

POLICY PAPER
Number 24, December 2010

Foreign Policy
at BROOKINGS

Defense Budgets and American Power

MICHAEL O'HANLON



POLICY PAPER
Number 24, December 2010



Foreign Policy
at BROOKINGS

Defense Budgets and American Power

MICHAEL O'HANLON

TABLE OF CONTENTS

INTRODUCTION	1
TRILLION DOLLAR DEFICITS AND THE DECLINE OF GREAT POWERS	4
UNDERSTANDING THE FISCAL CHALLENGE	10
SAVING \$60 BILLION OR 10% IN THE ANNUAL DEFENSE PROGRAM	13
CONCLUSION	22

INTRODUCTION

In the late 1980s, as U.S. GDP growth slowed, budget deficits remained stubbornly high, and other nations' economies outperformed that of the United States, arguments that “the Cold War is over—and Japan and Germany won” were heard frequently. Since that time, however, these U.S. allies have encountered their own challenges—Germany in reintegrating its eastern half and then helping establish the viability (and solvency) of the European Union (EU) and Euro systems; and Japan in dealing with a protracted deflating of its earlier financial bubble, combined with demographic challenges that leave its future economic prospects uncertain, at best.

Today, we are witnessing a period of even greater American economic travails, with much larger fiscal deficits. These are coupled with deep concern that less friendly powers—China in particular and perhaps Russia and others—may be poised to benefit from the relative decline of the United States specifically and the West in general. Is this assessment accurate? What do these shifting economic realities bode for the future of American power and ultimately the security of this country and its allies? Most of all, in light of these changes, to what extent can the United States mitigate the downsides of any hegemonic realignment of global power by more responsible fiscal policy? Put most sharply for the purposes of this essay, to what extent should the United States, as part of a

broader strategy to reduce its deficits and strengthen its future economic prospects, accept some defense budget cuts now to preserve and enhance its power in the future?

This paper wrestles with these questions by first exploring the broader question of historic change and the transformations in global economics that ultimately affect military power and national security. It then focuses more specifically on the present American economic and budget challenges. Finally, concluding that serious measures should at least be considered in response to current fiscal challenges, the paper explores options for defense budget reductions that would make a significant contribution towards broader American deficit reduction efforts. In doing so, these recommendations are motivated by the hope that wise, careful reductions can avoid injurious repercussions for U.S. interests and can limit the amount of turning inward by the American people that may well be inevitable, to an extent, in the aftermath of the Iraq and Afghanistan operations.¹

One need not view warfare as the natural state of mankind—or the rise of China and other new powers as inevitably leading to conflict with the United States—to have the concerns addressed here.² There are also powerful arguments that, in a world of nuclear weapons, terrorism and civil conflict, infectious

¹ On the latter, see for example, Michael Mandelbaum, *The Frugal Superpower: America's Global Leadership in a Cash-Strapped Era* (New York: Public Affairs, 2010).

² On China's rise and the United States' response, see for example Ashton B. Carter and William J. Perry, *Preventive Defense: A New Security Strategy for America* (Washington, D.C.: Brookings, 1999); pp. 92-122; and C. Fred Bergsten, Charles Freeman, Nicholas R. Lardy, and Derek J. Mitchell, *China's Rise: Challenges and Opportunities* (Washington, D.C.: Peterson Institute for International Economics and CSIS, 2008), pp. 226-229.

diseases, possibly growing threats from biological pathogens, climate change, and overpopulation, the great powers can ill afford the ultra-competitive habits of the past.³ But they do not change the fact that American military power is designed in part to maintain stability in an international system that includes rising powers like China, and that is sized, structured and modernized in large part with an eye towards the behavior of those other powers. Nor is it any secret that the U.S. Department of Defense watches these developments with a careful eye.⁴ As such, any proper examination of the U.S. defense budget must consider the inherent linkages between global economic trends and future military power.

To be sure, it would be penny-wise and pound-foolish to jeopardize the general stability of today's international system in an overly assertive effort to reduce the U.S. federal deficit by some specific percentage. Today's defense spending levels are preferable to a major-power war or other serious conflict. Nor are they inherently dangerous; the United States has enough checks on its uses of force, including general casualty aversion as well as a desire to look inward and focus on domestic issues rather than expend resources abroad, that it is not necessary to cut defense in order somehow to prevent unwanted operations or harmful defense investments. However, it would also be wrong to ignore the facts that major American deficit reduction is probably necessary for the country's long-term strength, and that only by creating a spirit of shared sacrifice throughout the nation can such deficit reduction likely occur on the necessary scale. Chairman of the Joint Chiefs of Staff Admiral Mullen, Secretary of Defense Gates, and

Secretary of State Clinton have all identified U.S. deficit and debt levels as national security threats and they are all surely right.⁵ Mullen has called the debt the nation's "biggest security threat."⁶ At a political level, too, the American public is likely ready for a period of less assertive foreign policy, and the relative desirability of "wars of choice" probably will be seen—and should be seen—as lower in the future than it may have been in the past.⁷

This paper begins from the premise that we cannot deduce whether U.S. defense budgets are too high, or determine appropriate levels, with broad and sweeping arguments about the aggregate size of Pentagon appropriations. Such arguments are common, usually among those with a pre-determined agenda of either making the defense budget seem high or low. Many who wish to defend the magnitude of Pentagon spending often point out that in recent decades, its share of the nation's economy is modest by historical standards. During the 1960s, national defense spending was typically 8 to 9 percent of gross domestic product (GDP); in the 1970s, it began at around 8 percent and declined to just under 5 percent of GDP; during the Reagan buildup of the 1980s, it reached 6 percent of GDP before declining somewhat as the Cold War ended. In the 1990s, it started at roughly 5 percent and wound up around 3 percent. During the first term of President George W. Bush, the figure (inclusive of war costs) reached 4 percent by 2005 and stayed there through 2007; it exceeded 4.5 percent but remained less than 5 percent by 2009/2010. Seen in this light, current levels (including wartime supplemental budgets) seem relatively moderate.⁸

³ John D. Steinbruner, *Principles of Global Security* (Washington, D.C.: Brookings, 2000).

⁴ See for example, Jan van Tol, *Airsea Battle: A Point-of-Departure Operational Concept* (Washington, D.C.: Center for Strategic and Budgetary Assessments, 2010); Andrew F. Krepinevich, *7 Deadly Scenarios* (New York: Bantam Books, 2009), 169-209; Roger Cliff, Mark Burles, Michael S. Chase, Derek Eaton, and Kevin L. Pollpeter, *Entering the Dragon's Lair* (Santa Monica, Calif.: RAND, 2007); and Stuart E. Johnson and Duncan Long, eds., *Coping with the Dragon* (Washington, D.C.: National Defense University, 2007).

⁵ "Admiral Mike Mullen: 'National Debt Is Our Biggest Security Threat,'" *Huffington Post*, June 24, 2010, available at <http://www.huffingtonpost.com/2010/06/24/adm-mike-mullen-national_n_624096.html> [accessed November 8, 2010].

⁶ Richard Haass of the Council on Foreign Relations coined this phrase; see for example Richard N. Haass, *War of Necessity, War of Choice* (New York: Simon and Schuster, 2009).

⁷ Office of Management and Budget, *Historical Tables: Budget of the U.S. Government, Fiscal Year 2011* (Washington, D.C.: Government Printing Office, 2010), p. 146.

⁸ Office of Management and Budget, *Historical Tables: Budget of the U.S. Government, Fiscal Year 2011* (Washington, D.C.: Government Printing Office, 2010), p. 146.

By contrast, those who criticize the Pentagon budget often note that it constitutes almost half of aggregate global military spending (to be precise, 45 percent in 2008, according to the estimates of the International Institute for Strategic Studies).⁹ Alternatively, they also note that 2009 and 2010 discretionary spending levels (approaching \$700 billion each year) exceed the Cold War inflation-adjusted spending average of \$450 billion by 50 percent (expressed in 2009 dollars, as are all costs in this chapter). Indeed, current defense spending exceeds the Cold War average modestly even without including war costs. In addition, they note that defense spending dwarfs the size of America's diplomatic, foreign assistance, and homeland security spending levels (roughly \$16 billion, \$38 billion, and \$55 billion respectively in 2009).¹⁰

These observations are all simultaneously true, and as such, they are probably inconclusive in the

aggregate. The U.S. defense budget is, and certainly under any plausible alternative strategy will remain, large relative to the budgets of other countries and other agencies of the American government. Yet at the same time, it is modest as a fraction of the nation's economy at least in comparison with the Cold War era. As such, while informative at one level, these observations are of little ultimate utility in framing defense policy choices for the future. We must look deeper. Only by carefully examining how defense dollars are spent can we decide if the budget is excessive (or insufficient). The key is to try to identify missions that are not needed, or weapons modernization plans that are too fast and indiscriminate, or war plans that are excessively cautious and conservative. But first, we need to take stock of the state of America's broader security in these early years of the 21st century.

⁹ International Institute for Strategic Studies, *The Military Balance 2010* (Oxfordshire, England: Routledge, 2010), p. 468.

¹⁰ Office of Management and Budget, *Historical Tables*, pp. 62, 83.

TRILLION DOLLAR DEFICITS AND THE DECLINE OF GREAT POWERS

Throughout history, economic strength has naturally been a key foundation of military power. To be sure, technological innovation as well as military organizational creativity and tactical cunning have always been central too, as writers from Sun Tzu onward have argued.¹¹ Political commitment, military courage, and, more generally, the human element of warfare have been crucial as well, as students of Clausewitz all understand. However, without a strong and prosperous nation behind them, no military leaders or heads of state have been able to keep their countries preeminent in matters of armed conflict for long. Ultimately, the ability to innovate, the ability to build military forces, and the capacity to sustain national political will through the thick and thin of war and peace require some level of relative prosperity and economic strength.

As European history has demonstrated repeatedly, a declining economic power cannot long remain a superpower. The Spanish and Austrian Habsburg families/empires, according to historian Paul Kennedy, developed too many military commitments and vulnerable flanks. When they began to weaken relatively in the late 17th century, they could not sustain their positions or their interests. Subsequently, the Netherlands also lost its previous illustrious

position in the international power rankings—and the ability to create colonies as well as privileged trading and economic rights abroad—because the underlying size and strength of its national economy ultimately could not compete with the likes of France, Britain, and Russia.¹² Britain's period of dominance in the 19th century—unnatural in one sense for a country with relatively modest size and population (7th among the great powers at that time¹³) and partly a result of advantageous geographic positioning—was not sustainable as the country's relative economic standing dropped dramatically towards the turn of the 20th century. Its estimated share of world manufacturing output, for example, fell from more than 30 percent in 1870 to 14 percent in 1913 (as Germany rose from roughly 13 to 16 percent, and the United States from 23 to 36 percent).¹⁴

In the post-World War II era, Soviet economic decline, perhaps, was ultimately the greatest ally of the United States in ending the Cold War on terms favorable to the western world. Nevertheless, even as celebration unfolded at one geostrategic level, anxiety crept in at another. The problem was not just the relative rise of U.S. allies Japan and Germany noted earlier. The fundamental economic health of the American economy became uncertain, and with

¹¹ Thucydides, *History of the Peloponnesian War* (New York: Penguin Books, 1986); Sun Tzu, *The Art of War* (London: Oxford University Press, 1963); Andrew F. Krepinevich, "From Cavalry to Computer: The Pattern of Military Revolutions," *The National Interest* (Fall 1994); Stephen Biddle, *Military Power* (Princeton, N.J.: Princeton University Press, 2004); Martin van Creveld, *Technology and War* (New York: Free Press, 1991); and Max Boot, *War Made New: Technology, Warfare, and the Course of History, 1500 to Today* (New York: Gotham Books, 2006).

¹² Paul Kennedy, *The Rise and Fall of the Great Powers* (New York: Random House, 1987), pp. xvii-xviii, 99.

¹³ Kennedy, *The Rise and Fall of the Great Powers*, p. 199.

¹⁴ Aaron L. Friedberg, *The Weary Titan: Britain and the Experience of Relative Decline, 1895-1905* (Princeton, N.J.: Princeton University Press, 1988), pp. 26, 303.

it, the sustainability of the global economic order that had not only helped win the Cold War but held the western alliance system together. As Princeton's Robert Gilpin wrote:¹⁵

“The economic era from the end of the Second World War until the 1980s was one of the most remarkable in human history. Following a period of reconstruction in the 1950s, there was an unprecedented rate of economic growth during the decade of the 1960s and the early years of the 1970s. During the approximately forty-year period, the world gross national product tripled. International economic interdependence in trade, monetary relations, and foreign investment advanced at an even more rapid pace....[however,] in contrast to the century-long Pax Britannica, the era of American hegemony lasted but a few decades. Its demise began with the shift to what would become excessive Keynesian policies and the escalation of the Vietnam War in the 1960s...As had been the case with other declining powers in the past, the United States had indulged itself in overconsumption and underinvestment for too long.”

According to another important Gilpin book, these trends were likely to require adjustment in America's position in the world. Although arguing that mutual nuclear deterrence and the potential for mutual economic benefit introduced incentives for cooperation among the two superpowers as well as other states, Gilpin clearly was concerned, writing that:¹⁶

“The fundamental task of the United States in the realm of foreign affairs has become

one of responding to its changed position in the world as new powers arise on the world scene. It must bring its power and commitments into balance, either through increasing the former or reducing the latter or by some combination of both strategies.”

Clearly, the demise of the Soviet Union after these writings, together with the gradual improvement of the U.S. economy in the 1990s, eased some of these concerns. Japan's economic bubble also burst, and Germany was consumed with the costs of reunification. But by the onset of the 21st century, even more significant challenges from even more potentially worrisome competitors appeared in stark relief—and the economic recovery of the 1990s gave rise to large deficits, war costs, and then a major financial meltdown.

In the second decade of the 21st century, a sense of American economic weakness combined with the rise of other powers, particularly China, has again put declinism into vogue. Samuel Huntington famously argued during the last major period of declinism, the late 1980s, that in fact such thinking frequently occurred in the United States—and that in fact our collective tendency to worry about unfavorable trends in the balance of power helped us make course corrections that usually made the declinists wrong. In other words, because policymakers and the public took fears of U.S. decline seriously, they fixed the problems that led to the worries and the decline in fact did not occur in any significant sense.¹⁷ The question is, are we willing to do so again today? Do those problems include scaling back the defense budget as part of a broader deficit-reduction effort intended to restore the eroding foundations of national economic strength and thus long-term military power?¹⁸

¹⁵ Robert Gilpin, *The Political Economy of International Relations* (Princeton, N.J.: Princeton University Press, 1987), pp. 341-347.

¹⁶ Robert Gilpin, *War and Change in World Politics* (London: Cambridge University Press, 1981), p. 241.

¹⁷ Samuel P. Huntington, “The U.S.—Decline or Renewal?” *Foreign Affairs* (Winter 1988/89), pp. 76-96.

¹⁸ For more important writings on the general subjects of American primacy and power and possible decline, see Eric S. Edelman, *Understanding America's Contested Primacy* (Washington, D.C.: Center for Strategic and Budgetary Assessments, 2010); William C. Wohlforth, “The Stability of a Unipolar World,” *International Security*, vol. 24, no. 1 (Summer 1999), pp. 5-41; Michael Mastanduno, “System Maker and Privilege Taker: U.S. Power and the International Political Economy,” *World Politics*, vol. 61, no. 1 (January 2009), pp. 121-154; Barry Posen, “Command of the Commons: Military Foundations of U.S. Hegemony,” *International Security*, vol. 28, no. 1 (Summer 2003), pp. 5-46; Christopher Layne, “The Unipolar Illusion Revisited: The Coming End of the United States' Unipolar Moment,” *International Security*, vol. 31, no. 2 (Fall 2006), pp. 147-172; and Aaron L. Friedberg, “The Strategic Implications of Relative Economic Decline,” *Political Science Quarterly*, vol. 104, no. 3 (Fall 1989), pp. 401-431.

The United States retains many impressive strengths. It is still the world's top economic power, with more than 20 percent of global GDP even according to purchasing power parity calculations and 25 percent according to classic exchange-rate calculations.¹⁹ Those who compare this data to the 50 percent share the United States held after World War II as evidence of U.S. decline forget that the postwar period was highly unusual because so many other powers had been so (temporarily) weakened by war. In fact, it was largely U.S. grand strategy that led to the rapid recovery of western European democracies as well as Japan, to say nothing of the rise of new economic powerhouses like South Korea and Taiwan in the ensuing decades. Thus, the decline in U.S. GDP as a percentage of the global total arguably should be seen more as a success of American strategy than a weakness or failing. The international institutions that Washington pushed to create, the foreign aid it provided, and the alliance system it forged made possible economic trends that have generally worked to the U.S. advantage.²⁰

As a further benefit of the success of this strategy, most key nations around the world viewed the United States as either friendly or benign. That was not true for the Warsaw Pact or communist China initially, of course, but the latter relationship was transformed starting with Nixon and the former bloc ultimately collapsed. Meanwhile, the United States led the way in the creation of a security system that, as Steve Walt famously argued, encouraged more bandwagoning behavior than the balancing which had typified previous centuries of European power politics.²¹ Even when other major countries disagreed with how Washington handled a specific issue

or problem—and they often did, as over Vietnam, nuclear weapons issues, and other matters—they did not see the United States as a fundamental threat to their security. As a result, no other major security organization was created to counter American-led alliances. (The Shanghai Cooperation Council involving Russia and China may have some motivations along the lines of checking western influence, but it is not truly a security alliance and carries out no significant military operations or even preparations.) This is a remarkable characteristic of the modern international system that we too frequently forget.

As of today, the United States leads a global alliance system of more than 60 partner states that collectively account for almost 80 percent of global GDP and more than 80 percent of total global military spending between them.²² That system includes the NATO alliance, the system of bilateral alliances in East Asia and the Western Pacific, the Rio Pact in Latin America at least at a formal level, and (less formally but quite significantly, American security partnerships with Taiwan, Israel, the Gulf Cooperation Council, and Iraq and Afghanistan. Arguably, even Pakistan and India are best seen as part of this system rather than outside of it; at worst, they are neutrals. Among the world's major nations, only China and Russia are essentially outside this somewhat informal but still quite significant network. And America's actual nemeses as well as potential adversaries—Iran, North Korea, perhaps Venezuela, Syria and Burma and one or two other such countries—collectively account for 1 to 2 percent of global economic output or military power. The geostrategic forces working to the advantage of the United States are extraordinary.

¹⁹ World Bank, *World Development Report 2010* (Washington, D.C.: 2009), p. 380, available at <<http://siteresources.worldbank.org/INTWDR2010/Resources/5287678-1226014527953/Statistical-Annex.pdf>> [accessed October 6, 2010].

²⁰ G. John Ikenberry, *After Victory: Institutions, Strategic Restraint, and the Rebuilding of Order after Major Wars* (Princeton, N.J.: Princeton University Press, 2001).

²¹ Stephen M. Walt, *The Origins of Alliances* (Ithaca, N.Y.: Cornell University Press, 1990). Walt was admittedly more worried about how American power and leadership were viewed around the world when he wrote *Taming American Power* (New York: W.W. Norton and Co., 2006). But even then he did not predict that alliances would be formed against it unless Washington was particularly careless or assertive. See for example pp. 11-12 of the latter book.

²² Michael E. O'Hanlon, *Budgeting for Hard Power: Defense and Security Spending Under Barack Obama* (Washington, D.C.: Brookings, 2009), p. 24; International Institute for Strategic Studies, *The Military Balance 2010* (Oxfordshire, England: Routledge, 2010), pp. 462-468; and World Bank, *World Development Report 2010* (Washington, D.C.: 2009), pp. 378-380.

The list of American assets does not end there. As Joseph Nye argues, the country's demographics, including its immigration policy, are more favorable than almost any other country's.²³ Even with its melting pot and economic challenges, America's crime rates have been falling for years. Would-be rivals like China, Russia, and India all have far less favorable demographics—the first due to overpopulation combined with the resulting one-child policy that promises huge economic challenges for the PRC within a generation,²⁴ the second due to underpopulation, the last due to overpopulation with few prospects of change on the horizon.²⁵ Moreover, as noted before, India hardly seems likely to be a threat to American interests. Delhi may harbor some great-power ambitions, but there are no irredentist territorial issues auguring future problems in dealings with the United States, and in fact few signs of any overly assertive Indian approach to the broader region or world.²⁶ What great-power rivalries it does possess, notably with China, may in fact tend to drive it towards greater partnership with the United States.

This nation's universities are still the best in the world, with recent surveys estimating that 58 of the world's top 100 institutions of higher learning are on American soil.²⁷ While it is true that U.S. manufacturing is down as a percent of the global total overall, cutting-edge U.S. industries like aerospace (to which I will return later) and software development remain robust. The recent financial crisis has exposed weaknesses in the United States as an

investment destination, an issue to which we will also return below. But there is no obvious preferred alternative as of yet among the world's major powers given American strengths—the United States' robust and dependable legal system, its transparent politics, and its traditions of openness to people, investments, goods, ideas, and innovation.

If there are no reasonable grounds for paranoia, nor is there any basis for complacency. The United States has serious weaknesses, as a nation and as an international power. These include first and foremost its budget and trade deficits, which have the effects of weakening investment, surrendering more of the nation's wealth to others, and making the country far less resilient in the face of a future crisis. Total debt is headed towards 100 percent of GDP and beyond by decade's end—a figure previously experienced only in the 1940s—with long-term budgetary and demographic trends offering no natural respite from this dilemma. In fact, the U.S. gross savings rate is now about 11 percent of GDP, half the global average, and the net savings rate had declined from around 8 percent a generation ago to 2 percent before the onset of the recent recession.²⁸ Many world-class companies are now appearing in the developing world, with the West often lagging behind.²⁹ Arguably, most major new industrial plants seem to be built abroad. For example, China alone now produces two-thirds of the world's photocopiers, microwave ovens, DVD players, and shoes, and also makes more steel and cement than anyone else.³⁰ China as

²³ Joseph S. Nye, Jr., "The Future of American Power," *Foreign Affairs*, vol. 89, no. 6 (November/December 2010), pp. 2-12.

²⁴ Feng Wang, "China's Population Destiny: The Looming Crisis," Washington, D.C., Brookings, September 2010, available at <http://www.brookings.edu/articles/2010/09_china_population_wang.aspx> [accessed November 8, 2010].

²⁵ National Intelligence Council, *Global Trends 2025: A Transformed World* (Washington, D.C.: 2008), pp. 24-27.

²⁶ On the restraint in Indian military policy, see Stephen P. Cohen and Sunil Dasgupta, *Arming Without Aiming: India's Military Modernization* (Washington, D.C.: Brookings, 2010), pp. 1-28. It is true that some speculate India may soon overtake China as the fastest-growing major new power. But that would be from a much lower base of economic power (roughly one-fourth the GDP), and India's improved short-to-medium term prognosis would come partly at the expense of unfettered population growth that will pose its own major challenges, now and down the road. See "How India's Growth Will Outpace China's," "India's Surprising Economic Miracle," and "A Bumpier but Freer Road," *The Economist*, October 2-8, 2010, pp. 11, 75-77.

²⁷ Loren Thompson, "Reversing Industrial Decline: A Role for the Defense Budget," Lexington Institute, Arlington, Va., August 2009, p. 5.

²⁸ International Monetary Fund, *World Economic Outlook* (October 2010), p. 204, available at <<http://www.imf.org/external/pubs/ft/weo/2010/02/pdf/tables.pdf>> [accessed October 6, 2010]; and Warren B. Rudman, J. Robert Kerrey, Peter G. Peterson, and Robert Bixby, "Realistic Approaches to Head Off a U.S. Economic Crisis," in Michael E. O'Hanlon, ed., *Opportunity 08: Independent Ideas for America's Next President*, second edition (Washington, D.C.: Brookings, 2008), pp. 262-263.

²⁹ Antoine van Agtmael, *The Emerging Markets Century: How a New Breed of World-Class Companies Is Overtaking the World* (New York: Free Press, 2007), pp. 9-56.

³⁰ Fareed Zakaria, *The Post-American World* (New York: W. W. Norton and Co., 2008), p. 91.

well as South Korea and Japan dominate global shipbuilding; the United States barely shows up on global production tables.³¹ The sovereign wealth funds of some countries evidence a longer-term investment attitude, and more concentrated investment muscle, than American companies or funds often employ.³²

The United States has other problems too. Despite the reassuring words voiced above about the strength of certain cutting-edge technology sectors in this country, most classic manufacturing industries are in relatively weak shape, and overall manufacturing output as a percent of GDP declined from 21.2 percent in 1979 to just 11.5 percent three decades later.³³ Unemployment rates are again high, near 10 percent, and rates would be higher still but for the fact that many have stopped even looking for work. High unemployment may remain a stubborn reality for years, as companies resist hiring until they see a brighter economic future, and as traditional blue-collar jobs continue to fade away.

Worse yet perhaps, the country's lower-income classes no longer are making progress economically from generation to generation. For them, the American dream of leaving a better future to one's children has stalled, particularly if one focuses on wages and not the benefits of more expensive health care plans (which represent increased compensation, but not in ways many Americans appreciate as much as they do higher wages). Upward mobility from generation to generation has become very difficult as well.³⁴ The Obama health care reform bill may play the role of a modest corrective to these trends, but only to a

degree as trends in wages are likely to continue to diverge between the country's better-educated citizens and its less-educated. Even if some subgroups, such as female-headed single-parent families, have made some headway, overall poverty levels are at worse levels than in the 1970s—and that was true even before the onset of the great recession in 2008.³⁵

Science and technology education levels among the country's public school students are mediocre by global standards—ranking typically in the 20s among 40 nations participating in recent surveys, and 36th among all countries in “health and primary education” according to the World Economic Forum.³⁶ Although elite universities remain excellent, including in the sciences, more and more of the country's science and engineering graduate students are foreigners who often return home after obtaining their degrees. Only 16 percent of American university students get science and engineering degrees, in contrast with levels ranging from 25 to 33 percent in most western nations and 38 percent in Korea.³⁷

American infrastructure is weakening as newer powers outdistance the United States in everything from high-speed rail to major ports to broadband internet capacity. Current annual spending on infrastructure is perhaps \$20 billion too low simply to maintain existing services and about \$80 billion too low relative to what would be optimal.³⁸ This is happening at a time when the finances of cities are in greater peril than at any time over the last quarter century. Even if some of the problem is due to the short-term effects of the great recession,

³¹ Shipbuilders' Association of Japan, “Shipbuilding Statistics,” Tokyo, Japan, March, 2010, available at <www.sajn.or.jp/c/statistics/Shipbuilding_Statistics_Mar2010.pdf> [accessed November 12, 2010].

³² Ian Bremmer, *The End of the Free Market* (New York: Penguin, 2010), pp. 18-24.

³³ Executive Office of the President, *Economic Report of the President 2010* (Washington, D.C.: 2010), Table B-12, available at <<http://www.gpoaccess.gov/eop/tables10.html>> [accessed October 8, 2010].

³⁴ Hugh B. Price, Amy Liu, and Rebecca Sohmer, “Pathways to the Middle Class: Ensuring Greater Upward Mobility for All Americans,” in Michael E. O’Hanlon, ed., *Opportunity 08: Independent Ideas for America’s Next President*, second edition (Washington, D.C.: Brookings, 2008), pp. 226-229.

³⁵ Ron Haskins and Isabel V. Sawhill, “Attacking Poverty and Inequality: Reinvigorate the Fight for Greater Opportunity,” in Michael E. O’Hanlon, ed., *Opportunity 08: Independent Ideas for America’s Next President*, second edition (Washington, D.C.: Brookings, 2008), p. 213.

³⁶ Jeffrey J. Kuenzi, Christine M. Matthews, and Bonnie F. Mangan, “Science, Technology, Engineering, and Mathematics (STEM) Education Issues and Legislative Options,” Washington, D.C., Congressional Research Service, May 22, 2006, p. 1; and World Economic Forum, *The Global Competitiveness Report 2009-2010* (Geneva, Switzerland: 2009), p. 17.

³⁷ Darrell M. West, *Brain Gain: Rethinking U.S. Immigration Policy* (Washington, D.C.: Brookings, 2010), p. 130.

³⁸ Statement of Peter R. Orszag, Director, Congressional Budget Office, “Investing in Infrastructure,” Testimony before the U.S. Senate Committee on Finance, July 10, 2008, p. 8.

the decline in the property values that provide the base for urban services will probably be longer lasting. State budgets are similarly strained; for example, Maryland has \$33 billion in unfunded future pension and health care obligations to state employees and another seven states are in similarly bad straits (with yet another dozen also in some trouble).³⁹ California, the nation's largest state, is in the most worrisome shape of all. On another note, America's energy dependence has grown in absolute terms over the years, while 60 percent of its oil now comes from foreign sources—substantially more than in the past.⁴⁰

³⁹ Christopher W. Hoene and Michael A. Pagano, "Research Brief on America's Cities," National League of Cities, Washington, D.C., October 2010, available at <www.nlc.org> [accessed October 7, 2010]; and "Maryland's Silent Tsunami," *Washington Post*, October 13, 2010, p. A18.

⁴⁰ John S. Duffied, *Over a Barrel: The Costs of U.S. Foreign Oil Dependence* (Stanford, Calif.: Stanford University Press, 2008), pp. 16-26.

UNDERSTANDING THE FISCAL CHALLENGE

In recent years, the nation's fiscal situation has been truly catastrophic. Due to the combined effects of recession and structural mismatch between revenues and outlays, the nation's annual deficit has exceeded \$1 trillion. While that sounds bad on its face, the actual reality is even worse. This is a \$1 trillion-plus deficit relative to total revenues of just over \$2 trillion and total spending of \$3.5 trillion a year—in other words, that deficit is enormous in relative terms as well as absolute terms. Due to the combined effects, debt held by the public—the best measure of the nation's overall indebtedness—rose from about 40 percent of GDP before the recession to more than 60 percent now. It is expected to reach 70 percent by decade's end—even if tax cuts are not renewed and domestic discretionary accounts do not grow faster than inflation, and even if social security surpluses are included in the numbers.⁴¹

Meanwhile, that debt is no longer primarily debt held by Americans; half is now held by foreigners.⁴² Because of low savings rates by Americans, foreigners also are increasingly important in owning American property, stock equity, and other assets. This dynamic has kept up investment levels in the United States, and the country also retains reasonably solid levels of research and development—greater than the EU

in aggregate, indeed. However, this dynamic depends on Americans accepting such a growing foreign role in the economy. It also depends on foreigners continuing to perceive the United States as a favorable investment haven even in the face of various worrisome indicators—notably, the country ranking only 93rd globally for macroeconomic policy according to the World Economic Forum.⁴³

Current projections for future deficits are too optimistic, moreover. They are based on unrealistically favorable assumptions from a fiscal perspective. If tax cuts like those of the Bush years are restored and discretionary accounts grow to keep up with both inflation and the population, annual deficits that would have declined to around \$500 billion by mid-decade could grow by several hundred billion dollars. Cumulative debt owed the public could then reach and exceed 100 percent of GDP shortly after 2020, and trends in health care could keep exacerbating the problem thereafter.⁴⁴

Such debt levels are debilitating. They can crowd out investment, or at best require foreign largesse to sustain adequate investment levels, leaving the ownership of more and more key national assets in non-American hands. They can make the nation ex-

⁴¹ See for example, Congressional Budget Office, *The Budget and Economic Outlook: An Update* (Washington, D.C.: August 2010), p. 4.

⁴² David M. Walker, *Comeback America: Turning the Country Around and Restoring Fiscal Responsibility* (New York: Random House, 2009), p. 22.

⁴³ David M. Smick, *The World Is Curved: Hidden Dangers to the Global Economy* (New York: Portfolio, 2009), pp. 20-60; Klaus Schwab, ed., "The Global Competitiveness Report 2009-2010," World Economic Forum, Geneva, Switzerland, 2009, p. 22; and Zakaria, *The Post-American World*, pp. 190-201.

⁴⁴ William A. Galston and Maya MacGuineas, "The Future Is Now: A Balanced Plan to Stabilize Public Debt and Promote Economic Growth," Washington, D.C., Brookings Institution, September 2010, p. 1.

tremely vulnerable to another serious crisis of some type—be it war, another major recession, or a flight of investors from American assets that could result in a sudden and contagious crisis of confidence in the U.S. economy. High and continued deficits also risk driving debt service levels to very high numbers especially if and when interest rates again rise. (CBO projects net interest payments rising from \$200 billion in 2010 to nearly \$800 billion in 2020, even under relatively favorable assumptions about growth in the debt.)⁴⁵

So how much does the deficit need to decline to mitigate risks and protect our future in a more competitive world, and how much of that reduction should come from defense spending? The first step in answering this question is to set a general target for deficit reduction. There is no absolutely correct answer, of course. A debt level of 60 percent of GDP is considered a high but tolerable level according to most economists who have examined the challenges of countries around the world.⁴⁶ Therefore, deficits could be brought down to a level that would keep debt to 60 percent of GDP. A somewhat less ambitious approach to the problem would simply try to get deficits as a percent of GDP down well below the expected GDP growth rate as soon as possible. In that event, the size of the nation's debt relative to its GDP could begin to decline. Specifically, if debt owed the public were two-thirds of GDP and deficits were held to less than two-thirds of GDP growth in a given year, debt relative to the size of the economy would gradually decline.⁴⁷

To keep the math simple, the following focuses on 2017—which will be the first year of a new presidential term and well beyond the point at which major combat operations should have concluded in both Iraq and Afghanistan, and also the first year that the U.S. GDP is currently predicted to reach

about \$20 trillion. Assuming the end of Bush-era tax breaks and a real freeze on discretionary spending, that year is predicted to witness a \$580 billion deficit (or roughly \$725 billion if the social security surplus is taken out of the mix). Assuming an extension of Bush tax cuts would imply more than another \$300 billion in increased deficits, plus accumulated debt in the coming years leading to higher interest payments too—making for more than \$900 billion in that year's deficit. Were some but not all of the Bush tax cuts extended, the projected annual deficit figure might be around \$800 billion, or 4 percent of GDP, and I will take that as the starting point for subsequent calculations. (That number unrealistically assumes continued war expenses of more than \$150 billion a year, but also unrealistically assumes that other Pentagon accounts and domestic accounts can be frozen at inflation-adjusted levels even as defense costs continue to rise faster than inflation and populations continue to grow. These equally implausible assumptions built into the budget baselines roughly cancel each other out.)⁴⁸

To keep deficit and thus debt figures in a healthy economic range, that \$800 billion annual deficit figure should be cut at least in half. That means \$400 billion a year in spending cuts, tax increases or most realistically, a mix of the two. War costs should decline dramatically within a few years, and in any event are determined less by current policy than by previous decisions. Thus, they are kept out of the calculations here (including them would in a sense let the Pentagon off the hook too easily, allowing it to make budget reductions simply due to the predictable effects of declining costs for overseas military operations). Because non-war defense costs represent about 15 percent of federal spending, they realistically might be expected to contribute \$60 billion in annual savings. (After that point, it could be allowed to grow again without undue economic risk,

⁴⁵ Congressional Budget Office, *The Budget and Economic Outlook*, pp. 11, 20-22.

⁴⁶ Galston and MacGuineas, "The Future Is Now," p. 4.

⁴⁷ Peter Orszag, "One Nation, Two Deficits," *The New York Times*, September 6, 2010, available at <www.nytimes.com> [accessed October 7, 2010]. Orszag actually cites 3 percent of GDP as a sustainable level, slightly higher than what the above would imply.

⁴⁸ Congressional Budget Office, *The Budget and Economic Outlook*, p. 4.

as part of an integrated strategy of federal budgeting—perhaps at 2 percent a year above the rate of inflation, which tends to be a “treading water” level of defense budget growth.)

The \$60 billion annual number is not set in stone. It derives from a specific estimate of the future deficit, based on assumptions about economic recovery and growth, tax policy, and other matters. It also derives from specific assumptions about how much deficit reduction is enough to make the nation’s future economic course relatively promising, and of what the military budget’s proper role should be in the broader deficit reduction effort. It is a judgment call. Nevertheless, it is a reasonable number; it is also similar to the savings recommended by the recent Domenici-Rivlin task force, even if the way of explaining the savings is different. (I propose a 10 percent cut in real-dollar non-war spending relative to what would otherwise be likely given the current defense posture. They propose a freeze in nominal-dollar non-war spending levels for five years, meaning that inflation and natural defense cost growth would reduce actual available resources by about that same 10 percent amount over time.)⁴⁹ Nevertheless, it is a reasonable number; indeed, it might be less ambitious than would be optimal.

In a dangerous world, there is no reason to think that defense spending need be cut exactly proportionately with the rest of the federal budget—arguably, defense spending might need to be protected. On top of that, Secretary Gates has already cut some \$10 billion in annual spending out of the defense program that President Obama inherited—meaning that the Pentagon has already begun to make its contributions to deficit reduction at a time when the rest of government has not. That said, there is also an argument that, after a decade of wars, Americans may decide to gamble and hope that a more

restrictive policy on defense spending is compatible with a stable international environment, in which case defense spending might be cut more than its “share.” As such, the \$60 billion figure is a reasonable target.

To be clear, the \$60 billion target for reductions in yearly defense spending is not measured against the classic CBO baseline. That baseline is unrealistic as a way to think about anticipated spending assuming current defense policy. Most defense costs—for personnel, health care, environmental restoration, equipment maintenance, equipment modernization, and the like—go up faster than inflation in most eras. This is a general trend that does not factor into projections specific matters like the defense budget cuts already suggested in the last two years by Secretary Gates; it is a rough starting point for calculations. In fact, CBO itself estimates that the average annual defense budget requirement for the next two decades will be about 12 percent greater than current real-dollar levels (factoring wars out of the equation). My goal of \$60 billion in savings in the 2017 budget is measured relative to what that budget would likely be under current policy—and *not* relative to a simple straightlining of today’s budget adjusted for inflation.⁵⁰

Therefore, the challenge, at least for the purposes of this analysis, is to find \$60 billion in savings in the annual defense budget, not including war costs. I use 2017 as my focus year for the analysis, though it does not matter too much which year is used as long as war costs are carefully kept out of the calculations. By that point, six fiscal years into the future, the adjusted baseline for defense spending would be about \$600 billion as expressed in 2011 dollars, due to the natural trends in the core costs of various military accounts as explained above, so we will examine means of reducing it to \$540 billion or about 10 percent.

⁴⁹ See Senator Pete Domenici and Dr. Alice Rivlin, co-chairs, “Restoring America’s Future,” Bipartisan Policy Center, Washington, D.C., November 2010, pp. 96-107, available at <www.bipartisanpolicy.org/sites/default/files/FINAL%20Report%202011.16.10.pdf> [accessed November 17, 2010].

⁵⁰ Congressional Budget Office, *Long-Term Implications of the Fiscal Year 2010 Defense Budget* (Washington, D.C., January 2010), pp. 1-33, available at <www.cbo.gov> [accessed September 20, 2010].

SAVING \$60 BILLION OR 10% IN THE ANNUAL DEFENSE PROGRAM

Many studies on reducing the defense budget begin with a broad sweeping argument about supposed U.S. overspending or waste, then quickly move to detailed specifics. These studies have their place, but my approach is different—to begin by thinking conceptually and strategically about how the United States might take calculated risks in defense policy. Put differently, I do not believe it possible to make \$60 billion in harmless defense cuts simply through more clear-eyed and less parochial defense policymaking. Secretary Gates is doing a good job identifying redundant structures and programs, but the nature of his track record reveals the challenge of the task—four years into his own effort, he has reached roughly the \$10 billion per year level of cumulative savings based on all of his cost-cutting decisions to date combined (assuming that programs he killed such as the Army’s future combat system are not generally revived in one form or another).⁵¹ We will not be able to quintuple the achievement painlessly. And DoD’s natural tendency to do “salami-slice” cuts across all departments and programs, often the path of least resistance bureaucratically, is suboptimal.

The rest of this paper focuses on developing three basic conceptual frameworks for reducing defense spending and then, subsequently, spelling out their rough fiscal implications:

- 1) TOUGHER MANAGEMENT
- 2) SMALLER GROUND FORCES (ONCE CURRENT WARS ARE OVER)
- 3) MORE SELECTIVE MODERNIZATION EFFORTS

In rough terms, the first approach might be able to save another \$10 billion a year eventually. The second would save about \$20 billion a year, as would the last. Taken together, therefore, and combined with the cuts already offered by Gates, the three approaches might reach the \$60 billion annual goal. Some of these cuts could happen now; others may have to wait a couple years, after the politically charged environment of the 2012 presidential race as well as the most intense phase of the Afghanistan war. Regardless, it is not too soon for the policy debate.

TOUGHER MANAGEMENT

Some savings can be found by continuing the tougher approach to management that Secretary Gates has employed, particularly during the Obama administration. In early 2009, he canceled vehicle programs within the Army’s Future Combat System, terminated production of the F-22 fighter, deferred any development of a new bomber, converted two missile-defense systems from full-bore acquisition programs to just R&D efforts, and canceled the DDG-1000

⁵¹ Statement of Michael J. Sullivan, Director, Acquisition and Sourcing Management, “Defense Acquisitions: Observations on Weapon Program Performance and Acquisition Reforms,” GAO-10-706T, Government Accountability Office, Washington, D.C., May 19, 2010, p. 4.

destroyer. In 2010, he proposed closing Joint Forces Command, reducing the number of flag officers in the military, and curbing contractor workforces by 10 percent a year for three years running.

This last recommendation is dubious. Calls for reduction of some arbitrary percentage in a workforce over some period of time are appealing but usually unsuccessful, if the past is a guide. For example, similar goals were established in the 1990s for privatizing defense support functions, with an eerily similar goal of finding 30 percent savings in total support spending. But this effort was largely unsuccessful—privatization did occur in many areas, but 30 percent savings did not, and in fact overall trend lines in operating accounts did not curve downward at all.

As such, my list of further reforms is more specific. It is also offered with an understanding that there is a downside to most of the policies; again, we must avoid the notion that huge sums of Pentagon waste can be easily reaped and returned to the taxpayer without pain. Specifically, the following kinds of ideas warrant consideration:⁵²

- Another round of command closures. Secretary Gates is closing Joint Forces Command with possible annual savings in the low hundreds of millions of dollars, but it is curious that his organizational reforms would largely stop there. Each military service has numerous commands within its own institution. Each service has at least one war college in an era when jointness is supposed to be the watchword. Some overseas commands, such as European Command, have component subcommands that may be superfluous at this point. Another round of rethinking about such structures might save \$1 billion to \$2

billion annually, given that most individual commands cost in the range of several hundred million dollars a year.

- Increase military compensation more selectively. General pay increases could be held to the rate of inflation, with bonuses of various types used to address specific shortfalls in the force structure. CBO puts annual savings at about \$1.5 billion.⁵³
- Consolidate the military exchanges and similar amenities within DoD. These kinds of on-base stores are popular with military families, so eliminating them, while an idea worthy of consideration on bases in the United States, would have to be handled very carefully. But consolidating them should certainly be within reach, as each service runs its own at considerable inefficiency. CBO estimates that up to \$1 billion a year can be saved while still offering many bargains to military families.⁵⁴
- Increase cost sharing within the military health care program. The TRICARE system provides an extremely good deal to military families. While this has been understandable to a degree, it has arguably gone too far, not only far exceeding the generosity of plans in the civilian economy, but incentivizing excessive use of health care (due to the low costs). No one would begrudge wounded warriors the best of care; the issue here, rather, is the cost-sharing system of copayments and enrollment fees for the typical military family including retiree families. Reforms that retained a generous military health care system but at levels more similar to those in the civilian economy could still save \$6 billion a year.⁵⁵

⁵² For a similar type of list, see Stephen J. Hadley and William J. Perry, Co-Chairmen, “The QDR in Perspective: Meeting America’s National Security Needs in the 21st Century,” Washington, D.C., Quadrennial Defense Review Independent Panel, 2010, pp. 67-79, available at <www.usip.org/files/qdr/qdrreport.pdf> [accessed October 20, 2010].

⁵³ On cost savings estimates, see Congressional Budget Office, *Budget Options* (Washington, D.C., 2009), pp. 24-25, available at <www.cbo.gov/ftpdocs/102xx/doc10294/08-06-BudgetOptions.pdf> [accessed October 20, 2010].

⁵⁴ Congressional Budget Office, *Budget Options*, pp. 28-29.

⁵⁵ Congressional Budget Office, *The Effects of Proposals to Increase Cost-Sharing in TRICARE* (Washington, D.C.: 2009), p. 4.

Even bolder ideas beyond this list deserve consideration, in fact. The military retirement system is arguably too generous at 20 years of service and not generous enough for those leaving the armed forces sooner. Providing a small benefit (like matching payments for a 401K in the private sector) to the latter group while reducing payments to the former might improve fairness and save modest sums. Reforming the TRICARE for Life system—by which Congress in the late 1990s made health care entirely free for retirees, in an effort to honor what was viewed as an earlier pledge to the nation’s warriors, though it protected them from health care cost growth affecting everyone else in the country—could save several billion dollars a year beyond what was discussed above. And rethinking, in this more “horizontal” and networked era of warfare, the rank structure of the military may make sense too. Those who work with the military often argue that it seems remarkably dense in its personnel—with large staffs and headquarters—at a time when corporations have generally been trying to streamline in response to these same technological dynamics and opportunities. Elimination of an entire rank might even make sense. These ideas go beyond the scope of this paper but merit serious consideration in the future defense reform debate.

SMALLER GROUND FORCES

Once the wars in Iraq and Afghanistan significantly wind down, it may be possible to reverse the increases in the active forces of the U.S. Army and Marine Corps and return to Clinton and early Bush levels.⁵⁶ That would mean roughly 15 percent cuts, relative to current combat force structure. There was in fact a reasonable amount of bipartisan consensus on those earlier levels, with defense secretaries Aspin, Perry, Cohen, and Rumsfeld all supporting them over a ten-year period.⁵⁷

To give a sense of the respective facts and figures, today’s U.S. Army has about 550,000 active-duty soldiers, plus another 110,000 reservists who have been temporarily activated (of those, nearly 80,000 are from the National Guard and just over 30,000 from the Army Reserve). The U.S. Marine Corps is about 200,000 strong, with another 5,000 Marine reservists temporarily activated.⁵⁸ By contrast, the active Army of 2000 was 472,000 strong and the Marine Corps numbered 170,000.⁵⁹ Excluding activated reservists, therefore, making 15 percent personnel cuts would reduce current levels approximately to those of a decade ago.

In terms of force structure, today’s ground forces include 45 brigade combat teams in the active Army as well as 28 in the National Guard. The Army also has 13 combat aviation brigades in the active force and 8 in the reserve component. The Marines, organized somewhat differently and using different terminology to describe their main formations, have 11 infantry regiments as well as 4 artillery regiments.⁶⁰ As such, reductions of 15 percent in force structure, if carried out proportionately, might reduce the Army active brigade combat teams to 38 in number and the National Guard number to 24, with combat aviation declining to 11 and 7 brigades in the active and National Guard forces, respectively. The Marines would give up perhaps 2 units, resulting in 10 infantry and 3 artillery regiments respectively.

For sake of reference, the combined U.S. military deployments to Iraq and Afghanistan typically involved about 20 combat brigades through mid-decade and about 22 at a time during the Iraq surge years. Current figures are in the range of 16 deployed brigades to these two places.⁶¹

⁵⁶ For a similar argument see Sustainable Defense Task Force, “Debt, Deficits, and Defense: A Way Forward,” available at <www.comw.org/pda/fulltext/1006SDTFreport.pdf> [accessed September 15, 2010], p. vii.

⁵⁷ See for example, Frederick W. Kagan, *Finding the Target: The Transformation of American Military Policy* (New York: Encounter Books, 2006), pp. 180-197, 222-236, 281-286.

⁵⁸ International Institute for Strategic Studies, *The Military Balance 2010* (Oxfordshire, England: Routledge, 2010), pp. 32-38.

⁵⁹ International Institute for Strategic Studies, *The Military Balance 2000* (Oxford, England: Oxford University Press, 2000), pp. 26-30.

⁶⁰ Secretary of Defense Robert Gates, *Quadrennial Defense Review Report* (Washington, D.C.: Department of Defense, February 2010), p. 46.

⁶¹ Letter by Peter Orszag, Director, Congressional Budget Office, to Senator Kent Conrad, Chairman, Senate Committee on the Budget, Washington, D.C., February 11, 2008, p. 14, available at <http://www.cbo.gov/ftpdocs/89xx/doc8971/02-11-WarCosts_Letter.pdf> [accessed October 20, 2010].

The preferred rule of thumb for the active Army and Marine Corps is that any individual deployed for a given length of time should then have roughly twice as long at home before being deployed again. For the reserves, rather than 1:2, the preferred ratio is more like 1:5. A force of 38 active Army brigade combat teams, 24 National Guard brigade combat teams, and some 10 Marine infantry regiments should therefore be able to sustain a deployment of about 16 active brigades (treating Marine infantry regiments as the rough equivalent of Army brigades) and 4 more National Guard brigades, for a total of 20. That would be enough for the main invasion phase of the kinds of wars assumed throughout 1990s defense planning and the invasion of Iraq actually carried out in 2003; force packages ranging from 15 to 20 brigades were generally assumed or used for these missions.⁶² But that combined capacity falls short of the 22 brigades deployed in 2007/2008 just to Iraq and Afghanistan, to say nothing of Kosovo or Korea where additional brigade-sized forces were also present.

So smaller ground forces would not be large enough to handle another decade like the one we have just experienced without reverting to unpalatable policies like 50 percent deployment rates for individual soldiers (for example, only a year at home after one twelve-month deployment and before another).⁶³ Nor would they necessarily suffice to occupy Iran, after a possible invasion, or a collapsing Pakistan, or a fracturing North Korea (actually, neither would today's forces).

Yet there is a serious case for such smaller forces nonetheless. They would be adequate for a single sustained large operation of either the Iraq or Afghanistan character (at maximum size). They would

also be a sizeable and probably adequate deterrent against the threat of another North Korean attack on South Korea. Forces of such size would even have the ability to overthrow a regime such as that in Tehran that carried out a heinous act of aggression or terror against American interests in the future.⁶⁴

Even for missions like helping stabilize a large collapsing state, smaller U.S. ground forces could well prove sufficient as part of a coalition. That is, they might suffice if part of the security forces of the state at issue remained partially intact, or if a broader international coalition of states contributed to the operation.

Moreover, a smaller force would still be large enough to make full use of existing U.S. strategic transport assets. In other words, within the first two to three months of a decision to get involved, we could get just as many forces to the theater as with today's larger force, since we would still be making maximum use of roll-on/roll-off ships, long-range transport aircraft, and other mobility assets.⁶⁵

Force structure cuts of 15 percent imply roughly 10 percent reductions in spending on the ground forces—or about \$20 billion annually, once phased in. It is important to understand that these savings result only if the forces are eliminated from the military. Bringing home units normally based abroad in established facilities does not save much money if the units are simply relocated; indeed, it can even cost money if the move necessitates construction or refurbishment of new stateside bases. The additional costs of having forces in places like Germany and Japan, above and beyond their likely costs if located in the United States, are in the range of a couple billion

⁶² See for example, Secretary of Defense Les Aspin, *Report on the Bottom-Up Review* (Washington, D.C.: Department of Defense, 1993), pp. 12-20; Thomas Donnelly, *Operation Iraqi Freedom: A Strategic Assessment* (Washington, D.C.: American Enterprise Institute, 2004), pp. 32-51; Anthony H. Cordesman, *The Iraq War: Strategy, Tactics, and Military Lessons* (Washington, D.C.: CSIS, 2006), pp. 37-40; Michael R. Gordon and General Bernard E. Trainor, *Cobra II: The Inside Story of the Invasion and Occupation of Iraq* (New York: Pantheon Books, 2006), pp. 38-54; and Don Oberdorfer, *The Two Koreas: A Contemporary History* (Reading, Mass.: Addison-Wesley, 1997), p. 315;

⁶³ On the demands of the Iraq surge, for example, see Kimberly Kagan, *The Surge: A Military History* (New York: Encounter Books, 2009), pp. xix-xxxii.

⁶⁴ Kenneth M. Pollack, Daniel L. Byman, Martin Indyk, Suzanne Maloney, Michael E. O'Hanlon, and Bruce Riedel, *Which Path to Persia: Options for a New American Strategy toward Iran* (Washington, D.C.: Brookings, 2009), pp. 94-98.

⁶⁵ Rachel Schmidt, *Moving U.S. Forces: Options for Strategic Mobility* (Washington, D.C.: Congressional Budget Office, 1997); and Michael E. O'Hanlon, *Defense Strategy for the Post-Saddam Era* (Washington, D.C.: Brookings, 2005), pp. 111-120.

dollars a year—and in fact, in the case of Japan in particular, it may actually be *less* expensive to keep them abroad given Tokyo’s generosity in paying the local costs of base real estate, of base operations, and of construction.⁶⁶

Even if forces are eliminated, resulting savings will not be completely proportionate to the cuts in combat forces. That is because many defense-related costs do not scale linearly with the size of the combat forces. Activities such as intelligence, research and development, central administration, certain core training facilities, and strategic transport capabilities do not decline automatically and proportionately just because forces are cut. Even if military personnel ranks decline proportionately to the cuts in combat force structure, civilian and contractor costs as well as expenses associated with facilities and equipment may not. Some defense activities such as maintaining bases and sustaining the military health care system can in principle be reduced commensurately with reductions in force structure, but the linkages are indirect and it can take substantial time and effort to achieve the efficiencies.⁶⁷ All that said, cutting ground combat units by 15 percent would save a great deal of money.

MORE SELECTIVE MODERNIZATION—WITH ATTENTION TO THE INDUSTRIAL BASE

Another way to find savings is to propose reductions in modernization plans for the U.S. military’s acquisition of equipment. This general approach to reducing the defense budget was already pursued once in recent times, in the 1990s, when annual procurement budgets were reduced by two-thirds relative to earlier Reagan-era highs. But that was an unusual historical moment. The United States could take a “procurement holiday” of sorts since it had recently bought so much new equipment during that Reagan

buildup, and since the concomitant reduction of the combat force structure allowed older equipment to be selectively retired first.

These cutbacks were not easy on industry or the economy, of course. Softening the pain to an extent, however, was the fact that the 1980s had been a fairly good decade for defense business. In addition, even though the economy was tough in the early part of the 1990s in the United States—and even though defense cutbacks exacerbated the difficulty in some cases⁶⁸—the situation rapidly improved. As the 1990s progressed, the general health of the U.S. economy strengthened, creating new jobs in other sectors.

The situation is different today. In addition, even though current acquisition budgets are sizeable by historical standards in real-dollar terms, the growing cost of weaponry means that these budgets typically fund far fewer major programs than was the case before. That reality is reinforced by the fact that more of today’s acquisition budget is devoted to research and development rather than production—perhaps a reasonable approach at a time of rapid technology change but still a tendency that deprives procurement accounts of the share of funds they used to receive. The number of workers in aerospace and defense is down from more than 1,000,000 in 1991 to just over 600,000 two decades later, exemplifying the tendency of the U.S. manufacturing base writ large to lose lots of jobs over that period.⁶⁹ In addition, there are now just five major contractors in the defense business—Boeing, Raytheon, Northrop Grumman, Lockheed Martin, and General Dynamics—and often the number capable of creating a given type of weapon system is just one or two. As such, the health of the industrial base needs to be kept in mind, since budgets are not so large as to guarantee a diverse and strong national security

⁶⁶ Michael O’Hanlon, *Unfinished Business: U.S. Overseas Military Presence in the 21st Century* (Washington, D.C.: Center for a New American Security, 2008), p. 37.

⁶⁷ See R. William Thomas, *Effects of Weapons Procurement Stretch-Outs on Costs and Schedules* (Washington, D.C.: Congressional Budget Office, 1987), pp. 17-18; and Michael E. O’Hanlon, *The Science of War* (Princeton, N.J.: Princeton University Press, 2010), pp. 18-31.

⁶⁸ R. William Thomas, *The Economic Effects of Reduced Defense Spending* (Washington, D.C.: Congressional Budget Office, 1992), pp. 5-42.

⁶⁹ Briefing by Robert H. Trice, Senior Vice President, Lockheed Martin, “The Business of Aerospace and Defense,” Washington, D.C., September 2010, p. 8.

industrial base absent considerable care and attentiveness.⁷⁰ Certain capabilities could simply be lost, and take years to recreate.⁷¹ The ability to keep costs in check through competition can also be lost.⁷²

If however ways can be found to keep the military strong and the industrial base on solid ground while reducing certain programs, substantial sums might be saved. Not counting war costs, the Pentagon's procurement budget has again exceeded \$100 billion a year. Its research, development, testing and evaluation (RDT&E) budget adds another \$80 billion, the latter figure in particular being quite robust by historical standards.⁷³ Big-ticket programs are together worth almost \$800 billion at present, over the lifetime of the programs, with almost \$550 billion of that scheduled to be spent in 2012 and beyond. So there is clearly a lot of money to consider.⁷⁴

A few caveats and constraints about the possibility of reaping easy savings from weapons cutbacks should be kept in mind, however. First, despite the claims of some defense budget cutters, few if any of these systems can today be described as "Cold War legacy weapons." That common refrain makes it sound as if the Pentagon has simply retained weapons it should have eliminated 20 years ago out of inertia. While inertia, and bureaucratic as well as parochial politics, can play a role in the defense budgeting process, there is no weapon today being justified on the grounds that it might be needed against a Soviet-like threat. Rather, worries about advanced surface-to-air and air-to-air and surface-to-sea missiles, quiet diesel submarines, sophisticated mines, and other such assets that could well appear in the hands of future

non-Soviet adversaries of the United States drive the desires for stealth, speed, maneuverability, and related characteristics in future DoD weaponry.

Second, while it may be tempting to cut weapons experiencing cost overruns—and these run well into the tens of billions of dollars if not more⁷⁵—it is also natural to expect some state-of-the-art weapons to cost more than originally foreseen since the process of invention is inherently full of surprises.

Third, if a weapons system is canceled somewhere in the development or production process, the costs already incurred with that program cannot of course be recouped.

Fourth, unless the combat units that were to receive the new weaponry are simply eliminated, the cancellation of the weaponry would not in fact change the need to buy *something* serviceable, safe, and reliable to equip those units. As a rule, weapons costing at least half as much as the canceled systems will be needed.⁷⁶ And with today's Air Force tactical aircraft averaging more than 20 years in age, as well as Navy and Marine Corps aircraft averaging more than 15, purchasing some types of new planes—not to mention other types of systems in similar straits—cannot be deferred.⁷⁷

Savings are nonetheless quite possible. Today's military may not buy Cold War legacy systems as critics allege, but it does arguably over-insure. A case in point is air combat. Even as drones have become much more effective, even as precision-guided ordnance has become devastatingly accurate (even when

⁷⁰ Barry D. Watts, *The U.S. Defense Industrial Base: Past, Present and Future* (Washington, D.C.: Center for Strategic and Budgetary Assessments, 2008), pp. 32, 81-90.

⁷¹ Aerospace Industries Association, "The Unseen Cost: Industrial Base Consequences of Defense Strategy Choices," Arlington, Va., July 2009, p. 1.

⁷² Hadley and Perry, "The QDR in Perspective," pp. 84-91.

⁷³ Over the last half century, expressed in constant 2010 dollars, acquisition budgets have averaged about \$150 billion a year, with the RDT&E budget about \$50 billion of that total on average. Watts, *The U.S. Defense Industrial Base*, pp. 21-28.

⁷⁴ See Department of Defense, "Selected Acquisition Report Summary Tables," December 31, 2009, available at <www.acq.osd.mil/ara/2009%20DEC%20SAR.pdf> [accessed September 30, 2010], pp. 21-23.

⁷⁵ See Gene L. Dodaro, Acting Comptroller General of the United States, "Maximizing DoD's Potential to Face New Fiscal Challenges and Strengthen Interagency Partnerships," Washington, D.C., Government Accountability Office, January 6, 2010, available at <www.gao.gov>.

⁷⁶ Michael E. O'Hanlon, *The Science of War* (Princeton, N.J.: Princeton University Press, 2009), pp. 8-31; and Amy Belasco, *Paying for Military Readiness and Upkeep: Trends in Operation and Maintenance Spending* (Washington, D.C.: Congressional Budget Office, 1997), pp. 5-15.

⁷⁷ Stephen J. Hadley and William J. Perry, Co-Chairmen, "The QDR in Perspective: Meeting America's National Security Needs in the 21st Century," Washington, D.C., Quadrennial Defense Review Independent Panel, 2010, p. 53, available at <www.usip.org/files/qdr/qdrreport.pdf> [accessed October 20, 2010].

dropped from older planes or drones), even as real-time surveillance and information grids have evolved rapidly (at great expense), plans for modernizing manned combat systems have remained essentially at previous levels. Between them, for example, the Air Force and Navy and Marine Corps still plan to buy 2,500 F-35 combat jets at a total price of more than \$250 billion.

It is clearly possible to push thinking about economizing too far. A number of thoughtful analysts have already lamented the declining size of the U.S. Navy, for example, at a time when China is being more assertive in seas around its borders and when Iran continues to pose a major threat to the broader Persian Gulf. Analysts have also expressed concern about too much emphasis on America's current wars at the budgetary expense of other possible missions and scenarios. They worry for example about the nation's relatively low investments in long-range strike platforms (like a new bomber, recently deferred by Gates as noted above) at a time when China is becoming more powerful *and* when technologies that can attack ports and airfields in forward theaters are becoming more prevalent.⁷⁸ But a general emphasis on those areas of technology that are evolving fastest—munitions, sensors, communications grids, robotics—and a somewhat reduced emphasis on expensive new platforms except when there is a particularly strong case for the latter would make sense as a guiding philosophy.

Following the logic of the discussion on aircraft, I would propose evaluating existing weapons moderniza-

tion plans with an eye towards streamlining or canceling several of them according to the following criteria:

- Weapons making maximum use of the computer and communications revolutions should be considered highest priority. These offer arguably the greatest benefit for the most reasonable price tag—the best bang for the buck. Current trends in computer technology, and related fields such as robotics, offer tremendous opportunities here.⁷⁹
- Weapons that appear redundant should be least protected. Sometimes, bureaucratic inertia combined with America's great resource base allow its military to avoid tough choices. That said, a certain degree of redundancy and of competitive modernization are useful in areas of warfare that are changing fast and particularly crucial to the nation's security, so balance is needed.⁸⁰
- Weapons that perform poorly—technically or financially—should be reassessed.⁸¹
- Weapons designed for less important missions, if these can be convincingly identified, should also receive lower priority. Nuclear weapons modernization and perhaps Marine Corps amphibious assault are possible examples here. One needs to be careful though; sweeping conclusions about which types of warfare or scenarios are supposedly obsolete and which are the wave of the future prove wrong at least as often as they prove correct.⁸²

⁷⁸ See for example Thomas G. Mahnken, "Striving for Balance in Defense," *Proceedings* (June 2010), pp. 36-41, available at <www.usni.org> [accessed September 5, 2010]; Stephen J. Hadley and William J. Perry, co-chairmen, "The QDR in Perspective: Meeting America's National Security Needs in the 21st Century," Washington, D.C., 2010, available at <www.usip.org/files/qdr/qdrreport.pdf> [accessed October 10, 2010]; and Jan Van Tol, *AirSea Battle: A Point-of-Departure Operational Concept* (Washington, D.C.: Center for Strategic and Budgetary Assessments, 2010).

⁷⁹ See P.W. Singer, *Wired for War: The Robotics Revolution and Conflict in the 21st Century* (New York: Penguin Press, 2009); and Michael E. O'Hanlon, *Technological Change and the Future of Warfare* (Washington, D.C.: Brookings, 2000), p. 65.

⁸⁰ For a good historical example of such a case, see Montgomery C. Meigs, *Slide Rules and Submarines: American Scientists and Subsurface Warfare in World War II* (Honolulu, Hawaii: University Press of the Pacific, 2002); on the more general challenge of promoting innovation within military bureaucracies, see for example Stephen Peter Rosen, *Winning the Next War* (Cornell University Press, 1991).

⁸¹ The Nunn-McCurdy Amendment to the 1982 Defense Authorization Act triggers reviews of weapons when their estimated program cost exceeds by 50 percent original estimates. See Department of Defense, "Selected Acquisition Report (SAR) Summary Tables," Washington, D.C., April 2, 2010, p. 3, available at <www.acq.osd.mil/ara/2009%20DEC%20SAR.pdf> [accessed November 12, 2010].

⁸² For a provocative and insightful, yet to my mind ultimately unconvincing, argument along these lines (making the case that great-power war planning is no longer nearly as important as it once was), see Thomas P. M. Barnett, *The Pentagon's New Map: War and Peace in the Twenty-First Century* (New York: G.P. Putnam's, 2004). I agree with Barnett that great-power wars are unlikely to be waged—but their likelihood can increase to the extent we fail to prepare for them and thereby fail to deter them.

In this light, changes to several weapons systems should be considered:⁸³

- Cancellation of Maritime Prepositioning Force (Future) Ships, designed to help Marines set up logistics bases at sea for future operations, with estimated annual savings from cancellation (and refurbishment and retention of current ships instead) of about \$2 billion
- Partial or even complete cancellation of the joint strike fighter or F-35. The type of stealth found in the F-35, and some short-takeoff capability, would be welcome, but the United States has aircraft ranging from F-22 fighters to drones that can also provide these capabilities to some extent. Depending on which approach was taken, the intended buys of F-35 planes would be replaced with F-16 and F-18 aircraft, at an annual savings of \$1 billion to \$4 billion
- Scaling back of still-overlapping missile defense programs, which include upgrades to the ground-based strategic systems in California and Alaska, Aegis sea-based theater defense, THAAD land-based theater defense, and two land-based short-range defense systems including one done in partnership with European allies (Patriot and MEADS). Annual savings would, depending on the depth of the cuts, range from \$1 billion to \$4 billion
- Termination of the SLBM nuclear-tipped missile program and other nuclear reductions including in the Department of Energy nuclear weapons stewardship complex, still allowing a robust submarine-based leg of the triad but with more warheads on fewer missiles and fewer submarines. The submarine leg of the triad is exceedingly survivable and as such more risk can be accepted in its size; moreover, buying more counterforce capability in the form of D5 missiles is not needed given the plausible uses to which nuclear weapons could ever be put. Annual savings (distributed across DoD procurement, DoD operations, and DoE accounts) of about \$2.5 billion
- Replacement of the Marine Corps V-22 tilt-rotor Osprey program with existing-generation helicopters at annual savings of about \$1 billion
- Cancellation of the Marine Corps Expeditionary Fighting Vehicle, designed to provide a faster way ashore in amphibious assault, with annual savings of about \$750 million
- Halving or outright cancellation of the intended purchase of Littoral Combat Ships, a vessel that was supposed to be a small shallow water combatant but that gradually evolved into something more like a traditional frigate, in favor of truly smaller and stealthier and cheaper ships such as the Coast Guard's offshore patrol cutter or the Stiletto (a vessel that captures its own wake and rides high in the water with minimal drag), with annual savings of \$1 billion to \$2 billion.
- A further modest reduction in the aircraft carrier fleet from 10 to 11 ships and 10 air wings to 9, with average annual savings approaching \$5 billion.⁸⁴ This can be done largely by further deemphasizing the need for carrier

⁸³ On cost savings estimates, see Congressional Budget Office, *Budget Options* (Washington, D.C., 2009), pp. 5-21, available at www.cbo.gov/ftpdocs/102xx/doc10294/08-06-BudgetOptions.pdf; [accessed October 20, 2010]; Department of Defense, "Selected Acquisition Report (SAR) Summary Tables, December 31, 2009, pp. 21-23, available at www.acq.osd.mil/ara/2009%20DEC%20SAR.pdf; [accessed October 20, 2010]; and Michael E. O'Hanlon, *A Skeptic's Case for Nuclear Disarmament* (Washington, D.C.: Brookings, 2010), pp. 110-131.

⁸⁴ Michael E. O'Hanlon, *The Science of War* (Princeton, N.J.: Princeton University Press, 2009), p. 26.

operations in the Atlantic and Mediterranean, without causing damage to America's presence in the all-important Pacific and Indian Ocean areas.⁸⁵

The list is not meant to be exhaustive. It reveals the challenges—but also the feasibility—of finding \$10 billion to \$15 billion in annual savings by focusing on redundant or what appear to be less essential

programs. Other savings might be found in smaller programs, taking a similar approach, pushing annual savings to the target mentioned before. My purpose here, however, is less to prove the case for these specific changes in the modernization agenda than to sketch out a philosophy by which cuts might be made and to indicate the kinds of changes that would be required to achieve the \$20 billion annual savings goal.

⁸⁵ On these latter areas, and the potential for rivalries and conflicts within, see for example, Robert D. Kaplan, *Monsoon* (New York: Random House, 2010); Richard C. Bush, *The Perils of Proximity* (Washington, D.C.: Brookings, 2010), and Andrew S. Erickson, Walter C. Ladwig III, and Justin D. Mikolay, "Diego Garcia and the United States' Emerging Indian Ocean Strategy," *Asian Security*, vol. 6, no. 3 (September-December 2010), pp. 214-237.

CONCLUSION

One need not proceed from declinism to make the case for major defense cuts. The United States has achieved many if not most of its post-World War II aims and the world we see today is a reflection of its foreign policy successes, not its failures. Most of the world's wealth and strength is found among its allies; most of the remaining GDP and power is found among neutral states with a strong interest in upholding the system that has enriched them. By embracing its successes—and the diffusion of global power that they have helped produce—the country can probably do what no global superpower has ever done before and remain as strong as ever while accepting a greater degree of international burdensharing in security policy. But there are risks to taking such an approach too far.

Indeed, the risks are significant enough that I do not favor military cuts uncategorically. They make sense to me only as part of a broader national effort of deficit reduction and economic renewal. My premise is that we are now perhaps taking larger security risks with our fiscal policies than with our military policies. As such, the suggestions here are motivated not by any anti-defense agenda but rather by the goal of minimizing aggregate national security risk. There is no logic to doing so if entitlement policy, tax policy, and other federal programs remain unchecked while the Pentagon tries to offer itself up as sacrificial lamb in an unbalanced deficit reduction effort. However, done as part of a general national agenda of shared sacrifice, cuts of the requisite magnitude in defense may be feasible without requiring strategic retrenchment.

Saving 10 percent in the annual “peacetime” defense budget of the United States—arguably the Pentagon’s fair share of a serious deficit reduction effort—would be hard but not impossible within such a philosophy. These cuts would go beyond those expected as part of a gradual reduction in the nation’s costs for waging war abroad in the coming years.

There would be potential pitfalls associated with the changes discussed here. Cutting the defense budget is not an inherent good; it is indeed a process of taking calculated risk in military accounts and activities to help shore up the future economic strength of the United States, and thus enhance national security, over the longer term. They would need to be weighed against the dangers of the fiscal overstretch and economic decline now facing the country.

It would be a mistake to place the full burden of finding \$50 billion in additional annual savings, beyond those already identified in recent times by Secretary Gates, within any one functional area of the defense establishment. The future risks facing the United States, and thus the future missions facing the American military, are too diffuse and too hard to predict for such an approach to be wise. Management reforms, force structure cuts, and weapons modernization reductions would all have to contribute.

The United States can and should consider a 10 percent reduction in the expected annual cost of the nation’s armed forces. It should do so, however, only in the context of reestablishing national sacrifice and fiscal discipline across the government. The national security risks associated with the proposed cuts would otherwise be too great.

Even as key deficit-reduction task forces like the Bowles-Simpson commission continue to advocate the results of their reports in the coming months, it is doubtful that the broader political process will choose to pursue a major deficit-reduction agenda right away. The divisions over what to cut remain too deep and the economy's recovery perhaps too fragile to expect major headway soon. However, even if that is the case, it is certainly not too soon to begin the debate about how much defense spending might be reduced as part of a broader national fiscal responsibility effort designed in large part to shore up the national security of the United States over the longer term.

ABOUT THE AUTHOR

MICHAEL O'HANLON is Senior Fellow and Director of Research for Foreign Policy at Brookings. He also serves as Director of Research for Brookings' 21st Century Defense Initiative. O'Hanlon specializes in U.S. defense strategy, the use of military force, homeland security and American foreign policy. He is a visiting lecturer at Princeton University and adjunct professor at Johns Hopkins University. O'Hanlon recently served on the Secretary of State's International Security Advisory Board. Before joining Brookings, O'Hanlon worked as a national security analyst at the Congressional Budget Office.

O'Hanlon's latest books are *A Skeptic's Case for Nuclear Disarmament* (Brookings, 2010), *The Science of War* (Princeton University Press, 2009) as well as *Budgeting for Hard Power* (Brookings, 2009). He is working on books on Afghanistan and the future of nuclear weapons policy, while contributing to Brookings' Iraq, Pakistan, and Afghanistan indices, at present. O'Hanlon's other recent books include *Hard Power: The New Politics of National Security* (with Kurt Campbell)



BROOKINGS

The Brookings Institution
1775 Massachusetts Ave., NW
Washington, D.C. 20036
brookings.edu