we as a people have a short-term memory disorder because even though the American people don't -- say they don't want to be doing that, it's quite astonishing how frequency they do it. And I think



that, you know, when we talk about of course nobody wants to be spending sending troops off around the world willy-nilly, but if you look a little bit at even recent history, it's quite remarkable how often we do in fact do that.

So just to make a quick look through recent history: we intervene in Granada in 1983; Panama in 1989; Iraq, 1991; Somalia, 1992; Haiti, 1994; Bosnia, 1995; Kosovo, 1999; Afghanistan, 2001; and Iraq, 2003. And so we've now gone almost a record number of years without an additional intervention. Now, granted, it probably has something to do with all the troops that we have, but, you know, after -- and I recall very well, as I'm sure many of you in the audience do, after each one of those interventions there was a great cry we're not going to do that again. We're certainly never going to do that again, this is abnormal.

You know, only a people with a wonderful kind of memory can think that intervening every 2 years over 20 years is now all of a sudden an abnormal activity, and we're going to go back to not doing that anymore.

Now, that may be true. But I would say if you were kind of looking from a distance at the United States, you'd look at that record and say I'm not so sure they're never going to intervene again. So I would be careful about assuming that that's what the American people want, and I would especially say that, given that there are some obvious possible contingencies that are looming ahead of us which are by no means farfetched and which Mike has mentioned one of them, none of which we want to do, by the way, but any of which we may wind up doing nevertheless.

North Korea is certainly one. Iran is another, even if the president, as I assume he doesn't and I particularly don't want to either, gets into a military confrontation with Iran. Iran may suck us into a military confrontation. The consequence of sanctions

may be that Iran may lash out at some point and do something which drags us into -- or Israel may do something which drags us into it whether we want to be in it or not. So you can't dismiss the possibility.

And this is what our military planners have spent years worrying about of two of those things happening at the same time, because it's not a question of whether we could do one, or we could do the other. The problem has always been, as Mike knows, would you do one if you knew that the other might happen and you'd be naked or be completely incapable of dealing with it?

That's why we've had a two major contingency, or tried to have, that kind of force. But in any case, are those possibilities -- might we have to do something in Somalia? Might we have to do something in Yemen? And might we have to do something in a place that I haven't even thought of yet, because that would also be true to our history? So I just think we need to be cautious before saying we're going to take a vacation from that stuff, because neither our history nor the international condition suggests that that's a very good bet right now.

And that addresses the question of the size of the force, the size of the ground forces. Because we fought two wars badly, because we, A, didn't have, and, B, in the case of the secretary of defense in the Bush years didn't want to put enough forces into Iraq or Afghanistan that might have actually brought those conflicts to a quicker resolution and been less expensive in the long run. So this is another one of those cases where you say you might want a larger force, but that will be cheaper than a war that drags on, inconclusively, for five years. You might want to pursue the Powell Doctrine and send in enough forces to really cauterize the situation so that you're not fighting a guerilla war for the next five years. That might be cheaper. So that's one of those

situations that we need to think about.

On the prospects of a coalition helping us so that we don't need as large a force, I know Mike isn't actually optimistic about that because, if anything, our traditional coalition partners are decreasing their own military capacity. Europe is becoming a shadow of what it once was, and what it once was, was a shadow. So, you know, the notion that we're going to have significant support, now maybe eventually we can hope that India will, you know, pick up some of the slack in East Asia. There are -- Japan has a large force, although their willingness to use it is often a question. But the notion that we can just say don't worry, there'll be coalitions to make up for our shortfall, seems to me to be optimistic at least.

Okay. The second unfortunate characteristic of our international system today is we are back to great power competition, and the most significant great power competition from our point of view, from a strategic point of view right now, is China. It's a cliché to say that China is a rising power, but it is a rising power. It's a rising military power. It is not going the way of some kind of new peaceful development. It is developing the way all great powers have always developed throughout history, and it is challenging not only our position in East Asia, but the independent capacities of allies of ours.

I would say that avoiding a conflict with China -- and, by the way, if you look through history, the odds of a conflict are higher than the odds of not having a conflict in this situation. A number of times that rising powers have entered an international existing system without a war are few and far between. So, and the way to avoid this war, I believe, is going to require -- and we're not going to be able to get away from it in any case -- some kind of arms race with China.

China is going to keep building and improving its capabilities as they have been, and they are going to accelerate that in my view. We'll be very lucky if they don't, but I don't think we can count on that luck, and we're going to have to keep up. And if you look at the Obama Administration's own approach to East Asia, it is all about reassuring allies that we are there. Well, you can't reassure allies that you are there if your own capacities are dwindling. And I know Mike isn't calling for a reduction in our forces in East Asia, but I think that one thing that I think is missing from this paper is the realization that those expenditures are going to have to increase because we are in an arms race out there. So that is something that I think is also going to make it very difficult for us.

And the, finally, at the broadest level, the question we have to ask ourselves is, what does the liberal world order that we support cost? How much is it worth to us? I would argue that the great, almost miraculous prosperity of the 40 years after the end of World War II and on was very much a product of a liberal world order that American power was preeminent in supporting. If we are talking about a reduction of America's capacity to support that liberal world order -- and, by the way, that may be inevitable no matter what we do -- it will certainly be hastened by our weakening, by our ceding power to countries like China and -- not particularly China, but maybe also Russia, that there will be a cost and possibly even a direct financial cost to our inability, for instance, to make sure that the sea lines of communication are always open and won't be closed by conflict. That's one of the great public goods that we provide but which we also benefit from. So that, it seems to me, also has to be brought into the calculation.

So, you know, it's extremely unfortunate that we happen to have an economic crisis at a time when the international scene is getting more crisis prone.

That's a bad break. It's the kind of bad break we had in the 1930s when we had at the same time and even related, by the way, a Great Depression and an increasingly perilous international situation. Things are not as dire now as they were in the 1930s either on the economic side or on the geopolitical side, but, yes, you can have a double-bad biorhythm decade, and that's where we are. And it's unfortunate, but I don't think that we can pretend that that's not the situation that we're in, and the biggest mistake that we can make is to weaken ourselves in the process.

So, you know, as I see it, saving 55- or \$60 billion a year so that the defense budget can make its fair share of the sacrifice is too risky and not necessary. We do have to solve our budget crisis, but we will be fooling ourselves and taking grave risks if we try to solve it by cutting the defense budget.

MR. INDYK: Okay, good. At least we have a debate. Thank you, Bob.

Mike, why don't you respond to both Bob and Alice? Alice's point, I think, was that there are savings to be made but they need to be done in terms of achieving more efficiencies. And, well, Bob's, I don't need to repeat Bob's point, but I think there's another context here in which we are already spending way beyond all other expense expenditures of other countries combined. We account for 45 percent of world military expenditures. So is Bob right that this is too risky? And address the question of where you would find the efficiencies that Alice is talking about.

MS. RIVLIN: Yeah. I'm not saying only efficiencies; in fact, I said the opposite of that. I said I think efficiencies are very important, but if you're going to cut the defense budget as much as the commissions and Mike are proposing, you do need to think about the force structure, and we should.

MR. INDYK: Good.

MR. O'HANLON: Yeah, let me start with Bob and see what I can say in response, because, frankly, I, you know, agreed with probably everything except his last three sentences. And so I think that's part of why, as I say in the paper, I would only support the cuts here. I would only consider supporting the cuts I lay out if it's part of a serious national effort at deficit reduction across the board, because my goal really is, even though Bob and I see the risks somewhat differently, my goal really is to shore up long-term national power. And if there's no chance of accomplishing that, then I would agree with Bob's point that the \$50 billion you might be able to cut from the defense budget is not worth the risk.

And again, I want to emphatically state that while I do think there's waste in the defense budget, you have to cut muscle, not fat, in order to get this level of reduction, and you have to take real risks. And I would emphatically make that argument. So I only support serious consideration of this kind of a plan in the context of other major changes to our federal budget such as income tax reform that brings in greater net revenue, whether it's higher rates or preferably, you know, smaller and fewer loopholes, such as reform to Social Security that for most workers at least increases the age and lowers the adjustment rate of cost of living.

And, by the way, I'll just say on that front --and this is getting a little beyond my immediate turf, but this is all interconnected -- I was struck a few weeks ago giving a talk at the University of Nevada, Las Vegas, and I asked the 50 students in the room how many of them expected to get Social Security when they retired, and about 3 of them raised their hands. So the notion that we should somehow consider Social Security the sacred cow itself, that doesn't hold water either in my book. People already at the younger generation level recognize the dilemma here; they recognize the need for

reform. They're prepared to make it on things that affect their long-term financial well-being directly. But that kind of spirit of shared sacrifice really only is going to be established if we ask every major part of the budget to contribute.

And that's where I -- I understand Bob's point, but I fundamentally, at the end of the day, disagree. I don't think that you can make major progress on deficit reduction unless everybody has to do something.

While I always look to Alice for guidance on fiscal matters, I do think we need to adopt a little bit of a spirit of sacrifice. I think there are some things here that are hard. And in the national security area they're risky. In the Social Security area, they're a little less generous for retirees; in student loans, they may be slightly less generous and so on down the road.

Just one more specific word about defense because Bob's right to raise scenarios and to talk about what we need to be able to do whether we want to do it or not. And let me just talk briefly about Iran, because I take this country and this problem very seriously just like Bob does, just like Martin does, just like I'm sure Alice and most of you do as well. And what I would say is the following: I tried to test various Iran scenarios against this 15 percent smaller ground force, and most of the -- in fact, all the scenarios I can think of that 15 percent reduction is not crucial for affecting our basic capability. Let me just briefly tick them off.

If we do air strikes against Iran's nuclear facility -- which I do not support, but I recognize are not totally out of the question either -- certainly the size of our ground forces is not going to be directly relevant to that.

If we do a naval blockade of Iran to impede it from doing petro trade, from either shipping out oil or importing gasoline, then the size of our Navy is much more

important. And I'm generally in support of protecting at least most of the naval force structure, not every single element of it, but 90+ percent. So that's not where I'm looking to make major cuts, partly because I do take this scenario seriously.

If we are looking to deal with the possibility, however unlikely, of an Iranian escalation up to and including an attack on an American city by Iranian-trained terrorists, that requires us in response to at least raise the specter of an invasion to overthrow the Iranian regime. And I'm talking pretty unlikely scenarios, but ones that I would agree with sort of the hawks on this need to be kept in mind.

We do have the capability, even with a 15 percent smaller force, to overthrow the Iranian regime. We don't have the capability to occupy their country, but we don't have that even with today's Army and Marine Corps. And we would have to have a Marine Corps and Army that would be probably twice their current size to really do an occupation of Iran with its 75 million population correctly over a period of years.

So when I test my somewhat smaller force structure against these scenarios, I would argue that either we're still going to have enough or there's no meaningful difference from what we have today. And I would accept, implicitly, one of the things that I believe Bob is arguing, even, obviously, we have some differences of view here, but I would accept that you do have to do these kinds of tests. You do have to think hard, and I'm happy to do this in regard to China and Taiwan if people want to have that conversation in the next 45 minutes as well.

But I think you need to go through and ask, do we have a strong plausible deterrent for the scenarios that really matter, recognizing that you got to stretch your imagination because there may be a scenario that you hadn't thought of that winds up being important? And that's one more of the challenges here, but that's innate to



defense planning at whatever budget level you're discussing.

MR. INDYK: The Bowles-Simpson recommendations -- Alice was involved in these -- suggested that there was \$100 billion, twice as much as what you're talking about in possible defense cuts. And the big ticket items that they identified -- and maybe you all might want to respond to this -- the biggest of all was to reduce procurement by 15 percent. That would produce a \$20 billion annual saving. I don't know whether you've looked at that, at what that would in fact mean as opposed to the kinds of more surgical strikes at procurement that you're talking about.

Reduce overseas bases by one-third is \$8.5 billion. You have an interesting argument about this in your paper, and maybe you can address that.

And, Bob, you might also address the question of whether we really need all those force deployments in Europe. I can see the argument for Korea and Japan very strongly, given exactly what you've said. But do we need -- can we save significant money by drawing down in Europe without driving up the risk too high?

And then there was a \$9.2 billion in freezing noncombat military pay at 2011 levels for 3 years. Noncombat military pay. That would get \$9.2 billion in savings. So let's look at those three specific issue: reducing overseas bases, cutting procurement in a more draconian way, and freezing noncombat military pay.

Alice, do you want to just elaborate on those ones, if you will?

MS. RIVLIN: Those were illustrations. Both the Bowles-Simpson group and the other group that I co-chaired with Senator Domenici recommended freezes in defense spending at a hard dollar level and then put together lists of things that illustrated how you might get there. And those are some of them.

With -- and in both cases, the illustrations, though, in Senator Domenici,

they were more heavy on force structure. They included a lot of the same things, and in some of the nonmilitary things like retirement and noncombat pay, and particularly the health system and TRICARE. But the acquisition, I think -- I don't know where 15 percent came from -- but in the Bowles-Simpson Commission there was a lot of focus on waste in the procurement process; political interference, which the Hill knows a lot, and weapons systems that the military has said time and time again they don't want, and Congress puts back because they're made in everybody's congressional district. And so that's how the acquisitions number came in then.

MR. INDYK: Okay, we'll come back to the politics of this, I think, in the third round because that becomes very important. Do you want to just respond on those three issues?

MR. O'HANLON: Yeah, I'll mention a couple, and I'd be curious for Bob's reactions, too. One is first of all, there is one methodological difference here. I don't believe you can save \$8.5 billion a year by cutting overseas bases by a third. If you're talking about our established bases and our major allied countries, I think that's just incorrect analysis on the part of whoever was involved in that illustrative proposal.

The only place where you can save that kind of money through overseas base cuts is in the war zones, because in the war zones we don't have allies who are paying the lion's share of our local costs. But in Germany and Japan and Britain we do, or we are so established that the facilities themselves are no longer that much more expensive than what we have back home.

So the way you get that kind of savings is if you cut the actual forces out of the force structure, so if the Army brigades that are in Germany are not just brought home but brought home and demobilized, then you can start to save that kind of money.

But the presence that we have in Germany, Britain, Japan, Korea, you do not have those kinds of multibillion-dollar annual cost associated with them above and beyond what it cost to have those same units in the force structure based here in the United States.

On the other points, 10 percent versus 15 percent reduction in procurement, which is essentially the difference here between myself and the illustrative example from Bowles-Simpson, I think that's within the realm of debate, but I think it's worth remembering that 10 percent's going to be pretty hard. I won't want to -- I don't disagree at all with Alice, but I would point out that once in awhile when Congress adds something, they're right. Once in a while Congress actually has thought of good weapons systems that the military may have made a mistake about.

Because, let's remember, the military ultimately is the secretary of defense, and that person is human and fallible, and we don't haul off to just pick on Mr. Rumsfeld. There have been other secretaries of defense who didn't want to buy things that maybe -- for example, Les Aspin, when he was chairman of the House Arms Services Committee said we should and, lo and behold, the medium-weight truck that he wanted built, partly because it came from Wisconsin, performed very well in Operation Desert Storm and provided a capability that we needed.

So I would just bear that in mind, too. I think most discussions of outright waste and gold-plating in the defense budget are somewhat overstated. So I don't want to say 15 percent reduction in procurement is impossible, but I think that 10 percent is already pretty hard.

And, finally, very briefly on military pay, my paper does consider asking military personnel to pay a little more of what you might call normal share of health insurance costs, because the TRICARE program is extremely generous, and for good

reason. We certainly want to take care of our men and women in uniform and their families, especially when they are deployed in combat.

Now this proposal does make an exception for combat pay and, obviously, makes no reductions in health care costs for those who are hurt. But nonetheless I think if we're already going to ask military personnel to pay a higher share of their health insurance costs, I would prefer to continue to give them at least rate-of-inflation increase in their pay and maybe a little better than that.

MR. INDYK: Bob, do you want to talk about base closing abroad?

MR. KAGAN: Well, fortunately, Mike has made the key point which is having troops overseas or having them at home is not a big savings one way or the other.

I thought the fact -- and, you know, I wasn't privy to how all these things came about, these things. But I thought the fact that the Commission said two things: One was that the United States has to rethink its role in the world, and I thought that the discussion of cutting bases by a third was in a way more about that than it was about savings because I think, obviously, you're right about the savings. And so I do feel like at some point in this debate we're getting a little tangled between what needs to be cut to save money and whether we need to rethink our role in the world.

MS. RIVLIN: Yes.

MR. KAGAN: And I think that it might be -- you know, not here, obviously, but maybe that's the debate we should be having, because I start with a set of assumptions about the role that we have in the world. There is another way of looking at the United States. It could be -- and when you talk about reducing bases overseas by a third, you're talking about a substantial retraction of America's role in the world. And so, you know, I think if we all agree on what the role should be, we'll find that there aren't

enough savings in the defense budget for us to spend a lot of time worrying about it.

And my argument to Mike is not that we can't find a weapons program here or there that are stupid because that's the history of weapons programs: some are stupid, some are wasteful, many are wasteful, et cetera. My concern that you haven't factored in the need for increases.

As China's abilities increase, for instance, and now they're developing anti-ship missiles which can -- anti-ship ballistic missiles which can go 1,500 or 1,700 nautical miles, which is going to raise all kinds of problems over our ability to enter that space and operate in that space, which I think is going to require innovations and various kinds of duplications. And you know better than I do what it may require. But I think that it's probably going to require not that we shrink our naval capacities but actually in one way or another that we increase our naval capacities.

So, you know, we can -- we're going to be able probably to find savings, but we're also going to find areas where we need to increase capability.

MR. INDYK: Do you want to respond on that?

MR. O'HANLON: I think it's a fair point to put on the -- I mean, I think, you know, I'll just say one small thing in reply, but I don't claim that it rebuts this concern: We are spending still \$9 billion a year on various kinds of missile defense efforts which is 50 percent more in real terms than Ronald Reagan spent on missile defense. So even with some reductions that the Obama Administration has carried out in those areas, some of the concerns that Bob has raised have already been internalized in the way we're thinking about defense resource allocation.

Now, do I think that's going to be adequate? No, because I think offensive missiles have an innate advantage over defenses, and the basic trend that

Bob's talking about is real. So I can't really argue against this point, and therefore once the reductions are made that I'm laying out, I think we are going to need to go on a path of being able to increase defense spending, not to immediately undo the reductions but to allow for sustained long-term modest growth. And that would be one more part of my plan that I think is important.

MR. INDYK: Alice?

MS. RIVLIN: I think the scariest thing that Bob has said is that we inevitably are going to get into a long-run arms race with China. I think we better think how not to have a long-run with China because we're not talking about the Soviet Union, we're talking about a country that is very likely going to be much stronger in the future economically than we are, and it's much -- has a lot more people. And if we get into a full-scale arms race with the Chinese, it doesn't end the way the Soviet one did with us bankrupting them because they couldn't afford it. I'm afraid it ends with we lose.

MR. INDYK: Bankrupting us.

MS. RIVLIN: Bankrupting us.

MR. INDYK: Let's talk about the politics of this before we go to the audience for questions. You know, we're probably going to witness today a surprising active bipartisanship in terms of the Senate ratifying by more than two-thirds vote the START Treaty, the new START Treaty. And indeed, when one looks at national security issues, there seems to be a surprising degree of bipartisanship when you compare it with the extreme partisanship involved on domestic issues.

So would there be political support for the kinds of reductions that Mike is talking about? Maybe we'll start first with you, Bob, on that.

MR. KAGAN: Well, it's a good question because, certainly, one hears a

lot out there about the need to put the on the table, and that's been a plank of, you know, some of the sort of new Republican voices.

On the other hand, I actually think that in this case there's probably a bipartisan consensus not to do that, and probably an agreement between the administration and a majorities in Congress not to do that. And so it will be interesting to see how that plays.

I mean, it's worth noting that that incredible wild man and profligate defense spender, Bob Gates, when asked about the cuts proposed of 10 percent, said it would be catastrophic. That's the word he uses, "catastrophic." I think as long as you've got a secretary of defense taking that position, and you still have the group that passed, I mean, you could say that the coalition that passed START is what I would call a kind of center-right hawkish coalition because you had to put together missile defense and \$84 billion on nuclear modernization, which was another question which we didn't factor in here, I think that you're not going to have a coalition in Congress that's going to substantially cut the defense budget.

MR. INDYK: Alice?

MS. RIVLIN: I'm not so sure. I think we won't know for awhile how much the conversation has changed as a result of the fixation now, right fixation I think, on the dangers of the looming debt. And what I heard in the Bowles-Simpson Commission was certainly a gathering bipartisanship on defense has to be part of the cutting of the budget. And when you have a strong conservative like Tom Coburn and Mike Crapo and others joining with Dick Durbin to sign onto a proposal that you just read some of the elements of, though those, as I said, we just illustrative, you've got a new kind of conversation.

MR. INDYK: Hmm. Mike, Democrats have to be tough on defense in

political seasons. Is it conceivable that you have Republicans, as Alice suggests, that will go along with your kind of proposal?

MR. O'HANLON: I guess all I would say is, because I think Alice and Bob have framed it very well, the specifics matter. And you have to ask not just theoretically should defense be part of the conversation, but if it is part of the plan and you do something like what I've been trying to outline here, are those risks acceptable? Are those risks ones that we should be willing to run or not?

Another example would be can we keep the national security industrial base, the defense sector healthy with a 10 percent smaller acquisition budget? People have to wrestle with those issues, think them through and see the implications of these kinds of alternative plans. And if they feel comfortable with them, then I think it's possible.

So maybe this is a naïve Brookings stop, but I think the substance really matters, and people are going to have to digest a bit of the detail, not at a nitty-gritty defense planning level but at a strategic level of what the implications are of these kinds of cuts. And that's why I'm glad we're having the opportunity to discuss today.

MR. INDYK: Okay, the triumph of rationalism. Let's go to your questions, please. Please wait for the microphone, identify yourself, and make sure there's a question mark at the end of your sentence.

Yes, please, here.

MR. SMITH: Thank you. Hi. Merrill Smith. I appreciated Mr. Kagan's reference to the American -- the character of the American people as regards this issue, but I think it was not appropriate to say that was contradicted, their express will contradicted by all the many interventions, none of which I have forgotten. But none of



those were preceded by any kind of consensus in their favor.

Yes, of course, the American people always support the troops when they're in harms way, and they want to see them succeed in their objectives. But also in many cases we were misled. We were misled by the Gulf of Tonkin incident; we were misled about weapons of mass destruction. So I think there is more support for a less interventionist, less occupation, invasion-oriented foreign policy than we're letting on here.

And, in general, I think that a lot of the talk of the supposed third rail is about Social Security entitlements and defense spending is more politicians expressing their addiction to conducting, being conductors of the gravy train than any real unwillingness of the American people to actually face these budgetary and, I may say, national security realities for our foreign policy --

MR. INDYK: Is there a question?

MR. SMITH: Is our foreign policy not itself one of the greater threats to our national security? Thank you.

MR. INDYK: Okay.

MR. O'HANLON: Is that directed at me?

MR. INDYK: I'm not sure it was a question.

MR. O'HANLON: Well, I just -- I'm sorry, did you want to go ahead?

MS. RIVLIN: Oh, I think it is a good question, and it is, in part, the history of those often failed interventions or ones that began with an assumption that didn't turn out to be right that I think is giving people pause about whether we need to keep on doing it.

MR. KAGAN: Well, I mean, we can enter into theories of psychoanalysis

of the American people if you want to, or how they are constantly being misled into wars. It doesn't accord with my theory of how democracy works in this country or any other country.

But I -- you would still have to say that if that's the case, the American people are endlessly capable of being misled by whatever evil forces are constantly misleading them, because there's no indication that they have, after each successive misleading -- which, by the way, you should include World War II which was also a conspiracy by FDR to get us into a war. And I could take you back all through all of the other wars in American history which were all conspiracies of one kind or another that, nevertheless, we keep being fooled by the same conspiracy.

The reality is this is what America does. Now, I can imagine that America gets tired after awhile and then doesn't want to do it, and then certainly when we're bogged down in Iraq and Afghanistan, but it is precisely to fight against this tendency to believe that this is not really who we are and, therefore, we shouldn't prepare for the contingencies that we've had, that we've been engaged in, in the past. I'm afraid for better or for worse this really is who we are and we need to recognize that, just as we need to recognize that Americans want all the things that they want, they don't want to have to pay for them. I mean, these are all elements of what it is to be an American. But I don't think we should kid ourselves that right now, finally, we're going to draw a line and we're going to be a different kind of America in the world.

MR. INDYK: That's why you titled your book *Dangerous Nation*.

MR. KAGAN: Right. Right.

MR. INDYK: Over here in the corner -- on the side I should say.

MS. Raffel: Thank you. I'm Helen Raffel, Voices for the Future. Picking

up on what Alice Rivlin said about the strength of rising China, I have a question also for Bob Kagan. Do you think that given the fact that both America and China want to preserve the oceanways for trade and so forth, and the fact that we both have Islamic terrorism problems -- China with this Sinjon Uighur Muslim uprisings every so often or atrocities -- is there a possibility that instead of preparing to combat each other we could be cooperating together on these worldwide problems?

MR. KAGAN: Yeah, there's a possibility, and I'm hopeful that that can turn out to be the case. But, I mean, what's interesting is you have to take seriously China's perception of all these things. And setting aside the -- our -- I mean, I don't know how much commonality we have about Sinjon, quite honestly, but setting that aside, on the issue of the commons and who's going to protect them and how are they going to be protected, the Chinese no longer want the United States to be operating in waterways close -- that they consider to be close to their territory. That is -- that's what's happened over the past year, right?

And so we have to decide, unfortunately, whether we want to continue to insist on the right of passage through these international waters, as Secretary Clinton said, or whether we want to say to the Chinese, no, okay, fine, you can now take those over -- which has all kinds of implications for Japan, for Southeast Asia, et cetera, et cetera -- which is why in recent months, and contrary to many expectations, all these countries have come running to the United States as China asserts these rights.

China may, I think, being confronted successfully by the United States and its allies, decide to back off that demand and move toward the cooperation that you're talking about. I will only say from a historical perspective, if you look at the history and behavior of rising powers -- including the United States, by the way -- the odds are

against that, unfortunately. It's not because I'm looking forward to this competition. It's simply that as a historian I would say that the odds are that they're going to continue to demand that right and increase their capabilities so that the next time they demand it, Hillary Clinton can't go to Hanoi and say no.

And that's what produces the arms race. And it's those kinds of things that produced an arms race between Germany and Britain before World War I, between Japan and others before the various wars that Japan fought. I would love to avoid it, but we have to take seriously the possibility that we're not going to be able to avoid it because the Chinese themselves don't want to avoid it.

MR. O'HANLON: I just want to quickly say I like very much the last two questions as well as Alice's answer, but I also partly agree with Bob. And I was in Japan last week, and certainly the Japanese are talking about their concerns about China's rise. And the Japanese, as you know, gave now allocated some of their defense resources more towards their attack submarine force, more towards their southern islands.

I asked a lot of very solid careful people in Japan how they feel about their long-term relationship with China. There wasn't a lot of optimism in the conversation, but nor was there a lot of prediction of war. And so to me this is one of the reasons why I'm personally comfortable talking about researching debating a 10 percent American defense budget cut, but I'm not interested in debating a 30 percent cut.

I think 10 percent is within the realm of what allows us to retain a very robust presence in the western Pacific. Deeper cuts would not be.

Bob has raised the important question whether we actually need to consider increases, and perhaps we can actually reallocate fewer forces in the Atlantic. We probably still have more Navy presence in the Atlantic and Mediterranean than we

truly need, for example. Maybe we can shift more to the Pacific. We've already been doing that; we may be able to do it a little bit more.

Anyway, this is the kind of detailed conversation that needs to occur, but I would agree enough with Bob to say 10 percent real cuts in defense, that's for me the maximum that I think, is prudent to consider at this juncture.

MR. INDYK: It's moments like these that I like to quote the Indian National Security Advisor, who after all has a rising China on his borders, who said just recently it should not be beyond the bounds of statecraft for us to manage a peaceful rise of these two great powers.

Well, we'll see whether history repeats itself.

Down in the back, please, the guy in the blue -- it is blue? Gray, I guess.  
Yes?

SPEAKER: Hi. I'm Ateas. I'm here an intern, and I have a question to your sentence where you said it's no difference to have an Army base in Germany or in the U.S. I am from Germany, and I remember they had a big discussion about when the U.S. decided to close an Army base in Germany. And even if you look at it and see it's the same from the costs to run an Army base in Germany or in the U.S., I think it's different because it's a tax which gets for American over a German government. It's for a demand which increased for German over a U.S. economy, and so I don't really understand why you think it's not no difference.

MR. O'HANLON: Well, yeah, you're raising some important concerns. There actually have been Americans who want to bring the forces back home partly because they want to have more of the economic stimulus associated with the base benefitting the American economy rather than the German economy. And so you're right,

there is that second order economic effect wherein -- but I don't think that's what the report was getting at, because it was talking about specific federal outlays.

But there is a broader economic argument that we might as well have the forces here stimulating our own economy. There's also the argument, and the Army's tried to move in this direction in recent years, to try to consolidate more bases in one or two or three places, a little bit like the Marines do now in the United States already, so that Army families can stay put for a longer period of time instead of running from Fort Drum, New York, out to Fort Bliss, to Fort Gordon over to Germany, you know. And the typical Army life that we all are familiar with from history is not as conducive to, let's say, a spouse holding a job and keeping it for a long period of time. And so there are these kinds of other reasons why Secretary Rumsfeld and others have looked to consolidate more forces in the United States and have fewer overseas.

But the budget costs are not the main issue. The federal budget costs for the United States are not that different from one place to another. And Germany helps us with the local costs in Germany; Japan helps us great deal with the local costs in Japan. So what modest differences there are, are partially mitigated by host-nation support. So budgetarily, this really is not a big deal for established facilities in major industrial countries.

MR. INDYK: Okay, let's go to the other side of the room. Yes, please?

MR. ERGUAZ: Hi. Hetsa Erguaz. I'm from *The Hill* newspaper. I just wanted to get you guys to react to something that's a little bit more short-term. Congress has just passed the CR extending funding at 2010 levels to March 4th. This also affects the Pentagon budget. Is this a plus for national security or does it threaten national security? If so, what should be done?

And specifically to Ms. Rivlin, the Republicans in a March 4th context are talking about knocking \$100 billion out of non-security spending this year. Does that make sense from an economic point of view? Does it threaten the recovery? What's your take on that strategy? Thanks.

MS. RIVLIN: Having a CR that only goes to March 4th is a terrible idea. We should have passed all of the budgets, not just the defense appropriation, long before now. And government by continuing resolution is bad for everything.

I actually haven't examined the \$100 billion that you refer to and what they're talking about, so I can't really give you an answer to that, but it seems like a lot for a first year. But it really depends on baseline you're talking about.

MR. INDYK: Let's just stick with the question of the incoming Congress for a moment. I mean the incoming class seems to have gotten elected on the basis of cutting the budget. Does that apply, Bob? Alice? Mike? I don't know which one of you has any sense of this. Do they apply it to the defense budget or is the defense budget sacrosanct when --

MS. RIVLIN: Some do and some don't. And, unfortunately, during the campaign, what one heard most from the Tea Party candidates, some of whom got elected was, we've got to get this deficit down. We have to protect Medicare, Social Security, the defense budget, and we can't raise taxes. I don't know what they're talking about. You can't get there from here.

MR. KAGAN: But if you look at, just for instance, the new -- the incoming Chairman of the House Armed Services Committee Buck McKeon, I mean, he's been very -- he's very clear that they are not going to get savings out of the defense budget. He's not talking that way at all. And I doubt, I honestly doubt, probably because some of

the income budget-cutters, as Alice says, the position, they're incoherent right now. And when they sit down and people like Buck McKeon say I'm the House Armed Services Committee chairman and this is the way things are going to go, I just -- I must say I really do not expect in this coming year -- and the argument that McKeon is able to make, again, whether you agree with this or not, is very powerful at the moment. We have two ongoing wars, he's going to say, and that's not the time to cut the defense budget.

Now, that has the simplicity of not having to worry about any of these specifics that Mike and Alice are -- have been drilling down on, but as a political statement it's a pretty easy thing to sustain, especially, as I say, when you have a defense secretary from the administration in the opposite party who also doesn't want to cut any more.

MR. INDYK: Yes.

MS. RIVLIN: I think the question is not just where do the new members stand, because they've got to figure it out. But it's has there been a shift in the senior Republican leadership that will change the conversation over the next year or two?

MR. INDYK: All right. Here in the front, please, and please stand up

MR. McCAPLAN: My name is Walter McCaplan. I'm a Washington lawyer. We have heard two risks described right now: the military risk which is very dramatic and Alice Rivlin talks about the economic risk. I wish Alice would expand on what that risk is, the proximity and inevitability, and how do you balance these risks?

MR. INDYK: The question's to you, Alice.

MS. RIVLIN: Well, the economic risk I think is very, very serious, and we're no longer talking about downturn, recession, market disruption. We're talking about potential economic catastrophe. And I think that could come in the form of a real debt --



sovereign debt crisis, to use the terms now being used in Europe -- that would affect us. Now, that's always been thought to be unthinkable. But I think we've gotten to the point where unless we change course, it's not unthinkable. And it could mean a really serious meltdown in the economy.

Now, when might that happen? Nobody knows. But it's happening in Europe faster, not just to Greece and Portugal. It's happening to the U.K. faster than they thought, and they have decided we better do something really serious -- I'm afraid they're going to overreact -- to guard against a meltdown of our economy.

We're more -- we're bigger, we're more -- we're able to borrow in our own currency, but we got to face the fact that we're not immune.

MR. INDYK: Can I just pin you down on one issue here? China owns a lot of our debt.

MS. RIVLIN: Yes.

MR. INDYK: Does that -- are we vulnerable in that sense more vulnerable than the arms race that Bob's talking about?

MS. RIVLIN: China bought our debt for good reasons. They, A, saw us as good risks which -- because we always have been, and they wanted to finance our trade with them, our buying their stuff.

But the question is, how much, how long can this go on? I mean, they now realize that this is unsustainable, and they don't have to dump our debt to make a really big problems for us. They just have to buy less of it. And that creates very serious problems, maybe not total market meltdown. They don't want us to go down. I mean, it's not in their interest to have a catastrophe in the U.S. economy, but how long can we count on that?

MR. O'HANLON: Could I speak to -- I'm sorry, go ahead.

MR. INDYK: Mike and then Bob.

MR. O'HANLON: I had a couple of quick points that I realize we haven't put on the table today, and I think it's important. Alice talks about our serious economic risks, and I'm a student of hers in trying to understand these and I take them very seriously, and that's part of why I did the paper.

I also think it's worth remembering, though, that -- and this is not to disagree in any way with what she said -- we have a lot of strengths, which means that some of our problems are fixable. And I try to mention some of the strengths in the paper. I'll just very quickly tick off a few: We still do more R&D in this country than any other major block economically does anywhere in the world anywhere. We still have more of the best universities in the world by any assessment system than any other part of the world. We still have great innovation in areas like aerospace and in computers and in pharmaceuticals and other biotech.

And so the point here is that if we make a course adjustment that is significant but not radical, we can preserve a lot of these strengths and stay powerful over the long term. And it's with that sort of underlying bullishness that I try to explore these defense budget reductions.

MS. RIVLIN: Me, too. I totally agree with that.

MR. INDYK: Bob?

MR. KAGAN: And just in answer to the question about how to balance these risks, I don't in any way -- in any way -- question the nature of the risks that Alice is talking about. I take it very seriously. My only question is, do we want to compound that risk by now adding further risks by reducing the military budget by \$50 billion, you know,

for whatever effect that has on this larger problem?

And I would only just, again, urge that we think about, even if you want to just talk about dollars, whether underpreparedness in military terms could wind up being more expensive for us, even if you're just talking about budget deficits than a greater expenditure now.

The problem with the defense budget is that it's -- and thinking about this military risk, is that we are the captive and the potential victims of forces out there in the international system that are beyond our control. I mean, we can decide what we want to do about Social Security, and it's a kind of finite situation, but people can do things out there in the world that we have no control over. And we have to prepare for that risk because the unpreparedness can wind up being so much more expensive.

You know, those of you who remember or at least have read about the period of 1948 to 1950 -- I'm sure Mike's very familiar with this -- we have about an \$18 billion --

MR. O'HANLON: I just read about it. (Laughter)

MR. KAGAN: In his previous life, he also knows about it. We had an \$18 billion defense budget and everybody was madly looking around, and Harry Truman was madly looking around for a way to cut this thing. The crazies were saying we need to have a \$50 billion defense budget. No way.

North Korea invaded South Korea, we're at war. The next thing you know, we have a \$50 billion defense budget.

These unexpected -- in that case possibly expected -- contingencies can wind up driving up costs, and we'd be better off being able to deter them.

MS. RIVLIN: Yes. We'd also be better off with a stronger economy, if that's --

MR. KAGAN: And I'm totally in agreement with you. But so I'm saying, look, I don't want to get out of my lane, I don't know enough. I would say can we please cut Social Security entitlements before we cut the defense budget? That's what I would say. But I'm not -- what do I know?

MR. INDYK: The last question here. Please stand up.

SPEAKER: Thank you. My name is (inaudible) with Chinese Media Net. My question is, as the economic downturn also affects U.S. politic power, does the U.S. have to turn to a stronger military power in order to maintain its global influence? And how does the adjustment of U.S. military (inaudible) influence the rest of the world? Thank you.

MR. O'HANLON: I like the way you talk about this, but I'm happy to if you don't want to.

MR. INDYK: No, I'm the moderator. You -- (Laughter)

MR. O'HANLON: Well, you know, one dynamic that I actually like in what I see in the last couple of years in the international system is we are still clearly the most powerful country on Earth, not just militarily but in general ways. But there's a little bit more inclination, and we see it now in East Asia, with some other countries coming more to us and saying can you help us out a little bit? And, you know, sometimes we get a knack in the United States for always being the country that wants to assert ourselves and, you know, obviously the Bush Administration was tarred with this reputation and perhaps somewhat deservedly, but nonetheless there are a lot of countries around the world that actually want us to stay engaged. And if our power seems to drop a little, it

makes them perhaps a little more nervous that we're going to go away, and they get a little bit more enthusiastic about lobbying for our association or assistance. And we see that also in the broader Middle East.

So I'm not suggesting this is a reason to weaken ourselves deliberately, but there is a dynamic that's very interesting when we have to be sort of sought after by other countries a little bit more. And, frankly, in some ways it's beneficial to our interests to be able to be the superpower that leads the coalition that really wants us to be there instead of always having to diagnose and address the problem first and foremost ourselves.

MR. INDYK: Well, thank you, Mike, Alice, and Bob for a very stimulating and thought-provoking conversation. I suspect it's the first of many we'll have on this subject, but you've all made a great contribution to it, especially, Mike.

If you want to read this paper, you can get a copy outside or you can download it from the Brookings website.

Thank you all very much for coming. (Applause)

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