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DISSECTING THE PENTAGON'S STRATEGIC CHOICES AND MANAGEMENT REVIEW

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P R O C E E D I N G S

MR. KALB: Well, good morning, ladies and gentlemen, to another panel discussion here at the Brookings Institution. This one is called "Dissecting the Pentagon's Strategic Choices and Management Review". I'm Marvin Kalb, a Nonresident Senior Fellow here at Brookings and a senior advisor to the Pulitzer Center for Crisis Reporting, which is located just next door.

Way back in August 2011, believe it or not, that's only two years ago, Congress passed and the President signed into law a legislative monstrosity called the Budget Control Act. It was a way of doing something when nothing seemed worse, at least at that time.

A Joint Select Committee was set up to control the spiraling deficit, but Congress warned that if the committee failed to come up with a solution, sequestration would automatically follow, meaning massive cuts in both Defense and all other programs. Those cuts have now begun.

The Pentagon was already prepared to cut $150 billion over the next ten years. However, sequestration would require $500 billion in cuts over the next ten years. Last week, Defense Secretary Hagel soberly warned that cuts of that magnitude would not only affect entitlements such as salaries, housing, education, and the like, they would also affect Defense readiness and capability.

If the U.S., for some time now, had been ready if necessary to fight two wars at the same time, now with these cuts that would no longer seem to be possible, meaning America's Defense strategy would have to be radically altered.

So, what to do in a macro and micro sense?

We've asked two highly respect defense and budgetary experts to explain reality and options to us. They are Mackenzie Eaglen, a resident fellow at the

American Enterprise Institute, and if I got this right, during the last presidential campaign, she helped Governor Romney, but the governor's loss should in no way be ascribed to Mackenzie.

Our other expert is Michael O'Hanlon, a senior fellow here at Brookings and though he has written many books, most recently author of "Healing the Wounded Giant".

Recently our panelists coauthored an op-ed in *The Wall Street Journal* urging Congress to reverse sequestration or watch the nation's military readiness go into a decline. Mackenzie, why don't we start with you? And then we'll go onto Mike and then I'll ask you both a couple of questions, then we'll go to the audience, and we're going to finish at 11:30. So, Mackenzie, please.

MS. EAGLEN: Good morning. Thank you so much for moderating. It's a pleasure to be up here with you and, of course, my good friend, Michael, who not only did we recently author the op-ed in *The Wall Street Journal* about some of these issues, but we were also together with Secretary Hagel and his team last week at a briefing about these choices and this budget outlook and we'll certainly talk, I'm sure, about some of what was discussed at that conversation.

I think you've set the ground very well. It's important to remember, sequester is not the starting point and so much in Washington feels like we're always starting at square one, but sequestration is the fourth year of Defense budget cuts. This draw down has been well under way.

We peaked our Defense spending in 2010 and there were a series of capability, capacity, and real budget cuts ever since, and so there's been almost roughly $1 trillion taken out of current or planned or future DOD spending in the last four years before sequestration. That's why this is tough. That's why you hear the chiefs constantly

banging the drum, that's why you hear the Secretary and the Deputy Secretaries talk endlessly about how damaging sequestration is.

This is not the first dollar of Defense cuts, nor is it the first capability or capacity that's being unwound as part of this process, and so a lot of the things that I think we'll talk about this morning, unfortunately, are overdue. So many of the choices that the Pentagon has recently laid out, are things I think that should have been under consideration four years ago. It's not to say that a lot of the Defense cuts that started under President Obama and then Secretary of Defense Robert Gates weren't of value or utility in certain cases, this is not their first efficiency drill at DOD, and -- but there were a lot of things done rightly and wrongly as part of those previous years, but I'm not so sure the lessons learned have sunk in.

And so what we have now is a Defense Department and a Congress -- a Washington, I guess you could say -- that continues to have to go back to the same pots of money and the same priorities for DOD every year as part of the Defense draw down because we're doing it on an annual basis, we're doing it piecemeal. It's chipping away at the margins Defense cuts as opposed to big term, big picture strategic planning, thinking about this, if we really do have to live with this, how do we handle it for ten years and work backwards? Instead we see what we saw in 2013, which is half a year or so into the fiscal year we're going to start to talk about serious change and serious planning, and I certainly don't think that's any yelp to the half trillion dollar tab that's already on the table.

MR. KALB: Mike, pick it up, please.

MR. O'HANLON: Yeah, thanks, Marvin. And, by the way, I agree with you, Mackenzie can't be blamed for Governor Romney's loss, but she's also been polite enough not to remind us all here in Washington that she's from the great state of

Georgia, and with the Atlanta Braves somewhere like 100 games ahead of the Washington Nationals at the moment, I admire her discretion and appreciate it very much.

What I would say is -- and, again, it's been very well framed -- some of the additional budget cuts that are now being considered I think are okay, and Mackenzie and I don't have the exact same view. I don't want to suggest that everything I say that she would endorse necessarily. We do think that there is room for efficiencies, and some of them are probably, if you can actually accomplish them, if you can get the Congress to authorize them, if you can actually implement them the way people think you can probably, let's say, reform information technology systems at a massive organization like the Department of Defense, they're worth doing.

At the briefing that we heard last week from Secretary Hagel and his team, which developed some of the ideas that were also expressed by Deputy Secretary Carter in his Congressional testimony that everybody can read on the web, we saw an estimate that perhaps $40 billion could be saved over ten years from new efficiencies, and that's on top of the other efficiencies that were already identified as part of previous budget cutting reviews, like additional base closures, although it's worth pointing out that Congress has not yet authorized many of those previous efficiencies, so if anything we're even deeper in the hole than we thought because even to get to previous levels of plan cuts, we're now going to have to either persuade Congress to change its mind and go ahead and authorize things like base closures, or find other ways to save comparable amounts of money.

But let's say that base closures, for example, are authorized. Some of these efficiencies could save somewhere around $40 billion over ten years. And every time you ask the Pentagon to try harder and go look deeper, they're probably going to

find another $5 or 10 billion here or there and so I would say that, on balance, there's never going to be the end of any and all possible cuts.

So, $40 billion, let's say we can do that. Then there's another examination of possible savings, which Mackenzie and I wrote about in this Wall Street Journal op-ed ten days ago and they have to do with things like reductions in certain elements of military compensation, or at least reductions in the growth.

Now, these are not easy and they're not inherently desirable. I think all of us would agree that we've asked so much of our men and women in uniform that the idea that we should cut their compensation is not really a proper phrasing.

We would, if anything, like to make sure that every possible benefit that can be proposed that they receive. Certainly wounded warriors. Certainly the families of deployed soldiers. Certainly troops leaving the force and trying to get a GI bill so they can transition to the private sector. All these people deserve compensation that's not in any way hindered or compromised, but there are certain ways in which military benefits have not always been modified or streamlined to accommodate the new ways in which we live. An example would be the prevalence still of commissaries, which, you know, exist in many towns that have plenty of Wal-Marts and other such stores. And there are other ways in which you could make compensation reforms.

And they're not trivially easy, I would not call them efficiencies, they are actually cutting back on the compensation or at least the rate of growth of compensation for our volunteer force that's done so much on behalf of all the rest of us over these last 12 years and before.

And if you add up all those savings, which are more or less along the lines of what I would agree with, and similar to the kinds of ideas Mackenzie and I had in our op-ed, that's another $80 billion, $85 billion in savings. So, if you add up those two

chunks of money, we're up to about $125 billion in additional ten-year savings out of the $500 billion that could be required by sequestration.

The good news is that $125 billion is almost the amount the President is proposing to save over his ten-year latest budget plan, so we don't have to make a lot of cuts into military muscle, into force structure, or weapons modernization. There's room for some cutting and in my recent book, "Healing the Wounded Giant", I wound up advocating about $200 billion in ten-year savings because I was prepared to recommend certain specific changes in certain weapons programs. We're all going to have somewhat different takes on what's the right number of army divisions or brigades, how many joint strike fighters we should purchase. My own take was that we could save, in addition to this $125 billion or so from efficiencies and compensation reforms, maybe another $75 to 100 billion from cutting muscle.

And the Pentagon seems to have arrived in a different place -- or, excuse me, in a similar place insofar as it goes, but then it had to keep going. And this is not a criticism of Secretary Hagel or Deputy Secretary Carter, because this recent review, the Strategic Choices and Management Review, or SCMR, or Scammer, as it's sometimes derisively called by people who don't like the whole idea of cutting yet again from the Pentagon budget, the idea here was, we're going to have to look for ways to save this $500 billion because sequestration currently is the law of the land and it really may happen.

And so, above and beyond the kinds of changes I've already mentioned, the $40 billion in efficiencies, the $85 billion in compensation reform, and then some modest tweaks, perhaps, to capability, the SCMR did a couple of things that I really don't like, and I'm not sure its authors like it very much either, but they had to put these ideas on the table, and one of them is to downsize the U.S. Army quite a bit more than is

already being planned, and I'm just going to mention this in my opening comment and then wait for other discussion topics later on.

But let me just give you a sense of what's now being considered for the U.S. Army. The U.S. Army right now is just over half a million active duty soldiers. It had grown up to about 560 thousand during the peak of the Iraq and Afghanistan wars. Of course, we also mobilized some Reservists and National Guardsmen and Women so we had maybe another 100,000 on top of that 560,000. All of these numbers are, by the way, quite modest compared to the 1980s, the Cold War, we had 800,000-some forces and the U.S. Army alone and the Active Force in the 1980s, we had had much larger U.S. Army totals, of course, during Korea, Vietnam, not to mention World War II.

So, being down around 560,000, it was a growth from the Clinton years and from Secretary Rumsfeld's early thinking, all of that was in the 475,000 range more or less, but it was not huge and it did not reverse the cuts that were made at the end of the Cold War.

Now we're already planning to go down basically to where Clinton and early Bush had been. The Army was headed previously to go back to 490,000 Active Duty troops, but the SCMR is envisioning reductions of down to maybe 420,000 or perhaps even lower if sequestration hits in its entirety and many of the cuts are taken out of the U.S. Army. I think this is a bad idea. In fact, the only place I have a disagreement with the Administration is they suggested that this kind of a cut back to the Army is not necessarily a bad idea because it complies with the President's own strategic guidance given last year at the Pentagon, the so-called Defense Strategic Guidance Document of January 2012, which said we don't want to do these big insurgency or counter-insurgency missions anymore. We've had enough. Iraq and Afghanistan have been frustrating and slow. Let's wash out hands of this kind of stuff.

Well, you know, that's the exact sentiment we had after Vietnam for similar reasons and yet, that sentiment, when taken to an excess, leaves you unprepared for the next time you might have to do a counter-insurgency whether you like it or not. There's the old Bolshevik saying, "You may not have an interest in war, but it may have an interest in you." We may not have an interest anymore in counter-insurgency, but what happens when not just Syria stays mired in the mess that it's in now, but this infects more of the broader region, even Lebanon and Jordan? Or what happens when India and Pakistan come to the verge of nuclear war over Kashmir and then the only way out of this potential escalation might seem an international force to sort of manage a trusteeship for Kashmir for some period of time?

I could go on with hypothetical examples. They're going to sound a little crazy to you now, but they're going to sound about as crazy as it would have sounded in 2000 if I had mentioned Afghanistan as the source of a 9/11 attack. In other words, you can't always anticipate where war might spring up, and I haven't even mentioned Korea.

So, bottom line, we have a lot more to discuss. The kinds of cuts to the U.S. Army being intended, or at least being considered now within the SCMR process, I think, are highly imprudent and leave us sort of catching onto the latest fad in warfare. We're tired of counter-insurgencies, so let's just pretend that we can decide here in Washington we're never going to do it again. We've made that kind of mistake before as a country; we shouldn't make it now.

MR. KALB: Thank you very much, Mike. Let me ask you first, both of you, a very quick question, a kind of yes or no question. Do you think by the end of this year Congress will have acted on sequestration specifically for the military and pulled it out of the law? What do you think?

MS. EAGLEN: No. Or they may have acted, but they'll have acted

separately in each chamber and it will not be reconciled. There won't be any change to the law.

MR. KALB: So that we can realistically look forward to the implementation of sequestration at the Pentagon? Mike?

MR. O'HANLON: I fear Mackenzie may be right, but there is still the chance -- if you look at the 2014 budget, and I'll be quick, I promise, but the cuts that would be required by sequestration are so harsh for that year, and there's no way to phase them in realistically, it's even a worse debacle than the notion of sequestration over the ten-year time horizon. The pain that occurs to the force in that year dwarfs even what we're going through this summer and it compounds what we're going through this summer when almost half the Air Force isn't flying, for example, when equipment queues are piling up at these depots and we're not fixing the stuff that we need to keep safe for our forces.

So, I think Congress may ultimately say that $52 billion in 2014 Defense cuts that sequestration would require need to be softened a little, and maybe they add the cuts to the back end or something. In other words, they don't do anything that's fundamentally changing the basic logic of sequestration, but they soften the blow in 2014. That's possible just because the specter of sequestration next year is so horrible for the Armed Forces.

MR. KALB: If that be the case, we're still working with the reality of very massive cuts. And, Mike, you have given us a little bit of a hint about the practical effect that that's going to have on the military, but a military exists to implement, to fulfill the desires, the strategic aims, of the country.

Now, as I mentioned earlier, we have lived in this country for a long time with the belief that we could fight two wars at the same time. I assume that we mean, if

you go back ten years, Iraq and Afghanistan at the same time. That, of course, did not take into account, as you were implying a moment ago, that there could be an outbreak of hostility in Korea, which would involve the United States militarily.

So, if we look at the strategy now and we look at the amount of money that is going to be available to be spent, what do you think, Mackenzie, will be the effect on the strategy itself. What would you recommend to the President, for example, and he does listen to Republicans, so it's okay, but what would you recommend to the President that he begin to consider as a change in the strategic aims of the U.S. to conform to the economic reality?

MS. EAGLEN: Of course, I wouldn't want to advocate that, right. I'm already disappointed that the Defense Department has officially moved on from the long-standing two-war construct. This has been underway for more than the last couple of years, so --

MR. KALB: Moved on in the sense of beginning to change?

MS. EAGLEN: Correct, meaning where our contingency planning and our war planning are formally changing quietly to move away from the two-war capability, at least the two-war simultaneous capability, and certainly any operation for any length of time.

MR. KALB: So, where are we going now?

MS. EAGLEN: So, where are we going? Well, the Department is sticking by its January Guidance, as Michael mentioned, the Defense Strategic Guidance issued last January, which is, you know, the rest of us call it the pivot or rebalance to Asia, it's basically an increased emphasis on Asia and trying to hold the line in the Middle East for the most part, but it is largely, regardless of what Vice President Biden says, it is at the expense of capability and capacity in other regions of the world because the

military is shrinking and the budgets are falling too quickly. They don't have a choice.

So, for example, the CNO just said, we don't have a single ship in Southern Command. So, you can't say it's not zero-sum, that's the unfortunate reality of the pivot, although it's a relatively sound strategy. The QDR independent panel called for a type --

MR. KALB: The what panel?

MS. EAGLEN: The QDR Independent Panel, in 2010 --

MR. KALB: Which is?

MS. EAGLEN: Which was the stress test to Obama's first Defense strategy that year, and they basically called for a pivot before the Obama Administration, some would argue even the Bush Administration started this. It's a sound strategy so long as it's zero-sum, but the problem is, I don't see any scenario where the Department can continue to hue to it, even though I know that's the predisposition at the Pentagon, is to hue to the strategic guidance.

MR. KALB: Meaning what? Two wars at the same time?

MS. EAGLEN: An emphasis on Asia and a toehold in the Middle East, for lack of a better --

MR. KALB: So, that's both.

MS. EAGLEN: Correct.

MR. KALB: Okay and what you're saying is that economically we're not going to be able to do that?

MS. EAGLEN: They're already moving away from it in realistic terms, but the predisposition is to not break the strategy, and we also heard this reiterated at the Pentagon last week, you know, the management reviews, budget scenarios were, implement the President's budget in 2014, no sequester, as is, and it fulfills the guidance,

which in and of itself is questionable. I don't know that it ever was fully resources. A quarter trillion in Defense budget cuts, like the Senate budget, for example, proposal by Senator Patty Murray, larger than the President's in this latest budget process that would bend the strategy, and then the full sequester would break it where they literally would throw it out and start all over from January.

Unfortunately, based on the double and triple whammy holes that Michael is referencing, we're not just talking sequester dollars anymore, we're talking efficiencies that won't be realized that complied on as a tab in addition to sequester and we're talking about readiness holes that the Department is plugging, that's also it's own tab, it's something we should talk about later. All of these things combined means that any scenario is, at a minimum, bending the strategy if not breaking it, and I actually -- like I said, I think it's a sound one, but I don't know realistically how you keep it.

MR. KALB: Mike, you have written that you go from the two wars at the same time concept to one war plus two, and I assume by that you mean two smaller engagements. Could you spell that out for us? What do you mean by that?

MR. O'HANLON: Yeah, thank you, Marvin. I think it's really good that you're focusing in on the strategic choices before us as we think about difference Defense budget levels, because otherwise it just seems like moving around a lot of numbers.

MR. KALB: A lot of numbers, right.

MR. O'HANLON: And there is obviously room for debate even within a given size military or Defense budget because it's not as if all wars come in the same cookie cutter size and shape as we know.

But nonetheless, the basic logic, as you've been saying, is that for a long time we thought we'd maybe have to fight Iraq and North Korea at the same time. It

turned out to be Iraq and Afghanistan and, you know, you can debate whether we had to do them both, but we did do them both, and ultimately our military was a little too small, even though we had been trying to have the capacity for two at the same time, we were a little bit off in our calculations and that's part of why Secretary Gates ultimately had to increase the size of the Army and Marine Corps in the last decade.

Then in the 2010 Quadrennial Defense Review that Mackenzie referred to a minute ago, the Administration began to soften a little bit the requirement for that second war to be quite as definitive immediately, and in fact there had been -- this is a 20-year-old debate if not more in terms of whether these two wars have to be exactly simultaneous and both lead to the overthrow of the enemy government and the occupation of its territory, whether there's some room for the second one to be a little more gradual and a little less definitive in its war aims.

But in 2010, President Obama started to move a little bit away from that robust rhetorical emphasis on two wars, and I think he was correct to do that because Saddam Hussein was gone, and even though Iraq is obviously still very turbulent, it's much less likely to be an overland invasion threat to its neighbors.

Now, Iran's still there in the Middle East, obviously, but it's also relatively unlikely to be an invasion threat. It could be a lot of other kinds of threat to its neighbors, but probably not an invasion threat.

So, that was 2010. Then in 2012, in this famous Defense Strategic Guidance that we're referring to, the January Guidance, the Administration softened a little further and talked about that second war perhaps not really needing to be, you know, thought of as an all out war at all, although there was still the notion that you might have to punish a second aggressor and maybe wait for the first war to be concluded before you could swing over and really deal with it properly.

So, you know, there's some semantics here --

MR. KALB: It's like playing with reality?

MR. O'HANLON: A little bit, a little bit, but still I would have supported the logic through that point because we did have to shift more of our focus towards the rise of China, not that I expect war with China, but we have to worry about deterring China, and also towards Iran, and these are both unlikely to be classic big land wars. They could be more maritime or air, cyber, Special Forces oriented conflicts.

So, softening the sort of ground war requirement from a two war to a one and a half capability or something like that, I think, was okay. But now what we're seeing with the Strategic Choices in Management Review and the sequestration specter that's motivating the whole thing is the possibility of going down to something like maybe a one war and nothing else. So, maybe you can still do Korea, maybe, provided that your entire Army is available for it. Unfortunately, that's often not how the world works and we all know that our good friend Martin Indyk just left Brookings to go try to negotiate a Palestinian-Israeli peace.

In the relatively unlikely event that he succeeds, there could be an international implementation force backstopped by American troops to make that acceptable to the Israelis. That's one example.

I alluded to a couple of others a minute ago. If we wind up, as President Obama has said he would do, preventing Iran from developing a nuclear weapon and have to use military power to do that, the idea that this is a one off where we bomb, they hit one of our embassies someplace, and then we all call a truce and go back to life as normal, I think is pretty optimistic, and there's a decent chance that we're going to have to reinforce some of our allies in the Gulf with some American ground presence to remind Iran that we have an interest in the security of these countries.

So, there are a number of scenarios. That's why I talk about one plus two, you better be able to do one all out war, like Korea, heaven forbid, but also two simultaneous smaller missions, but they could be long lasting, and hopefully they're multilateral, but they could be long lasting, and that's where I come up with an Army that, to me, should be around 450,000 active duty soldiers. This SCMR process envisions an Army that could be 400,000 or less, and I think that's too small.

MR. KALB: Mackenzie, in your view, what is the part of the world that the United States military must be focused on more than any other?

MS. EAGLEN: In this moment it's the Middle East. Strategically, you know, the Defense Department has to do both, right, they have to think about the world as it is in this very moment in reality and what is happening and things simmering and brewing and conflict breaking out and crises everywhere, and then think about five and ten and 20 years. They really do need to do both and that is the ambition of the pivot.

MR. KALB: But presumably they are doing that.

MS. EAGLEN: They are.

MR. KALB: Yeah, okay.

MS. EAGLEN: So, if you look at, for example, you know, the budget request from last year and the reprogramming requests that have come to Capitol Hill, their focus and immediate concern is the Middle East, period, and that's exactly right.

MR. KALB: And the Middle East means what? Break that down, because Mike spoke about Iran, but one could think about the Syria, one could think now about a building huge problem in Egypt, there is everything going on in North Africa. What does the Middle East mean to us now? Where? What?

MS. EAGLEN: Well, what it means to us is probably debatable, meaning the proverbial --

MR. KALB: No, but I mean --

MS. EAGLEN: To DOD. Oh, to us. Right.

MR. KALB: You military experts.

MS. EAGLEN: Well, so let me start out quickly to say, for DOD right now it's the wolf closest to the sled, which is Iran, and looking at a lot of the capabilities and counter-capabilities that might be required to deter, and if not, to deter conflict from breaking out or somebody miscalculating in some international waters, or actually prevailing in some type of military effort, whether we're supporting someone else or undertaking our own, but there are, as you alluded to, there are many other things happening and many of them also spill into North Africa with Special Forces and counter terror missions, et cetera, but that's certainly not what we're limited to. There's obviously ongoing planning for Syria and Egypt, as there should be.

I don't know that there's -- that's just a sample.

MR. KALB: See, what I'm trying to get at here is this: I have a feeling that we're talking theory, not necessarily reality. Think about it. You both have spoken of Iran. If the United States, in the next year or two or three, decides that it must take on Iran and its nuclear program, and Korea erupts, it's not a matter of a small operation. Korea is big time and we already have 28,000 troops in South Korea.

So, the idea of one plus two, the idea of whittling down two, sounds to me as if it is not related to reality and the United States has to be in a position, whether it's two or one plus two, of taking on any combination of military challenges, but can the United States do that realistically in light of what is happening in the American economy, in light of what is happening in American politics, in light of the fact of sequestration? We are, at this particular point, having strategy being determined by people up on the Hill who may not have a clue as to what strategy is all about. Is that not right?

MS. EAGLEN: That's right.

MR. O'HANLON: The way I would -- I'm glad you're framing these choices very starkly because it is our national security after all and we have to get away from a theoretical discussion and just throwing around numbers and, you know, I threw around numbers with my one plus two, but again, if you ask me why do we have to be able to do two smaller missions at the same time, I would say that's typically because that's the number we're doing.

Now, Afghanistan is moving from a war to one of these kind of smaller missions, and the expectation is that we'll keep 10- to 15,000 U.S. troops there for a number of years even after the mission formally ends next year.

Middle East peace is President Obama's goal, rightly so, and I don't know what kind of U.S. force might be needed to help backstop it, but probably one to two brigades. The likelihood of war against Iran, I'd put probably in the 30 percent range. I mean, a lot more than 5 or 10 percent. Hopefully not 50 percent. But if we do wind up in that kind of a strike, which we hope will be limited at first, we should remember from history, you don't get to always decide when wars end. You may get to decide sometimes when you start them. You don't usually get to decide exactly when they're over.

And so the idea of having to shore up our defenses along the Persian Gulf states like Kuwait, Qatar, UAE, and Saudi Arabia, I think, is a pretty plausible notion. It might involve some ground forces.

So, when you think through the smaller missions, we're likely to do two and maybe even three at a time. And I haven't even talked about my preference, which would be for an ultimate Bosnia-style solution in Syria where the U.S. deploys some forces there as part of a peace deal, not as an invasion, but as part of an ultimate peace

deal -- probably not this year, it's probably not within reach this year, but maybe in a year or two.

So, if anything, I've understated the requirement and 450,000 troops in the Active Duty U.S. Army, and roughly 160- to 170,000 in the U.S. Marine Corps, I think is a small, economical way to design a ground force for the world that we're facing today. It's not throwing umpteen piles of cash at an already bloated Pentagon.

MR. KALB: Okay. Now, Mackenzie, Mike earlier on talked about the Army and its effect. What about the Navy? What about the Air Force? Can you give us some sense of what, if these cuts take place, will happen to the U.S. Navy and the U.S. Air Force?

MS. EAGLEN: Sure. The consequences are pretty stark for both of these services and of course the Marine Corps as well. It was framed to us, as part of the Pentagon presentation, that the Marine Corps is one of our hedge presence forces globally, they're out there ready to respond. Of course, that's leaving out the Air Force, which just evacuated personnel last night from U.S. citizens from Yemen and other places. So, we're forgetting the Air Force, but the Marine Corps does have that significant role, and when we talk Navy cuts, I'll include them as well.

It's pretty consequential. Let me start with the Air Force, however, after discussing the Marine Corps briefly. The Air Force is the second biggest loser under these budget debates -- they're not strategic, as you've already clearly outlined for the audience, and I think that's exactly why everyone's frustrated in Washington. This is not strategic driven, and we can just say that up front. I don't think anybody disputes it anymore.

The Army is getting a lot of attention, understandably and rightly so, and Michael is so eloquent in talking about why that's a problem. But the Secretary of

Defense outlined in his remarks last week that he's going to change the so-called golden ratio of the service budget shares, the historical -- the recently historical amounts that the services have received, a roughly one-third, one-third, one-third equation. And the implication there was that the Navy is the relative winner, but no one's a winner, right, because everybody's coming down, it's about who's coming down less than the others. And the Army is the most significant and heavy bill payer, but the Air Force is a close second.

MR. KALB: In what way?

MS. EAGLEN: So, the emphasis, in this briefing anyway, is on tactical fighter forces and some lift forces, C-130 in particular, but there's certainly more that was not mentioned as part of the briefing, would retire a significant chunk, over half of our bomber force, these are old and this should be considered anyway, but when you need numbers, when you need bombers, and you really do need them, that could become a really worrisome outcome.

So, if you consider your Air Force your service of depth, your hedging force, your swing force, your global force, for example, which I do, this is very concerning. These are the kinds of things you will give up.

The Navy, and maybe Michael wants to talk a little bit more -- aside from some of the Marine Corps cuts and the amphibious capabilities and others, and the air lift -- excuse, me -- and the air power capabilities in the Marine Corps. So, the Secretary talked about two to three carrier strike groups, which of course is not just a carrier, and all of the people and air craft on top of it, but all of the associated ships and capabilities --

MR. KALB: Two or three cut down?

MS. EAGLEN: Cut down.

MR. KALB: From where we are now?

MS. EAGLEN: Correct.

MR. KALB: Which is what?

MS. EAGLEN: Technically it's an 11-carrier force with a waiver of one, so it's a ten-carrier force.

MR. KALB: And we would come down to eight if the sequestration went through.

MS. EAGLEN: Yes. That's the prediction right now.

MR. KALB: And what -- so, tell me, in a practical way, how that may end up hurting the United States?

MS. EAGLEN: Well, I'll talk until 11:30 if you want on this question alone, but we use -- our carriers are U.S. sovereign territory, are global lily pads that we can take virtually everywhere that's water, and use it to do whatever we needed to do. But primarily they're a presence force, they're a deterrent force, they're a reassuring force, they're not just to support, you know, no-fly zones in Libya or close-air support in Afghanistan.

MR. KALB: Okay.

MS. EAGLEN: They certainly are a force multiplier in that regard. The reason they're being targeted is because the Navy doesn't have a choice. I was at a recent think tank discussion and I can't recall who mentioned it, but basically if you look at the U.S. Navy's budget and composition, 60 percent of the Navy touches something that has to do with an aircraft carrier, whether that's what's on top of it, who staffs it and supports it, what goes into it, the ships that sail, et cetera. And so you can see the damage that would be done to basically our worldwide global presence for some of our first responding force. Again, I reference here the Marine Corps. We would be giving up a lot.

We saw this partly in Iraq. The inability for us to negotiate any sort of U.S. military presence there for the long term, which would have primarily been land-based, but it would have been a lot of intelligence and other capabilities, and in the region we would have had Naval support as well, we gave up our eyes to see into Iran as part of that deal.

And so, these are the kinds of things that are the unintended consequences of cuts across these services that aren't often thought of as a first order effect.

MR. KALB: Mike, help us out a bit on the Navy and the Air Force. Would you like to add to what Mackenzie has already given us?

MR. O'HANLON: Yeah, thank you, Marvin, and great points by Mackenzie. I would just add a couple more to illustrate that people really are trying to break a little china and do things differently, but there's only so far this can plausibly go.

I'll give you my own sense of where I think we can make some changes in the Navy, but why the kind of cuts that Mackenzie alluded to going down to, let's say, an eight-carrier force, for example, would be too extreme.

Last spring as sequestration was about to hit, you may recall the Navy decided not to send a second carrier to the Gulf and a lot was made of that, and this was -- and, you know, for the sailors who were about to go, it was certainly unfortunate that they were asked to gin up and then told to stand down.

But frankly, I don't worry that much about what it did for the country because I don't think it was that important to have two carriers in the Gulf or near the Gulf all the time at that moment. If we wind up fighting Iran, it will be, but as a deterrent, I could live with that.

Another example, and an idea that I'm trying to promote, and Bruce Ridel

and I have written about this, is since we have now this rising threat of Iran in the broader Middle East and a lot of other countries in that region agree with us that it's a threat, I think we can be a little less skittish than we've been historically about putting combat aircraft on land in the Middle East.

As you know, historically, we haven't really wanted to associate ourselves with the autocracies of the Gulf Cooperation Council and the Arabian Peninsula. They haven't always wanted to associate themselves with the great champion of Israel, and so we've all agreed and we also didn't like it when our air bases got attacked as with Khobar Towers, and so we agreed after the Iraq invasion in particular just to scale back. And we still have some air bases in the region, for example, in Qatar and elsewhere, but we don't have a lot of combat aircraft there on most days.

We could change that policy if we could get two or three of those regional countries to agree to it, to host, let's say, 50 fighter jets each, and that way you don't put all your eggs in any one basket since the politics of those countries may not be predictable, but I think it's sound policy. And if you do that, you don't need quite as many carriers, at least not in the short term, and it's more efficient -- if you know where a threat is, it's more efficient to deal with it by land-based air power than by carriers because the carriers need to be cycled in and out, they've got to transit the oceans, they've got to work up back home, and you wind up needing five carriers in the forest, roughly, to sustain one on station. So, it's an inefficient way to maintain combat air power if you know where you're going to have to operate.

It's a great way to have combat air power if you don't know where you're going to have to operate and you need flexibility, but that's an example of where I'd be willing to see a cut in the carrier fleet maybe of one ship, maybe even two, but on the other hand, you know, China's adding $10 billion a year to its military budget each and

every year right now. I don't expect us to fight China, but I do think we have to sustain a pretty robust presence in that region, and so if anything, I'd like to see us be able to ramp up just a wee bit our carrier presence in the Pacific, and as you know, that's been a focus of Secretary Panetta and now Secretary Hagel and President Obama, the rebalancing towards the Asia-Pacific. We're trying to put 60 percent of our naval assets in the Pacific. It used to be more like 50 percent. Well, if it's 60 percent of a rapidly shrinking pie, you're not going to achieve the desired effect.

So, when you add all this up, I think the Navy can shrink a little, and there's one other idea I won't burden you with right now on how to do that, but even if you put these kinds of ideas on the table, you're breaking a lot of china to do what I just said. This is the way you get to maybe $200 billion in additional 10-year savings, not the way you get to sequestration. Sequestration to me is just a bridge too far.

MR. KALB: Help us all out here, and I think I'm asking it as much for myself as everyone in the room. You two are giving us a little bit of the flavor of what it is to figure these things out now. In a realistic way, the United States is hurting economically, you've got to cut that budget, you've got to cut the Pentagon budget, so there are two questions that come to my mind immediately. One is, what about the rest of the American budget, not just the military side of the budget? We seem to be absorbed more with the military side of the budget and complaining about cuts there than we are about the rest of the budget, and I appreciate military needs and all of that, but is there somebody, in your experience, at the military side who is saying, we're only part of this problem, we've got to be aware of everything else in American society that's going to be effected by sequestration? Do you guys even hear that in your discussions?

MS. EAGLEN: I have heard it from this Secretary and the last Secretary of Defense a lot and even the predecessor before that, Secretary Gates, talked a lot

about whole of government and other security efforts that are being harmed beyond DOD, you know, Federal Foreign Aid, State Department, diplomacy, other capabilities that we have that are outside of the Defense Department -- intelligence, as well -- that are being hurt.

There is a great concern at a senior political level about this, but to be fair, the reason so much, I think, of the discussion is on Defense cuts in particular is because it has been a disproportionate bill payer in these efforts. DOD is putting in more dollars per -- relative to its own size as a federal agency, and it is the largest, than all of the rest, so it's only fair, in my mind, and it's certainly a unique department in terms of its Constitutional mandate, so it's not that the rest aren't important by any sense, and I agree with you, but I think it's reasonable to have an emphasis on the Defense Department in particular. As I already mentioned, this is the fourth year of budget cuts. For many of these other federal agencies, in fact, almost all of them, they're coming off a budget wave of good news where we had basically a $787 billion stimulus bill, you'll recall, in the first year of this Administration. That was a plus up of every agency but Defense. And that's the year Defense budget started going down.

So, you know, I just will defend the Defense Department for a moment.

MR. KALB: I'm not, in asking the question, seeking to criticize the Pentagon, I'm trying to put it into a context involving the entire budget and all of the needs of the United States, not just the military needs, but if you turned it around now and say that we live in an extremely turbulent world and maybe we would like, after Afghanistan, and that is not yet over, after Iraq, to pull back, and as the President says, do nation building at home, are we capable of doing nation building at home in a world that remains as turbulent as it is?

MR. O'HANLON: I'm going to, if you don't mind, cite the opportunity I

had recently to write an op-ed with David Petraeus on this point, actually two we've written this year, one this week in *USA Today* and one earlier this year in *The Washington Post*, and what we try to argue is that, sure, these big deficit deals that have been proposed would be wonderful to have in many ways, but they're not essential.

What you need to do, given that America's economy has so much promise right now, what you need to do is just sort of tip the curve on how we're increasing the debt. And if we lower our -- maybe lower our expectations a little, we can wind up in a reasonable place, at least for the next five or ten years.

Now, the long-term entitlement problem is a big challenge and of course our colleagues at Brookings like Alice Rivlin and others, have written eloquently about this and Petraeus and I aren't going to solve that problem, but in the short-term, if you had a modest increase in either income tax rates or a modest cap on deductions, the way Mitt Romney was proposing last year, and you have, let's say, a couple tenths of a percent change in the cost of living adjustment for Social Security recipients, that would cumulate over time, you could achieve, essentially -- and a couple of other -- let's say half the cuts -- a third to half the cuts in the discretionary accounts that sequestration would impose -- you do that, you've basically at least prevented the debt from getting bigger relative to the size of the economy, and then all the things we have going for us, our energy revolution, our cyber possibilities, our advanced manufacturing, the gradual recovery of the real estate market, all of these things can kick in.

So, Washington doesn't necessarily need to see itself as the location of this great showdown of the forces of bloated government versus liberty and the tea party and here on the stage of Capitol Hill is where the future of the country will be determined. We don't have to be quite that melodramatic about our role in Washington.

It's an important role, but the private economy and the American people

are going to do a lot of the heavy lifting based on forces that are already out there in the private sector, if we can just get the darn debt to stop growing relative to the size of the economy. So, you can actually live with deficits in the range of $300 billion, $400 billion a year, and achieve this goal. I'm not saying that would be a perfect end state, but we sometimes make the problem seem so impossibly hard. It's not impossibly hard. With reforms that are well within the mainstream on all these different accounts, we can actually tip that debt curve to the point where relative to the size of the economy it's no longer growing, maybe shrinking a little, and then let these other positive things happening in our country take over.

MR. KALB: Good. Well, I have no objection. Okay, let's turn to you all. If you have questions, please raise your hand. I will recognize you. Ask a question. Please, no speeches. And I see a number of people in uniform and I will try to get to them as well.

I'll start over here, please. Give us your name, please.

MR. COURTNEY: Yes, Bill Courtney with Computer Sciences Corporation. Several years ago the Department of State added a second Deputy Secretary of State for Managing and Resources. The Department of State is a relatively small cabinet department. Secretary Hagel has spoken of an enforcer to help make sure the efficiency cuts and other things are done. Would it make sense for the Defense Department to establish a second Deputy Secretary to deal with management and resources?

MR. KALB: Mackenzie, you have a smile on your face. You know the answer?

MS. EAGLEN: Well, there have been --

MR. O'HANLON: It's her. It's going to be her starting tomorrow.

MS. EAGLEN: No, no, thank you. Life on the outside is very good.

Well, a couple of problems. Yes and no. I mean, one, I'm always loathe to grow bureaucracy and add new positions without taking away somewhere else or figuring out a way to sort of keep the workforce stagnant at the Defense Department, particularly the senior and appointed class, which it is. The Department of Defense has made some changes in recent years to bring in a management officer and some other things, but not at the deputy level.

My colleagues at other think tanks, like Larry Korb at CAP, have big thoughts on that question, and he makes an eloquent case that, you know, there have been times when we've had two deputies and it's worked very well.

I would argue, if your current -- and there's no way to argue this without sounding like a criticism of the man in the job now -- but if the current Deputy Secretary is capable and committed, I think that it can be executed pretty well from his office as it is, and maybe with some tweaks in some other positions and some expanded roles and responsibilities elsewhere. What we've seen before now, in the last decade plus, and I'm talking about one of my colleagues at AEI, we've seen a lot of policy-heavy in emphasis people -- people with policy backgrounds in the deputy job. I don't like that. That's what I don't like. I prefer somebody who is coming in from the outside, somebody who's been in industry or who's run a business successfully or has overseen management decisions, personnel, large organizations, et cetera, some of the best secretaries and deputy secretaries have had that model for the Defense Department in the past like Packard, for example, and others.

So, that model has proven that it works. I'm not knocking the guys who are in the job. It was a two-war time and perhaps that was the right way to do it, but where we are right now is that you need a strong deputy. I'd argue that's probably more

important than the Secretary of Defense position right now.

MR. KALB: Mike, this idea of the Pentagon being a bloated place, all kinds of dough is being spent unnecessarily. Do you think that that suggestion would actually help?

MR. O'HANLON: I can't tell. I'm intrigued by it, but I think I come down where Mackenzie does that the deputy secretary position is sort of supposed to do this. I think Ash Carter is really doing a pretty good job. He's unfortunately living in an environment where he can't really get any clear guidance from the policy lords because there's no clear budget path ahead, and also Congress, you know, is frankly not doing as good of a job as past congresses at biting the bullet and making tough choices on Defense policy.

We've had five base closure rounds approved in the last 25 years, this Congress has been unwilling to do it, for example, and so I think it's time to ask Congress to step up its game too.

MR. KALB: Okay, thank you. This gentleman right here in the front, please.

SPEAKER: I am Dr. Nasil Chaundry with Pakistan-American League. We subscribe in the area of enduring U.S.-Pakistan relations and sustainable democracy in Pakistan.

My question is, as Mike said before, that virtually sequestration has become the law of the land. My question is that across the board there are multiple fires in the globe now, not one or two, Afghanistan and Iraq, forget about that, there are so many right now. In 19 Muslim countries, the American embassies are closed. And in Yemen Americans have been asked to evacuate by air, air lifted.

In presence of so many problems, USA is the world leader, legitimate

world leader, with the mightiest military machine and cutting edge technology and the biggest economy. A true leader.

MR. KALB: What's the question?

SPEAKER: Yes. Cutting the budget without defining or redefining the foreign policy or reviewing the foreign policy because in case of Al Qaeda, are we making more friends or more enemies in the world? There is a problem all across the globe from Afghanistan.

MR. KALB: Okay.

SPEAKER: What is USA missing and not doing?

MR. KALB: Thank you. Thank you. Do you want to take a crack at that, Mackenzie? Or I'll throw in my three cents on that one.

MS. EAGLEN: Sure, please.

MR. KALB: I think you're raising a very good question and to me it's a fundamental question. The military is there to implement a policy. Mike was alluding to this a moment ago and I think he was being too diplomatic there for a minute. It's not just a matter of the people who put the budget together. It's the people who run the government, who have to come in with a strategy. Then the military is there to perform and to perform brilliantly and in many ways it has. But it's now operating in a world of such tremendous uncertainty in the world itself, plus the uncertainty in the governance of this country that you have a conflict that is obvious and not easily resolved.

Now, if you guys want to throw something else in, go ahead.

MS. EAGLEN: The power structure is all off in this debate. I agree with the premise of your question. Defense policy is the child of the parent called foreign policy. That's how it's supposed to work, right?

MR. KALB: Exactly.

MS. EAGLEN: And it hasn't worked that way at all and what we're seeing now is this coalescing of the debate about Defense policy in every space -- the White House, Congress, among people like us, the chattering class -- and what we're really talking about often are foreign policy issues. And so what we're doing is de facto changing foreign policy, but we're not having a meaningful debate about that, so it's through the back door and that's why it's being done so poorly and so inefficiently and dangerously.

MR. KALB: From the back. Yes, please, right here.

SPEAKER: Huntsman Endyke from SAIS. I guess it's important to note that SCMR or Scammer is not something that the Administration necessarily wanted to do. And Mackenzie, you're right, that it's a cumulative effect that is having the real impact and it is sequestration that is the problem now.

So, if you look at budget -- if you look at sort of force structure levels below 450,000 for the Army or a cut in the Navy below nine carriers, it's not something the Administration is interested in doing.

When Secretary Hagel made his presentation the other day, he had this interesting strategic choice between capacity and capability and I'd like you to talk about that a little bit. Capacity is about force structure, it's about numbers, capability is about modernization, technology, being at the cutting edge, and obviously you're not going to choose totally one path or the other, but given the question that Marvin Kalb asked about strategy, could you look at capacity and capability in that choice and tell us how you think it would affect strategy?

MR. KALB: Thank you. Mike, do you want to start us in that?

MR. O'HANLON: Yeah, Hans, thank you for an excellent question and also for the good reminder, which I agree with, that the Administration is not enthusiastic

about these additional cuts. As I mentioned earlier, the place where I was having a slight difference with them was almost more a tone because they suggested that cutting the Army down into the low 400s would follow the logic of the Defense Strategic Guidance from last year, and I do want to challenge that guidance a little bit. I think the notion that we can conclude that the era of large scale counter-insurgency to be over, that's a little bit of an a historical way of thinking about war.

But beyond that, I agree with your point.

On the issue of modernization and capacity versus capability, I'm glad you raised that. There are so many different angles to take, let me take one specifically, which is our friend the joint strike fighter. And I like to say, I am a fan of the joint strike fighter. It's a program that's had trouble and it still will have some trouble, although it's doing better, but I'm a fan, but I'm not sure we need 2,500 because the joint strike fighter is sized for the three services that are purchasing it, as you know, all but the Army, it's sized largely to replace existing force structure, that's essentially how the arithmetic was done on how many we should buy, not quite, but more or less, and I think it should be sized more to high-end threats, in other words, there are certain places in the world -- if we wind up doing a no-fly zone in Syria, I don't think we need the joint strike fighter for that. We flew F-16s and F-15s and F-18s over Iraq for a dozen years, and we didn't have any problems with aircraft getting shot down.

So, sure, there's always a nice extra margin of safety in having a stealthy airplane, even for that kind of a mission, but is it worth $100 billion to the country?

So, what I try to lay out in my own writing, and this is why I think the reasonable room for compromise exists, is scaling back the F-35 joint strike fighter to something that in my eyes could be roughly half the plan size, and that would be sized towards high end contingencies, specifically deterrents of China, possibly some strikes

against Iran or even North Korea, and then otherwise fill out your Air Force, Marine Corps, and Navy combat force structure to the extent you need to keep most of it with a greater combination of existing fourth generation planes, so you either build more, you know, F-16s and F-18s or you refurbish the ones you've already got, and you maybe lean towards unmanned systems a little sooner, as my colleague Peter Singer has written eloquently over the years, and if you do all that, you don't save half the budget that the F-35 would have cost, as you well know, but you may save 20, 25 percent, and you still wind up with far and away the best fighter combat force that the world is going to see for the next generation.

To me, that's the way to strike a balance. Unfortunately, when you start doing sequestration level cuts, you wind up with this kind of a choice, either zero F-35s or an Army of less than 400,000. I don't -- obviously, there are other ways you could do it too, but that's the kind of choice you're forced towards. I don't think we really should live with either of those choices, so I think we've got to look to push, to rethink, I think we can cut a couple hundred billion dollars in the ten-year defense plan beyond what was already in last year's budget, about what Obama is proposing now, but I think sequestration is just too deep.

MS. EAGLEN: I love the question because it is the question, putting aside the things Marvin talked about in the first half of our session, which is what we should talk about and continue to focus on, the strategic debate, your question is now, so this is where we are and where do we go from here.

I have two problems with the capability and capacity choice that the Secretary outlined, and it's pretty stark, it ignores the fact that capacity is, in part, a function of capability, so leaving that aside, presents a binary choice for policy makers as if those were the only two, so I have a problem with that.

You know, something that is not being debated enough is the Department of Defense's choice to maintain readiness at all costs of these other two pots of money, if you will, but the baskets and portfolio -- part of the Defense portfolio. Let's put aside right now if that's good or that's bad, let's just talk about that it's an option.

While DOD leadership claims there's no constituency for readiness, there is in the Department and the budgets reflect that, but there are other options and you can take more out of readiness. It is a very expensive proposition and it's not that it's just expensive, but it's a relative state of being meaning the Chairman of the Joint Chiefs said that this is the most ready military in modern history. So, there's arguably some debate that could be had, capacity, capability, and readiness. There are third and fourth and fifth options here that are not being discussed.

So, the Secretary is just -- it's a foregone conclusion that we're going to have to take, unfortunately, from capability and capacity, so I have a problem with that.

And then the second point is that it's an illusion of choice. At the end of the day, it's not smaller and modern or bigger and older, it's going to actually be both. The numbers, we've already painfully walked you through them multiple times, it's sequester, it's the readiness hole and it's the efficiencies never realized. This tag is so gigantic they're going to take from both and they already are, they already have been, this notion that modernization, for example, the capability portfolio will become a disproportionate bill payer when it already has been for the last four years of Defense budget cuts. You know, these things are already happening. These are not decisions in the future, and these will just accelerate those.

So, these two choices are really just one, and that's unfortunate.

MR. KALB: I love your phrase about the illusion of choice, and I recommend that be the title of your book. *The Illusion of Choice.*

On this side here, yes, please. Right in the middle.

MR. THIELMANN: Greg Thielmann, Arms Control Association. I think in Washington it's easy to get a consensus that sequestration is a disaster. It's a terrible way to cut budgets. It's a terrible planning mechanism. If you could imagine yourself at a town hall meeting this month with a member of Congress, I wonder how you would explain to the crowd there who is responsible for sequestration. Why can't we just end this? Because I'm sure that some people will be asking members of Congress that. And what do you think an honest answer to that question would be?

MR. KALB: Thank you for that question.

MR. O'HANLON: I'm happy to start. I think that, you know, the genesis of the idea, we've all read our *Washington Post* accounts, and let's make a quick plug, we hope *The Washington Post* will keep doing such excellent journalism under its new leadership, and I'm sure it will, but the great accounts there and elsewhere of who first tossed out the idea two years ago, was it Jack Lew, was it somebody else, I'm not going to criticize anybody because at the time -- and Marvin was very witty and punchy at the beginning pointing out that at the time it seemed better than doing nothing, and maybe now we have our doubts, yeah, I think it's right now worse than nothing in terms of how it's affecting not only Defense, but the other discretionary accounts that I care a lot about because they're our seed corn for the future, science research, infrastructure, education. I care about these ideas, even from a national security point of view, just as much as I care about the Defense budget.

They're being selectively hit by sequestration. Entitlements and tax reform are basically getting a free ride, more or less. To me, that's exactly the wrong way to go. So, I would say sequestration is worse than nothing. But having said that, why haven't we been able to move beyond it in the last year or so? That's the other part of

the question because I think the origins of it are, more or less, shared origins.

And here I think if I had to allocate blame, I would sort of say 65 percent to the Tea Party wing of the Republican Party and 35 percent to the staunch defense of entitlements wing of the Democratic Party. The only reason why I give -- there's plenty of blame to go around, so 35 percent blame for the pro-entitlement Democrats is not meant to be a pass or a soft critique, and maybe I could be talked into 60/40, but I think that President Obama's budget request this past spring was reasonable at looking for a compromise and he is the top policymaker in his own party.

Where I would criticize the President, however, is that he doesn't like to talk about it very much, so he's not really trying to rally a spirit of shared sacrifice around the country the way some of my heroes, the Paul Tsongases and the Warren Rudmans and, you know, even at his best, Bob Dole and some of -- and Bill Clinton, some of the people from the 80s and 90s who worked hard on creating a bipartisan spirit of shared sacrifice and were willing to talk about the cuts or the tax reforms they didn't like in order to try to create this spirit of national solidarity.

There really hasn't been anybody doing that very well, including the President, although his budget itself is better than what it was or better than the Tea Party budget, in my judgment.

So, I think the President's moved to a good actual intellectual place, his budget is a perfectly reasonable compromise between the different points of view, but he hasn't done enough to sell it and the Tea Party has treated any kind of tax reform as if it's likely to be the end of our economic growth, failing to recognize that historically tax rates now are lower than they were under Reagan and Clinton and, you know, failing to recognize that entitlement growth is something that we're all sort of collectively responsible for.

Actually I will give -- Mitch Daniels and a few others have said that and I give them credit, but I think the Tea Party has talked about the growth on entitlements as if it's this runaway train.

Now, over the next 20, 30, 40 years, it is. But in the short-term, I don't think we need to fundamentally break Medicaid and Medicare in order to make progress. We can scale back the rate of cost increase in Social Security, for example, and that's a more palatable near-term mechanism, while we continue to have the bigger debates about longer-term reform.

Anyway, I'm getting a little bit off my Defense specialization, so I should stop there, but let's just say there's plenty of blame to go around. I'll finish on that note.

MR. KALB: I wonder if I could pick that up, I didn't want to leave that die. Mike said a moment ago that the President is ready to compromise and Mike has written about this with David Petraeus just recently, this idea of the advantage of compromise, the need for compromise, and I think Mike is absolutely right in saying that the President has demonstrated, in a number of ways, a desire to reach out and a desire to compromise. The Tea Party has not done that and that is a fact, and I think that we lose the spirit of the madness of Washington politics right now if we forget that one side of the argument does not wish to compromise and the other side appears to want to compromise, and you can't get a deal in this city, ever, in more than 200 years, unless the two major factors have come together and agreed to do some kind of compromise.

My editorial is at an end. Next question. Yes, sir, right there.

SPEAKER: Thank you very much. I'm Jeffrey Lin of Senator Angus King's office and my question is directed at how the various budget cuts in the Defense would affect -- well, perceptions of U.S. military power, both in our allies and other countries. Thank you.

MS. EAGLEN: Well, just this morning I was reading Deputy Secretary Carter's remarks to that effect, which is, he sounds pretty horrified and he was reflecting reality. Everybody is watching. Everybody is taking notice. Sometimes you get the sense in Washington everyone but the people making the decisions here in this town, unfortunately, but what he's referring to is friend and foe, and potential foe alike, right? Our allies are worried that we've got a cut and run plan here that we're not telling them about, that we're putting on a happy face or lipstick on a pig. They see our numbers shrinking or our presence shrinking or our capability shrinking, but they hear that everything's going to be fine, the pivot is resourced, all is well, and they intuitively are sensing things are different.

And those who would seek to capitalize on a moment of perceived weakness, I guess you could say, are also watching, and I'd argue, calculating differently about the timing of accelerated nuclear progress in their programs or any other kind of challenge from terrorism to Assad in Syria. I mean, your question sort of summarizes the answer to me is that, yes, everybody's watching and everybody's taking note.

MR. KALB: Mike?

MR. O'HANLON: I agree and let me just give a specific example of what we've been trying to do, and we've referred to it already today, the so-called rebalancing towards the Asia-Pacific.

As you know very well, Jeffrey, the rebalancing is a multifaceted strategy. I think it was well handled by people like Jeff Bader, Kurt Campbell, and Hillary Clinton in the first Obama term. The President himself obviously deserves primary credit but it was relatively notable for its modest steps. There's not too much huge change in the rebalancing, and I think that's actually a good thing because we wanted to remind the region and remind China that we're still an Asia-Pacific power without being overly

confrontational towards China or giving the illusion or impression of a containment strategy in the making.

So, I agree with what it amounted to, but if you actually cost out the changes, in other words, the reapportionment of Defense resources from other theaters towards the Asia-Pacific -- I did sort of a back of the envelope -- and I think it's about a $10 or 12 billion effect in terms of how much of the annual budget that you were previously spending elsewhere, you're now spending in the Asia-Pacific, roughly speaking. This is just an illustrative way to think about this question you're posing.

Well, with sequestration, we're now going to cut $50 billion out of the annual budget and we can try to selectively protect that $10 billion increase for the Asia-Pacific, but it's pretty hard to do so when the Asia-Pacific now accounts for, you know, much of your global Defense spending. The overall numbers are coming down $50 billion and you're going to still try to claim with a straight face that your overall effort towards the Asia-Pacific has been increased relative to what it was before. The math just doesn't add up. The $10 billion that you're trying to protect while you're losing $50 billion out of the overall Defense budget.

So, rebalancing to the extent that I support it, to the extent that I think many in Washington in both parties have supported it, as a carefully calibrated and appropriate way of reasserting our interest in the broader Asia-Pacific theater is now being directly challenged if not undercut by sequestration.

Now, in the short-term, perhaps there's no big deal. In the short-term, the pilots can take the summer off. We're mistreating our civilians, and I'm frankly a little upset about how we're treating our civilians with these furloughs, but from an Asia-Pacific point of view, I'm not sure allies and adversaries or neutrals care that much, that's sort of our own internal decision making.

We're putting a few more weapons in lines waiting to get repaired down the road. We're not cutting the grass at a few bases, in other words, you can try to talk your way out of sequestration in the short-term and just say the effects are temporary or modest or will be repaired next year. But if you sequester again in 2014, I don't know how you sustain that argument. I think we have to admit that sequester will have trumped and essentially undone the rebalance.

MR. KALB: Thank you, Mike. Yes, please, right here. Thank you, sir.

MR. HOFFMAN: Frank Hoffman, National Defense University. Hans stole a little bit of my question, so I'll build on it a little bit and try to push Mackenzie a little bit on the illusion of choice.

Some of our colleagues at another institution, obviously less prestigious than the two represented here today, have argued that we're over-investing in readiness. That there is a strategic choice, a real strategic choice, about the temporal dimension and the risk that we're currently facing, which, I guess, is a push back a little bit on Marvin, you know, wars, frequency, lethality, and cost is statistically perceived by some people as being much less today empirically, although we perceive it to be something different.

So, is there really a choice between readiness? Are we over investing? Do we have less risk today that we should be smart about and invest in modernization for the future? Is the industrial base fragile and weak? And is it at risk? And should we invest in modernization? And then another question, what should we be investing in? Because there's an implicit idea that we know what we're investing in and what kind of wars we want to fight. Mike wants a little more balance and adaptability, the Strategic Defense Guidance is investing in Air Force and Navy and air sea battle. And is that what we should be doing, present tense, readiness, modernization, and the future?

MR. KALB: Illusion of choice.

MS. EAGLEN: Yes, yes. Frank is so eloquent. Going back to the CSBA-led exercise, I call it a war game, where we conducted a shadow SCMR, a shadow Strategic Choices in Management Review. And I know you're familiar and our equally august colleagues at all of those think tanks -- I'll speak for them since we've all sort of recited each others' pitch by now. There were some great points that came out of that and one of them is the first point on readiness, that it is debatable. That's exactly what I was saying is that the Defense Department is setting up a binary trace of capability and capacity when there are many other options that could be considered, and one is, do we cut readiness, how much, where, across what components, across which services, how would you execute it, and then what impact would it have strategically on war plans and other things.

I absolutely think that needs to be open and up for discussion because it depends on what you want to do. Is the focus the near-term, you know, mortgaging the future for the near-term, so you're going to mortgage capability for readiness now? Or do you want to flip that and take more risk, just as you said? And those are the kinds of choices that the Secretary left out of the Strategic Choices and Management Review, but I think that's exactly the point of an event like this, is to raise that awareness.

On the industrial base, I think there's no doubt -- I do think that there is a perception problem, that the industrial base is faring relatively well on the large cap side under the sequester, for a variety of reasons, many of which that they're better planners than DOD and the political class in this town, who saw this coming and prepared three, four years ago.

Leaving that aside, the perception is that everything is fine and manageable. Of course, I worry about the small and the medium-sized suppliers and venders and long lead companies that help build a ship and an aircraft and a vehicle, and

that's really the concern here.

I'll give the Pentagon credit. There has been a great emphasis on the industrial base review, sector by sector, the portfolio reviews, et cetera, that's been underway for years now. I'm not sure how much has been taken up for action, and I'm not sure how much they can do, so that's what I worry about, if their intent is good, but the dollars just aren't going to be there, I think, to take care for the long-term, and I'll let you pick up the third one if you want on modernization.

MR. O'HANLON: Well, I was going to come back to readiness, because I'm glad you're raising it, but I also would like to put in a word in sort of defense of the traditional notion of keeping readiness high.

We've got Lieutenant Colonel Frank Hoffman retired who, if the Marine Corps needed him, could be -- you're looking as fit and as trim as ever, you could be ready to go in three months and I'm sure you'd be a great war fighter. So, if you miss a rotation of Reserve duty, I think it's probably no big deal, and I think sometimes we get into this idea that a lot of our military, it's been working so hard, you know, give them a break, let them rest. And the Army was trying to do that, as we know, for much of the last decade. They realized this obsessive focus with being ready all the time was actually less important than letting people just, you know, see their families and take care of their mental health, and it sounded a little touchy feely at first, but the Army was right.

However, and I know you would be quick to understand this better than I, Frank, let's also remember the recent recruit, the 20-year-old who has never properly trained up to the standards that we have come to think, ever since Tom Cruise in *Top Gun* taught us about the importance of peacetime training, that never had that standard, and now they're being told, okay, you can go shoot, you know, ammunition. We've still got live ammunition for you for your rifle, that's the good news, and you can read as many

military history books at your base as you want, but the exercises where you drive down the road to the neighboring base where there's a 10 x 10 square mile area for, you know, small unit maneuver, we don't necessarily have all the resources for that and we definitely don't have the resources to fly you to one of the national training centers to do the large unit maneuver warfare training that historically has been what's made the Marine Corps and the Army so darn good and ready for battle. We just don't have that kind of money right now because if you're going to cut $52 billion out of the fiscal 2014 budget, you're going to have to take a lot of it out of readiness.

So your theoretical debate, which is important, and I think we all would agree over the longer-term you've got to wrestle with that, in the short-term, you take the money largely out of readiness and out of new contracts for industry, and those are where you can go for money in the short-term.

Well, now you've got your 20-year-old recruit who is going to potentially be on call for Korea or somewhere else, who has never in his or her whole life done a proper, large unit maneuver training exercise, and I think that just -- it's not going to immediately take us back to the hollow force of the post Vietnam era, but it is, frankly, a little bit of a risky decision and potentially very unfair to that recruit.

MR. KALB: Thank you, Mike, very much, and thank you all. I want to conclude with sort of a small little war game, or not even a war game so much as a foreign policy exercise involving military strategy, and that has to do with the South China Sea, it has to do with our relationship to Vietnam, and it has to do with our relationship with the Philippines, with Taiwan, and of course, with China.

Now, as all of the military people are thinking through how many planes, how many tanks, this and that, there are things happening right now in the South China Sea. Some people regard what is happening as threatening, some things that are

threatening on the near horizon, others push it way back, 15, 20 years.

The people who live in Vietnam see it as an immediate danger, people in the Philippines, the same way, Taiwan, same way. The Chinese are doing things that you could argue all great powers do, and China is now a great power and has to be regarded as such.

How do we respond intelligently within the constraints that you both have articulated so well, I think? When you see a problem like the South China Sea, does that mean you have to send more ships there? More planes there? Does it require a different kind of non-military diplomacy? When the Secretary of Defense goes to Vietnam and says we are developing a commitment, you and I, that's a loaded word within the context of the U.S.-Vietnamese relationship.

When the U.S. begins to talk about commitments to the defense of Vietnam, against whom? Obviously China. Vietnam and China have fought each other many times in a thousand years.

What is the smart thing right now, taking this military review into account, for the U.S. to do? And I'll start with Mike.

MR. O'HANLON: The smart thing is to recognize that our Asia-Pacific strategy has been working. In other words, for all the ways we have to stay vigilant towards the rise of China, and obviously towards the real enemy, which is North Korea, the overall approach that we've had has been successful. We've been present, we've had strong alliances. We've had a perception of great strength.

Now, China is growing to the point where it's not going to be an unrivaled kind of American superiority indefinitely, but I think the last thing we want to do is accelerate the pace of transition.

And this is not necessarily --

MR. KALB: Transition to what?

MR. O'HANLON: To China being equal to the United States in the Asia-Pacific militarily. There may be a day when they are, although we've got great allies and we've got great experience in our Armed Forces and it's going to be a long ways off before they even get to that point, but I don't think we want to accelerate the perception of American relative decline. I'm not even sure decline is the right word to use and I would prefer to avoid creating that impression.

The other -- and therefore, I don't want to see sequestration because it's going to undo the rebalancing.

One more point that your question raises, and I'll try to make this brief, but I think it's important. Some people say, well, if we cut the military at least we won't have the temptation to go fight as much. You know, and if the Japanese want to fight over Senkaku Islands against the Chinese, let them do it. We're better off staying out and if we have a smaller military we'll be disinclined to get involved.

Well, by the way, I don't really want to fight the Chinese over the Senkaku Islands, but leave that aside. If you look historically at when we fight and when we don't, I don't see a correlation between higher Defense budgets and greater likelihood of intervening. So, the world wars began when we were unprepared. The Korean War began when we were unprepared. The Vietnam War was a little bit more complex, and you know that case extremely well, but if we now fast forward to the Reagan years, in many ways the Reagan years are still -- and people can correct me if they wish afterwards or whenever, but -- the Reagan years are still, by many people, seen as the golden years of American Defense policy because we built up the budget and we didn't really use the military. And that's -- you know, isn't that a wonderful outcome?

Now, I'm not saying it's all Ronald Reagan's great judgment that led to

that. There were some happy circumstances as well, but there was no correlation between increasing the budget and increasing the proclivity to intervene militarily.

Then in the 90s, for operations that I generally supported, so I'm not criticizing the Clinton Administration, we cut the budget and increased the number of overseas activities and George W. Bush did not run for president -- if you go back to his 2000 campaign literature -- he did not run promising a big Defense build up and he was not intending to make foreign policy the centerpiece of his foreign policy, and then he wound up making, as we all know, one of the most fraught decisions in modern American history about what Richard Haas calls a war of choice in Iraq.

So, I don't think that cutting our military is going to be the best way to keep us out of trouble in the South China Sea. I want steadiness and resolve and let's sustain the rebalance. That means we can make modest additional economies in Defense, but not deep cuts like sequestration.

MR. KALB: Mackenzie, your concluding thoughts.

MS. EAGLEN: Amen. I feel like I should applaud. I think that was very powerful and eloquent on Michael's part. There isn't much to add except that, that's right, I wouldn't put all my eggs in one basket, is basically the summary answer here. I want peace through strength, or a modern day version of it, because I want a military that deters. I'm just talking on the military front here. I want all those other things too, I want strong allies, I want our partners' capacity to be robust enough to defend themselves if needed and take care of their -- police their own neighborhoods, so to speak. I want all of our tools of soft power to be effective, partly through the reinforcement from our hard power. I want a lot of things.

I want economic strength, et cetera. But the pointy edge of the spear is to have this tremendously capable military that just gets into their mind a little bit, right, so

it's not about --

MR. KALB: Is their mind the potential adversary?

MS. EAGLEN: Friends and potential adversaries.

MS. KALB: Friends as well?

MS. EAGLEN: That's what -- we're getting into the terms of art here for Defense policy, but that's what we call shaping and influencing, but we see it every day with our own kids. I mean, as a parent you want to be the one shaping and influencing your kid, but then you know they go to school every day and somebody else is telling them something, right.

But you always want it to be a calculus, and like I said, it's not just the Defense part. I want all of the eggs in our basket to be strong and they're all being equally weakened, as you outlined earlier, in the larger budget debate, at least on the discretionary side, and so I would second everything Michael said and say, that's, of course, where we're not headed, which is a depressing way to end the conversation.

MR. KALB: Well, I want to just say to both of you, I think you're terrific and a very important, interesting, rich kind of discussion of a very complicated problem. And I know that I speak for everybody at Brookings in saying, thank you all for coming and thank you all for being with us.

(Applause)

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