THE BROOKINGS INSTITUTION

FALK AUDITORIUM

DEFENSE PRIORITIES FOR THE TRUMP ADMINISTRATION

Washington, D.C.

Tuesday, February 21, 2017

PARTICIPANTS:

Moderator:

MICHAEL O'HANLON
Senior Fellow and Director of Research, Foreign Policy
The Brookings Institution

Panelists:

ROBERT HALE
Former Comptroller, U.S. Department of Defense

LIEUTENANT GENERAL MIKE MOELLER (Ret.)
Vice President for Business Development
Pratt & Whitney

THOMAS WRIGHT
Fellow and Director, Project on International Order and Strategy
The Brookings Institution

* * * * *

P R O C E E D I N G S

MR. O'HANLON: Well, good morning, everyone and welcome to Brookings. I'm Mike O'Hanlon with the Foreign Policy Program. We're very grateful to have all of you here today and we're going to be talking about what should Donald Trump's defense strategy, budget and other military plans be looking forward for the United States. At a moment, where the Trump administration is undoubtedly still asking itself these questions and a lot of decisions still haven't been made. We're still very early in a new presidency and we have about as great of a team to help answer these questions as I could imagine and I'm looking forward as well as they are to discussion with you in the second half of this morning's forum.

Let me briefly introduce each of the gentlemen here and then I'll say a couple of broad words about where we stand in the defense budget debate just to allow them to take off from where I leave off. We'll have some broad discussion up here amongst ourselves and then, as I said, go to you about halfway through. Immediately to my left is former undersecretary of defense, Robert Hale, who is the Pentagon's comptroller. Bob has been through the battles of not only Iraq and Afghanistan, but sequestration and shutdown and he's pretty much seen it all. In the Obama years where he was the comptroller for most of that time, he subsequently been with Booze Allen Hamilton, but he's speaking today under his own auspices and he's also my former boss. I worked for him at the Congressional Budget Office 25 years ago --

MR. HALE: You mention that (laughter).

MR. O'HANLON: (Laughter) Yeah, I know, it reflects badly in at least two ways, amount of time and your progeny, so to speak. But as things turned out, Bob then went to the Air Force and was the comptroller in the 1990s throughout the Clinton administration and spent a number of years; various pursuits including running the Comptroller Association of the United States in between those periods of government service.

And then, Tom Wright is sitting right in the middle today and Tom is my colleague at Brookings. One of the most outstanding strategists and big picture thinkers in American foreign policy

today; I may be biased because I like Tom, as well as a friend, but I also think it's a fair comment and you'll all have the chance to evaluate for yourself. Not only for this morning, but when his new book comes out later this spring, “All Measures Short of War” – “All Measures Short of War.” And let's hope that, that's what we'll all be talking about today and we'll hopefully be talking more about military deterrence and capability and keeping the peace than fighting the next big war. But, of course, we still are a nation in combat in the Middle East in particular and so we'll have a lot of specific issues with military operations to discuss.

And that's where retired Lieutenant General Mike Muller will be very helpful too. General Muller had a distinguished career in the U.S. Air Force as a bomber pilot; as a strategy and operations planner within both Southern Command and Central Command. He was the head of J-5 for both of those regional military commands; worked with General Petraeus; worked with others on some of the key issues in both our own western hemisphere and then the broader Middle East in those tours. And he ultimately finished his uniform career in the programming and policy shop within the Air Force thinking about their future program requirements; their budgetary requirements. And so, we have everything from grand strategy to operational concepts of war; military modernization issues; Pentagon budget issues; all within the realm of expertise of our panelists.

I just want to frame the discussion with just one more work of introduction and then I'll start with a sort of big picture question to each of these gentlemen before we mix it up a little amongst ourselves. And let me just frame for you, especially for a more general audience that may not be following these defense budget matters day in and day out, just where we stand today in our U.S. Defense Budget Debate.

Today's U.S. Military budget is about $600 billion a year. That includes war costs, which are formally about $60 billion annually, although as Bob may discuss and as many of us know, some of that $60 billion covers things that are in a gray area between overseas contingencies and peace time operations, or peace time base budget. In other words, the contingency war funds are being used to some extent to compensate for a Pentagon budget that's under strain and not quite able to get everything

within the caps of the Budget Control Act. One more word on that Budget Control Act, you know, it's still in effect -- the 2011 law that put caps on defense and discretionary spending. Even with all the seismic events of American politics of the last year, the Budget Control Act has survived. It survived an inauguration of Donald Trump and many other things that many of us didn't think would happen, but the BCA keeps on ticking, which means the possibility to the return of sequestration remains. And in addition, there are possibilities of returns to other problems, like government shutdowns that we've seen before.

Anyway, the $600 billion is a good number to keep in mind. It's sort of the base of -- the base plus war costs and it includes Department of Energy nuclear weapons costs, but it's sort of a reference point if you will. Donald Trump's campaign promise to build up the military by roughly 15 percent in size, more or less, would probably push us to annual budget of at least $700 billion. Maybe more if you built up fast and you really put a lot of money into procurement and if you really feel there's a huge readiness crisis today that needs to be addressed with a huge inflow of funds as well. I wrote a short book last year advocating for a $650 billion U.S. annual budget for these costs and I called that the best bargain going. But it would still be a lot of money and for reference, the Cold War average U.S. defense budget, if you adjust for inflation and express in 2017 dollars, the Cold War average was about $525 billion for the base Pentagon budget, war costs, Department of Energy nuclear costs. So we're above the Cold War average today. But, of course, a good part of the reason is we have a lot higher costs per person; more technologically sophisticated military; more expensive military because we're trying to do a good job of taking care of an all volunteer force that's been through so much strain and done so much; equipment that's aging and difficult to maintain; a base infrastructure that remains larger than it needs to be for the size of the force, so our forces come down by 35 to 40 percent since the Cold War. But the budget has not come down as much. And as noted, the budget is more than that Cold War average. So I just want to frame this for you in big picture terms.

We essentially have a small, but expensive military, however, one last word just to frame things. It's expensive in absolute dollar terms relative to the size of our economy, it's pretty modest. Just

over 3 percent of gross domestic product, when the Cold War average is depending on which period you look at, we're typically 6 percent, 8 percent, even 10 percent. So as a fraction of our nation's economy, defense is modest. As a fraction of government spending, it's only about one-sixth of the total, but, of course, we still have a huge deficit and, therefore, all government programs are going to have to be watched vigilantly and carefully, even in a Trump administration that wants to “Make America Great Again” and “Make the Military Great Again.”

So thank you for tolerating that little primer and now let me begin by asking Tom Wright a big picture question. Having read Tom's book already, I know that he's concerned about the state of the world and he wants to shore up American power and reinforce our deterrents of Russia and China and so, Tom, I just wanted to invite you to explain a little bit about where you think we are in broad foreign policy, but also, specifically, what is the defense budget have to do with it? How do you see in just broad picture terms, the role of U.S. military spending and capability and hopefully deterring the war and keeping us, as you say, you know, dealing with all measures short of war, especially for dealing with Russia and China and other big picture threats?

MR. WRIGHT: Mike, thank you and it's a great pleasure to be here today. It's a great question. The way I would think about it is that we're very -- everyone's very concerned at the moment because of the president's sort of views on U.S. foreign policy for at a moment of discontinuity or something's going to change, but in truth, on November 7th, the day before the election, the world wasn't in terrific shape and the U.S. had very severe strategic problems that the next president was going to confront anyway, regardless of whether it was Trump or Clinton. And I think we need to look at those sort of broader forces to get a sense of the type of strategic problems that the administration faces because I think part of them are budgetary problems, but here are also strategic problems separate to that, that would exist whether or not the budget was increased by 10 percent or 20 percent, those problems would still remain. And I think what's really sort of happened is that over the last sort of five or six years, the post-Cold War sort of assumptions that we have had about the world have really come apart. I mean, since the Cold War, we operated under the assumption that we were living in an age of convergence.

That all of the major powers were transitioning towards a single model of international order. That what united them, the problems that they had in common, like terrorism, or climate change, or pandemic disease, or nuclear proliferation would be much more important than that which divided them, like old style geopolitical divisions, and that they would be working together trying to overcome collective action problems and that there would be lots of crises and lots of issues. But that over time and they would be working more closely together. And we saw that sort of real, great power cooperation throughout the '90s and the 2000s when there were differences. They were pretty minor when Russia objected to the invasion of Iraq, they didn't arm Saddam Hussein, right. They didn't intervene in Iraq. They objected at the U.N. Security Council, very different than in Syria over the last couple of years.

And I think the big sort of story of the last five or six years, instead of convergence, we've had significant divergence. Russia and China have gone in a very different direction and they're directly against the United States. You know, for 20 years, there was no real security balancing by major powers against the United States and the way that it's traditionally understood throughout history. Well, that's back and that's back very much at the regional level and then in the Middle East, you know, both President Bush and President Obama basically believed in different ways they could change the Middle East. You know, Bush by intervention; Obama through sort of indigenous change and now both of those hopes are essentially dead. And so there's divergence there.

And I think the president's and his national security team's challenges is to figure out what's America's purpose in this new world. Like, what is -- what are the primary problems; what are the primary objectives. And as I look at it, the real sort of challenges are in these three key regions. You know, the international order does not rest on international institutions or international law as much as it rests on healthy regional orders. You know, the reason why U.S. strategy has been successful is because there's a healthy regional order in Europe that sort of functioned since the late '40s and then even more so since 1991 and similarly, in Asia and the Middle East is a different case, but there was some sort equilibrium there.

Well, those three regional orders are now deteriorating for different -- for different

reasons, but they're all deteriorating simultaneously and the question is, does the President want to bolster those regional orders; bolster the U.S. leadership position in those regions and try to transition to, sort of a positive equilibrium even if it's a little bit different and then what we have today. And I think that's the real challenge, militarily in terms of the defense strategy, particularly, because obviously, this is a very broad issue diplomatically and politically and every other way, economically as well.

I would just highlight one problem that I think is very severe, which is the problem of dealing with revisionism by Russia and China. Because if you look at revisionist behavior throughout history, revisionist states tend to go after things that the major -- the status quo power regards as peripheral or regards as non-vital. So they never go after something that's incredibly important at the beginning. So it's usually something like Donbass, or Crimea, or uninhabited rocks in the South China Sea. And then they say, "Do you really want to jeopardize our entire relationship because want to go to conflict over this?" And, of course, the status quo para doesn't really know what to do in that situation. And those problems may be non-vital individually, but, of course, in the aggregate, they're quite important. So they're particularly vital if you take them all together. And that's, I think, the challenge that Obama had and really struggled to deal with. I mean, he did not want to jeopardize the Paris climate deal over the South China Sea and he didn't want to have the Russian relationship defined by Ukraine, but, of course, that gives an opportunity to the aggressor state to make moves.

And Trump has the same problem and I think that's a -- that's something that I hope Secretary Mattis and our new national security advisor will sort of focus on with just how to push back without creating crises over these issues, but to push back in a totality and that sort of denies their strategic objective; that reinforces the existing sort of status quo and regional order, but doesn't -- doesn't get to a conflict.

And just one final point on the title because you mentioned that all metrics sort of war, what's that really suggesting that not that war is impossible because I think it is very much possible and -- but all of the major powers are now challenging each other. But none of them want to have direct conflict. So Russia is challenging the United States and Europe, but it does not want to go to war with the United

States. Similarly, with China and so you have all of this very severe competition beneath the threshold of massive aggression and that could easily, through ill-advertent calculation or miscalculation end up in a major conflict. But that's not sort of their intention and we're likely to have a prolonged period of peacetime -- peacetime competition which is different from the period of peacetime cooperation we've just come through.

MR. O'HANLON: Let me do one follow-up with you Tom, if I could, before going to Bob and Mike. And it concerns the linkage between the problems you're talking about and the defense budget of the United States. So I don't know in listening to your argument is you see the importance of the defense budgets as all that central. So we're spending $600 billion a year even if we have a return to sequestration, we'd probably be at 550 or something and China's just under $200 billion a year by best estimates. Russia now, with the deterioration of exchange rates and sanctions imposed after it's seizure of Crimea is well under a hundred billion. I think under $75 billion in annual spending. So in terms of actual big picture, one could argue, especially because we have all the rich allies that we're in pretty good shape. So do you think that the defense budget has much to do with deterring Russia and China? It is more about -- is it more about sending a message of strength or is it more about the way we manage the specific regions that we're dealing with Russia and China? You know, carriers going through the South China Sea; battalions and brigades rotating into the Baltic States, or does the overall defense budget have something to do with it to?

MR. WRIGHT: I think it does because I think if, you know, my view would be that the United States needs to do more in all of these three regions simultaneously. And I think you can't do that with the -- with the existing budget and it needs to be -- there needs to be an increase, but I would defer to the panel and yourself who are more expert in the numbers as precisely what would be. But I think the case for an increase is very, very strong. I would say through the overall numbers are quite deceptive. You know, the whole thing about who's rising, or who's declining, or who's overall powerful or who's not; I think we really don't know anything based on a few raw metrics about that. It's not -- in the case of Russia and the U.S., it's much less important what the overall numbers are and it's much more important

the type of power that those two -- that the two countries can bring to bear in any given crisis. And that Russia will probably start and Russia actually has a distinct advantage in that. So in Ukraine, the balance of power look very different than it does in the overall amount in terms of the raw numbers and similarly, in the South China Sea. So I prefer to think about it less in terms of what the raw numbers are overall in terms of how this will play out in a crisis situation and look at the distinct advantages and disadvantages that each country will have.

So what are the advantages that the U.S. and allies will have in Eastern Europe and disadvantages similarly with Russia and then, there are budgetary implications of those and then, use the budget to try to correct those disadvantages and strengthen the advantages. Because I think ultimately, this is going to play out at a very sort of granular way, rather than the, you know, in any given crisis, the overall numbers being decisive.

MR. O'HANLON: Excellent. If I can turn now to Secretary Hale and I would ask, Bob, a couple of broad questions. You know, the biggest one being what do you think Trump's defense strategy posture and budget should be? So what should President Trump advocate relative to that $600 billion annual level that he inherits, but if you want to break that big question down into more finite chunks, you know, you could begin by explaining to us, if you like, what it would cost just to a fully funded President Obama's plan as he left office a couple of years after you had stepped down from the comptroller job? So, you know, that issue of what would the Obama plan, itself, cost relative to where we are and then what kind of realistic option should President Trump be contemplating going forward?

MR. HALE: Well, Mike, thank you. I'm going to play politician here and answer only some of your questions. (Laughter) I'd like to say two things: one, something about the priorities that expect in the budget and second, how this administration will handle the Budget Control Act, which I think means a big question.

Let me start with the priorities. We're going to see a budget amendment, I hope soon from this administration for fiscal year '17, probably, substantial. I don't know what it will be, but it could certainly 10s of billions, I would expect. And then, of course, the fiscal '18 budget somewhat later. In

terms of priorities, I would expect they all follow a sum of what Secretary Mattis and the president have said. Mattis said his biggest threat to U.S. security, I would expect we would see support for things like the European Reassurance Initiative, which helps counter deployments in Eastern Europe. President Trump has said ISIS -- ISIS -- ISIS, I assume we'll see some emphasis -- continued emphasis on special operation forces, which will be key. I would assume to any further work against ISIS. Madison said, "Readiness is a big issue," readiness, the smaller are -- the narrow definition of readiness: pilot training hours; vehicle miles, et cetera, I would think we'll see some plus up, but they've got to be careful in the budget amendment. Because they're going to get this amendment approved, maybe five months left in the fiscal year and that money we're talking about here all has to be obligated by the end of the fiscal year. So I think they'll have to be modest there.

I would hope we see them think about readiness. Sometimes the Pentagon called it big R readiness, not just training, but also, the longer-term needs of modernizing the force to contend against future foes. Procurement hasn't fared well. It is almost always the way the Pentagon reacts to downturns in the budget and it happened again this time. So we do need some increases in procurement and I would hope we would see some of that in this budget amendment.

And finally, Mattis said a promise of aggressive program of business reform in the Department of Defense, continued what I believe was a fairly aggressive one in the Obama administration. Probably too early to expect specifics in the amendment, but I would hope maybe there would be a reiteration of the commitment there and maybe some indication of commitments to things like BRAC that will be contentious with the promise being we would see more specifics in the fiscal '18 budget that I assume they'll get up there sometime in April.

So that's a brief sense of priority, how they handle the Budget Control Act. Any additions in the fiscal '17 budget amendment will violate the Budget Control Act. The budget -- the request that is up there is right at the X limit. There are several ways they can handle this. One way would be to simply flatly repeal at least the defense portions of it, or where (inaudible) view, declare all money in the '17 budget amendment, emergency funding and therefore, not subject to the -- I hope they don't do that. It

would essentially decrease the deficit, which to me, remains substantial and we're at nearly full employment in this country. If we were thinking of balancing the budget over a business cycle, we probably ought to be running surpluses now, not larger deficits. Hope they don't do that.

A second way to handle the BCA, would we change the law so they can increase defense and cut non-defense by an offsetting amount. The problem there is many of the agencies in the non-defense area contribute in significant ways to national security, think of the Veterans Administration. Think of Homeland Security; think about the State Department; the FBI; about half of Energy's -- Department of Energy's budget is the National Nuclear Security Administration, which maintains the nuclear stockpile. So big cuts in non-defense -- even leaving aside the other non-defense issues that the country faces would have adverse affects on national security.

I hope what they do is move toward a major budget deal that opens the aperture and considers entitlements. We need to hold down growth -- you've heard this so many times, but it's true, in entitlement spending if we're ever going to get at the deficit and free up money for needs like defense. And also, revenues and I realize taxes aren't going to go too well with the Republican Congress, but maybe fees or loophole closing, or other methods. We need to broaden the aperture, look at a broad budget deal as a way to pay for defense and the other needs like infrastructure that the country has. So those are the kind of priorities and the way I hope they will handle the Budget Control Act. So I'll stop at that.

MR. O'HANLON: Oh, that's great, but I am going to ask you to give a little bit more additional perspective on two issues that you mentioned. The state of readiness and the state of procurement and you pointed out there are needs in both areas. I don't think anybody would deny that, but because you've watched these debates over many years. I was hoping you could situate us without getting in detailed numbers or comparisons, but if we look over, you know, the years you and I have been watching this process and you've been part of it so centrally, in the 1970s, we talked about a hollow force, a military that was really in many broken after Vietnam. Didn't even have the right people to fill out its ranks; went through long stretches of poor training. Then we saw Ronald Reagan's buildup. Then we

saw the 1990s and Bill Clinton's build down and readiness was often debated then, but a by a lot of metrics, the force looked pretty good even though it was downsizing. Then we saw 15 years of intense war and a lot of strain on people, in particular. But also some pretty good -- in order to give you an others credit, some pretty good cooperation across the aisle despite the Budget Control Act; despite sequestration and shutdowns on sustaining the force on a pretty high level of readiness. So I would just love to hear your take on, you know, just how good or bad readiness is today in big picture terms. And I'm talking about small R readiness; day-to-day preparation for the responsibilities and then procurement. You said procurement tends to take a hit; tends to take -- sometimes be the piggybank for other needs, but the procurement budget today is over a hundred billion dollars a year. I mean, the 1990s, it was only half that for a long stretch, so we're not at the, you know, the depths of despair that we were then. Just how much help does the procurement budget really need?

MR. HALE: Well, let me start with readiness. We've heard strong concerns expressed recently by the service (inaudible) on readiness. I think it's time to be -- you need to be a little skeptical. There's money available right now. I've often said it's harder in the Pentagon to give out money than it is to cut it and there's some truth to that. It's just a time when the services -- if you will want to put their worst foot forward and make clear all the problems that are there. So I think we got to be a little skeptical. That said, there are readiness problems, certainly returning to what the services like to call full-spectrum readiness across a wide-variety of missions and not just counter-terrorism is a problem. And I think the lack of spare parts and training is a problem. We need some added readiness money. It's important to remember the Obama administration regularly proposed budgets that were $30 billion higher than Congress and the president were able to approve ultimately and some of that money would have gone to readiness. Now, we need to fix some of those problems. So I mean, a little skepticism, but realize there is a small R readiness problem.

On procurement, it has actually gone down in nominal terms since 2012, as the Department reacted to the Budget Control Act and at the same time, we're heading to a battle wave of needs for a procurement. I think the Ohio class submarine, high rate procurement of the F-35; we need

to buy something for the Army, probably a ground combat vehicle; there's the Air Force bomber out there; there's the tanker program and those are the big ones. There's all the small stuff as well, which I think is going to put enormous pressure on the procurement budget, so I think we need some increases and if defense is going to go up, it certainly needs to be a major part or procurement in my view, needs to be a major part so that we can begin to build the base we'll need to meet this battle wave of needs that will be with us in the early 2020s.

MR. O'HANLON: Thank you, now I want to go to General Moeller, I should say General Moeller that works for Pratt & Whitney United Technologies Corporation, a very important part of the U.S. and defense industrial base. Also, part of a project that we do here and a supporter of us at Brookings that we've always really benefitted over the years from yourself, J. de Frank and others, very grateful to have you here.

General, I want to ask you specifically about some operational and modernization requirements, but I thought first I'd give you a chance just to comment on where we stand on the conversation already. There's already a lot on the table, everything from Russia and China to readiness and procurement. I'm sure you've got some thoughts to share on those issues.

MR. MOELLER: Well, thanks, Mike. In fact, I was actually going to tag on to Bob's -- the Secretary's answer about readiness before I answered any specific questions.

MR. O'HANLON: Good.

MR. MOELLER: And so, thanks for letting me do that. When we talk about readiness, I think Secretary Hale hit it exactly right. The bottom line is the services today are incredibly deep and capable of when it comes to counter-terrorism operations. When it comes to the rest of military operations, it's veneer. And it comes down to not just funding, it comes down to two things that are very important. One is time. Time for personnel to train; to do exercises across the full spectrum. A good example, if you will, there are across all of the services, there are units that are required to annually conduct multiple training exercises in the chemical, biological and nuclear environment. Where you put your suits on -- for those of you in the military know you put your suits on, you exercise in that

environment -- that denied environment and over a great period of time. Because of the -- because of combat operations, the services have not had time to do that kind of training across the spectrum. That's just one example. So it really comes down to time for people to train, to exercise and to actually do professional development because when you're not home, it's really difficult to grow personally and professionally.

The second component for that is and Bob touched on it is, the equipment reset. It takes time to get parts into the system; it takes time to modify equipment that has been essentially used up over the last 15, 16 years; and, it takes time to do the modifications and upgrades that you'll need going forward into the new environment that Tom talked about. Those two are incredibly important.

The other piece that people don't talk about -- we talk a lot about infrastructure, the military, Department of Defense infrastructure, and how we are essentially oversized for the amount of people and organizations that we have. What we haven't talked a lot about is, is that the services fundamentally have underfunded infrastructure and facilities improvement for the last -- probably the last decade. Maybe not quite as bad. What that means is that your depos; your roof leaks in the depos -- it means that the infrastructure in facilities are obsolete and outmoded and it takes time and money to do those repairs.

The other piece is for readiness is internal to the services -- there has to be a cultural change. You cannot rely on the traditional way of training that the -- that U.S. military has done over the course of the last 10 years. A good example from flying -- from a flying organization, if you're an experienced pilot and you're moving from one aircraft to another aircraft, the traditional course is, is four to six months, multiple flying sorties, multiple simulators and ground training. That amount of time is not the way to do business when we talk about in the future. There are a number of, for example, there are a number of partners -- international partners that are talking about as they integrate the F-35 into their militaries, is talking about two simulators and a solo for pilot training. Now, that's an extreme, but the concept of how we -- how the U.S. services are going to train as a function of readiness is really, really fundamentally important when we talk about looking to the future.

MR. O'HANLON: Thank you and now, I want to put a sort of a big picture question before you about modernization priorities and what they should be. And you can take your answer wherever you like, of course, but I guess one of the things that I'm struck by, we're having these big debates about the state of readiness; we're having a big debate about the deficit and the Budget Control Act, not just here, but through Washington, but, of course, in the defense community, a lot of the debates analytically in the last years have been sort of at one level more specific, so you're a bomber pilot. There's been a healthy debate about do we invest enough in long-range strike. Do we put too much emphasis on shorter-range platforms.

Bob mentioned the European Reassurance Initiative, presumably Donald Trump's not going to multiply that by a factor of 10 when he's still hoping to get along with President Putin, but nonetheless, it's a pretty small initiative compared to the size of the Russian military right across the border. So, the question is, are we thinking big enough there? And then there are the vulnerabilities -- cyber, for example, where we may not be able to operate systems the way we hope because somebody might get inside them electronically. So, given that we should be having more than just a top line debate, more than just a readiness debate, are there any words of advice that you would provide about the broader debate about how to frame some of these other kinds of choices within the top line. You know, what types of platforms, long range versus short range; hardware versus software and cyber? Where are your greatest concerns or your greatest areas of recommended greater resources and attention?

MR. MOELLER: A great question of which I don't think anyone could answer, but I'm going to give it a -- I'm going to give it at least a good start, I think, I hope. Well, let's just turn the budget debate around to something that's fundamentally different. Right now, the Department of Defense builds a series of annual budgets that looks out five years. It's really difficult to build a strategic plan and then (inaudible) resources to that strategic plan when you build that series of annual budgets and you -- there's uncertainty about what the funding levels are going to be one year, two years, three, four years, and five years. Not to mention, no idea anywhere outside -- and I'm sure most of you have heard the term -- outside the FYDP, outside the Five Year Defense Plan, no idea what funding levels were going to be. For

the department, there -- some of the services, if not all the services, have started to take a 20-year look of a fiscally constrained plan based on just general guidance from both the Obama administration and, I believe, now from the Trump administration and work backwards to get to the five-year and then the one-year point. That's really important when we talk about these plus-ups that are uncertain 1) when they will -- when will actually -- when the department would actually see the money and 2) how long will the department be able to sustain that level of funding? So if you have a $700 billion defense budget, but you can -- you only can -- the services can only plan for that for three years, that's very, very difficult to build a comprehensive program that can accomplish the missions that you talked about now, over the course of the next 20 years. So that's the first piece, is I really think that the department and the national security's apparatus needs to take a longer view and work backwards. Now, that's going to require the support of many, many entities including the Congress, but it's something that I think we at least have to have in a conversation. As far as what the services -- what capabilities the services are going to look at over the long-term, I think Secretary Mattis put it very well. He said for FY 19 -- for the FY 19 program -- Defense Program -- he told the department to focus on increasing lethality and capability of a joint force for the high-end fight. Those words are very specific and what that means is, is that the department for the long-term is going to look at those capabilities that will defeat a well -- a very capable adversary in the 2025 to 2030 timeframe. Now realize that every program that's -- the department is funding right now, those are the capabilities that you'll have in 2025. If you look at a 10-year -- 8 to 10-year acquisition cycle, those major programs are what you'll have. So what the department has to do is take a look at the capabilities that they're building, do a gap analysis including a comprehensive cyber review and then they need to rebuild a robust experimentation program; something that since 9/11 the services really -- well 1) they don't have the time, they don't have the money, but really take the gap analysis and each of the services apply a robust experimentation program to identity breakthrough capabilities that they get to for the 2025 to 2030 time.

MR. O'HANLAN: Thank you. So I just got really two broad questions I'm now going to ask the panel and -- but anybody who wants to comment to do so before we go to you. Speaking of

modernization, I want to dust off this term, “third offset,” that our good friend Deputy Secretary of Defense Work created and which we spoke about with him here in December, I think, at our last major Brookings defense forum. And now we have a new administration. We still have the same deputy secretary of defense for the moment, which I find reassuring and a smart decision by Secretary Mattis, the short-term, myself, but I’m wondering about the third offset. To what extent it’s going to be an enduring phrase, what it means -- what it even means and then which elements of Obama thinking on this third offset are likely to be sustained or should be sustained by President Trump? So General Moeller, you already sort of got at this a little bit because you weren’t using those terms but you were talking about capabilities and gaps. So Secretary Hale, I wonder if I could start with you and then just maybe work down the panel as to what does the third offset mean to you, do you see it as a major legacy of the Obama administration and therefore which parts are most important to sustain, going forward?

MR. HALE: Well let me start by saying, expect the words will just go away; just a new administration (inaudible) but -- and it probably never will have the same level of support that as Carter provided and, I mean, it was -- I don’t see that, and Secretary Mattis to my knowledge in his confirmation, these portions I heard of it, didn’t come up and he didn’t mention it in his testimony. That said, I think the department recognizes it needs to look for ways to do 1) to advance, research and development, but 2) to capture what is going on in the private sector and make it useful. There was that article a couple of days ago that I thought was telling about universities that are teaching short courses or that they give small budgets to students to try to figure out way -- off-the-shelf ways to solve defense problems. The department is cooperating in this. I hope that in one form or another we keep the DIUX, the defense innovation labs that Carter set up on each coast -- whether they changed their name or not, that’s up to them, but I hope they keep that idea. So balance is key to defense and part of that went to successful defense budget and part of that balance, I think, has to be continued emphasis on R&D and finding ways to harness the private sector to meet defense needs.

MR. O’HANLON: So Tom, let me go to you and I realize this is not the world you live in. And for those of you who don’t live in this world of third offset, let me just briefly remind you that you can

watch the transcript from Secretary Work from December on our website if you want. But the first offset was essentially the reliance on nuclear weapons in the early post-World War II period, the early Cold War, when the Soviet Union was creating such that imposing conventional threat to Europe and we didn't think we could afford to match it tank-for-tank so we relied more on nuclear weapons. The second offset is when NATO sort of went high-tech in the late 70s and 80s with something called "Air-Land Battle," trying to use precision weapons, long-range strike capabilities to interfere with the Soviets and (inaudible) ability to reinforce in Europe and use conventional high technology rather than exclusively nuclear weapons. Whether that would have ever fully worked or not we don't know, but certainly those weapons and those technologies did very well in Desert Storm and we built on a lot of that since. The third offset is a little more (inaudible) of a concept, but it's the idea of using a (inaudible) arrange of high-tech capabilities that we're now developing from cyber to micro-electronics to all sorts of other realms, robotics and so forth, to compensate for the distance from which we find ourselves from Russia and China, even if we in many ways do outmatch them in Defense budget and in ships and tanks and so forth, although on some of those you can debate whether we really outmatch them any longer. But the third offset is a bigger, broader term. And Tom, I think you sort of were getting at this when you said you're worried less about the Defense budget top-line, more about areas where we have weaknesses or advantages that we could build further upon. Do you want to elaborate on any of that?

MR. WRIGHT: Yeah. Firstly, I do think it should remain very much a part of the thinking even if Secretary Hale said that the words go away and each administration wants its own way of framing it. But I think if you look at Asia just as an example in terms of what you mentioned there on the budget side, the administration has talked a lot about building -- you know, up the navy and ships over the long-term and that by having a massive sort of ship-building program that that will sort of reassert the balance of power in the region and -- but in truth, it probably will have a very limited effect not just because of the time factor but because of the problems that the U.S. confronts with China are usually very little about the overall naval sort of balance of forces and they're about the specific provocations that Beijing may initiate and then the dilemmas that that poses and how to respond to it. And those, I think, are likely to be

protracted over many, many years. And adversaries, of course, get to play a large role and have a large say in the type of dilemmas that are posed and they try to pose the most difficult ones, impossible, and they will continue to do so. So it's actually about, I think, hundreds of different decisions, strategic decisions that will be taken in the Asia-Pacific about how to respond not just to each individual provocation or active revisionism but more in the totality of shaping that sort of environment and regional order, so if China were to build a reef or an island and put a landing strip and it wasn't possible to actually, you know, deny them access as Secretary Tillerson had mentioned in his hearing, because that might be escalatory, part of the type of things that can be done to ensure that that's a strategic liability for them over time rather than the strategic access that actually will be counter-productive from their point of view over a five or 10 year period. So to me, the third offset and the strategic thinking that's going on about how to respond to these challenges is as much about really trying to figure a way -- out a way to effectively counter and ultimately deter future acts of visalism by major powers through -- by limiting their sort of asymmetric advantage and coming up with asymmetric strategies of our own rather than just sort of engaging in a more traditional sort of ship-for-ship or dollar-for-dollar competition.

MR. O'HANLON: Excellent. And General Moeller, you got at some of these concrete, specific issues in your earlier comments, but anything you'd want to add about the third offset?

MR. MOELLER: No, I agree with the panel. One key thing, though; as we grow the capacity and capability of the U.S. military, where you put that increase capability is obviously critically important, so rather than have a pacific rebalance where you're taking from one theatre and put to another, I would argue that the national security strategy needs to take a very hard look at if you're going to increase the size of the -- and capability of the U.S. military, where do you put that high-end capability? Is it in the Pacific first, as you get the capability, and then -- and ensure that in fact actually you can match the asymmetric strategies of the theatre? Or do you in fact build two theatres up near simultaneously in order to make sure that you've got an east and west capability to respond? That -- and add -- you add that to the experimentation and the initiatives that -- from Secretary Carter might think. You'll find that you'll come to a very comprehensive, holistic strategy here in the next two to three years.

MR. O'HANLON: So, my last question -- and in some ways it's really just a different take on the same issues we've been debating, but I want to ask you all -- I'm not going to necessarily ask you to critique Donald Trump's last defense speech where he in many ways built on a -- what I think was a heritage foundation defense proposal from last year and endorsed various increases in the services' size and capabilities. But I would like to ask you, if you were setting up a study right now within the Trump Administration, what other options should be on the table? What other specific capabilities should be considered besides the ones that Trump has put forth? Because -- and here, you can comment on the way I'm framing this, too -- the way I would look at Trump's defense speeches from the later part of the fall are basically a fairly standard mid-level defense build-up across the board. That's the way I would sum it up. It's -- there's frankly nothing too revolutionary about it that I saw. I see it as roughly a 15 percent increase in the size of most of the services, a little more maybe for the Navy, but roughly 15 percent. As I said earlier, that might mean that the budget goes up 15 percent or even a little more. There's a, you know, full funding of things like TAC Air modernization; not so much talk of new and innovative forms of warfare, but obviously a rising tide would lift our ND budgets, as well, as modernization budgets. The Army and Marine Corps both growing by 10 to 15 percent infrastructure but not with radically new kinds of units. So it looks to me like sort of a standard mid-size defense build-up. And so I have two questions; do you agree with my caricature of what we know of Donald Trump's earlier thinking? And second, if you were framing a debate or an analysis of different options right now within the Trump administration, what else should be on the table besides that kind of relatively across-the-board set of increases? Secretary Hale?

MR. HALE: Why don’t you let me back clean up on this one?

MR. O'HANLON: Okay. Okay. We'll go reverse order. General?

MR. MOELLER: Well, I think with the new national security advisor in place with General McMaster, and with Secretary Mattis' guidance to the department, I think they're only beginning now to actually work on the National Security Strategy taking the precedence, public statements along with obviously his private insights, and working and combining that and integrating that into the new National

Security Strategy. I would say that I do believe that this National Security Strategy needs to ensure that it incorporates all of the domains, and I know that's a well-used term here, but we are -- we as a nation and as the U.S. military, the services are very good at traditional air, land, sea, under-sea domains, but ensuring that you have an integrated cyber strategy as part of this new National Security Strategy integrated in and interwoven from start to finish, I think is one area where the President Trump's team really needs to focus.

MR. O'HANLON: Thank you. Tom.

MR. WRIGHT: Yeah. I think National Security Strategies tend to work when there's clear guidance from the commander in chief about what he wants to do. And the problem, to be honest, in this administration is that if that guidance is provided it will be the wrong guidance. Right, I mean, his views on foreign policy and defense policy are pretty much diametrically opposed, thankfully, to his Cabinet. They have very different ideas about it. They are much more traditionalist. His views, which he's described as America first, are essentially to -- you know, to do much less with allies and just sort of to be very skeptical of alliances, to have a much more mercantilist sort of view on geo-economics and the international economic aspects and national security, and also to -- you know, to have a pretty positive attitude towards Russia and a relaxed attitude to the Russian threat in Europe. And now one of the big sort of positive stories, I think, of the last month or so has been these appointments which he made, which I think have reassured a lot of people, particularly in the appointments of General H.R. McMaster yesterday. But that has put an incoherence at the heart of this Administration and we -- it would remain, I think, very much to be seen how that plays out, but I do not believe that those cabinet appointments will be able to fundamentally change his mind so that he plays a constructive role in the process. Like, they won't turn him into an internationalist or a traditionalist, but they will be able, I think, to do a lot of good sort of internally in terms of limiting that effect and ensuring in a day-to-day basis it's a more traditionalist administration. One sort of final thought just on the defense budget aspect to this, Mike, that you raised, Trump going back to the mid-80s has described himself as a militarist, which is a very odd phrase to use. I don't know any hawk that says, I'm a militarist, I'm in the -- a militarist person you've ever met, but he

says that and he wants a very strong defense budget. But as you, I think, as astutely pointed out, in his mind that is usually quite sort of crude in terms of, you know, much more nuclear weapons, more sort of traditional military force and then not really wanting to use it internationally at all, not thinking about a broad base in terms of alliances, but it's almost sort of a fortress America thing and he measures that, as far as we can tell from all of the different things he said, in terms of raw numbers and in terms of missiles and in terms of troops, right? He sort of looks at those top-line things. That's why I think he found the Navy build-up thing pretty attractive, because it was a very sort of simplistic way of sort of communicating that strength. The challenge will be -- and to go back to the question on the third offset or related matters, the challenge will be to convince him, I think, that there more sort of complex and nuance way of conveying strength, and that there may be sort of decisions that need to be taken as part of national security strategy and defense strategy that don't necessarily conform to his preconceived notions but are necessary to tackle are complex and changed environment. Now, I do think I'm more optimistic in that than I was maybe six weeks ago because of these different appointments, but I really do think they have their work cut out for them.

MR. O'HANLON: Thank you. Secretary Hale?

MR. HALE: So I wanted to back cleanup because I'm going to take your big picture question and answer it through the lens of a former comptroller. If I were the comptroller right now I'd be saying to my staff, let's look at the -- what I like to call the dark corners of the budget that haven't gotten much attention or have gotten negative attention, and they would be -- and try to fix some of these problems as the budget increases. They would be things like military construction; right now we're spending about $6 billion. That's probably putting defense over a long-term a hundred in your replacement cycle for its building; it's not viable, so we need higher levels there. As Mike said, we have done -- and I did it purposely and consciously when I was the comptroller -- underfunded facilities sustainment, restoration and modernization. Facilities maintenance; it's something you can cut quickly when you're in a desperate mode like we were in 2013 in sequestration, and all the services agreed with me and did it.

We need to fix that because if you leave it unfixed you will have long-term problems with facilities. And the other thing I'd mention in terms of dark corners, well, I call non-major procurement. About half of the procurement doesn't go for all the big-ticket stuff we all know and love; it goes for munitions and large spare parts and all the unexciting stuff that you need to make a military work. Typically, you cut that most, and I haven't looked at the numbers lately but I suspect it has fared worse than the overall procurement management. We need to fix non-major procurement. And the other thing I'd say to my staff is, let's strike while the iron's hot on business reform. We've got a business reform president, we've got a secretary who has endorsed this; let's put forth an aggressive proposal on business reform that would include in my view BRAC. They ought to be involved in the civil service reform that's surely coming, but they also ought to look at the mix of people in the military and the Department of Defense military, civilian and contractors, and ask if it's the right mix. And finally, in big-ticket items that departments -- budgetary lunch is being eaten by operating a support cost. It desperately needs to look for ways to control those costs; it'd be a great thing, I think, for them to take on as an issue.

MR. O'HANLON: So thank you and we're going to go to you in just a second. Let me just say one other word about H.R. McMaster. I'm thrilled that the president has chosen him as national security advisor. H.R. did an event with us here two years, and you may be curious about that, or what he helped write for the U.S. Army, a document called the “Army Operating Concept” or “Win in a Complex World.” He certainly is aware of the broad range of conflict, so I think if you were going to look at H.R. McMaster as an indication of where this administration may go, it's one more voice in favor of not oversimplifying future combat. That would be my one sentence take-away, but obviously it remains to be seen, as Tom points out, just how the internal debates shake out and who influences which decisions. So if you could, please wait for a microphone after I call on you and please identify yourself. I'm going to take two questions at a time and then we'll go to the panel. So we can start here with the gentleman in the red tie, please.

MR. BERTUCA: Hello. Tony Bertuca from InsideDefense. I wanted to ask a question

about the conflict over capacity versus capability. It seems that there's a lot coming from Congress right now about getting the forces larger. There was a lot of that during the readiness hearings. If you also look at the defense secretary's January memo for budget guidance, he says that a new force-sizing construct will be part of the National Defense Strategy, meaning it's going to be for a larger force. Is there concern that the O&M and personnel costs, if such a thing, would eat in procurement, eat into modernization and basically just have a hollow build-up?

MR. O'HANLON: Right. So that's one question. Let's take one more before we go to the panelists. The gentleman here in the brown jacket on the aisle. Then we'll do another round.

MR. MEYERCORD: Ken Meyercord; I produce a TV show called Civil Discord. What is the status of President Obama's proposal to upgrade our nuclear arsenal, and if implemented what is its impact on the budget likely to be?

MR. O'HANLON: Right. So Bob, you want to start and we'll just work down? You can take both or just take one.

MR. HALE: Well let me talk to the nuclear question. The nuclear arsenal is still a relatively small part of the defense budget. I want to say -- these numbers aren't in my head like they used to be, but it's probably in the order of 5 percent. I mean, I suspect this administration will move forward with the Obama plans which included things like the oil class submarine and a number of other, and then go further in terms of perhaps modernizing the land-based deterrent more aggressively than the Obama administration had in mind, certainly significant bio-bombers which had -- which is going forward under the Obama administration but they had not made a commitment to it, so I would expect we would see Obama and then more. I mean, the president has been adamant about his commitment to nuclear weapons and so I'd be surprised if we didn't see an increase there.

MR. O'HANLON: Tom, any comments?

MR. WRIGHT: Yeah, on -- just on the nuclear question and one quick thought on the other question. I think the president's been very, very clear that he does sort of favor modernization, but I do think that there's one issue on the table because of his stated views that maybe hasn't been on the

table for a while which is the credibility of extended deterrence. And they, I think, need to take steps to sure that up because his comments, frankly, on alliances raise a doubt about the commitment to extend a deterrence, and so I think to the modernization mix I think we have to add sort of reinforcing extended deterrence as sort of a key purpose of his sort of national security defense policy going forward. I'm apparently not the best person to answer the first question, but I would say that I do agree with the questioner that I think that there is the emphasize on the overall sort of force numbers; I think could come at the risk of innovation or indeed other things, and I think that's what I was trying to get at when I was saying that it's important to try to convey to the president that it is a more sort of complex mix, and that strength is not just about those top-line numbers.

MR. O'HANLON: General?

MR. MOELLER: I'm going to -- I'm just going to answer the capability versus capacity discussion because, as Secretary Hale knows, we spent hours and hours in -- on the third floor of the Pentagon talking about what's -- as we conduct the drawdown, what's the right mix to ensure that we don't unbalance the force, and I know since you've read the memo secretary Mattis' guidance was clear program balance. So I think for the -- when we talk about the overall growth of the armed forces, it's the pace that matters. So it's the speed that matters. As you grow the force, you have to make sure that you've got the capability to match to these new soldiers, sailors, airmen, and marines going forward, because if you grow too fast you will -- in fact, you have to take from the operations and maintenance accounts to pay for it. If you grow in a prudent way and you make sure that you've got the capability matched to each of the individuals as well as holistically for the services when it comes to training, when it comes to facilities, when it comes to training, when it comes to professional development, when it comes to the actual costs for each of the individuals that we bring onto the service, if you do that over a period of time and it's predictable, then it's certainly possible. And Secretary Mattis' been very clear; we need to make sure that we balance that growth with -- and don't break healthy programs that we'll need for the next -- in the next five to ten years.

MR. O'HANLON: Thank you. So going to a second round of questions, now. We'll start

here in the front row, if we could, please. And then we'll go over here.

MS. JOHNSON: Hi, there. My name's Ingrid Johnson; I'm a freelance writer and I think this is a great conversation on national security issues, a great overview. So my question is -- well, I feel like this event was a good overview of defense priorities of the Brookings Institute. So my question to you is, do you think that the president is listening to conversations like this and do you think he has the mental capacity engage meaningfully with it?

MR. O'HANLON: Then we'll take the gentleman --

MR. HALE: No Tweets about Brookings yet, so you know. (Laughter)

MR. O'HANLON: So far so good, yeah.

MR. REBENUETS: Thank you. Dave Rebenuets. The secretary just sort of touched on this, but today a lot of jobs that used to be done by active military personnel who'd been at least through basic training and were available for other military assignments if necessary are being done by civilian contractors who don't have that training. And I was wondering, would it make sense to bring those jobs back into the militaries to increase the active military personnel while having relatively little impact on the cost, perhaps even saving cost.

MR. O'HANLON: Why don't we start this round with Tom, who can either defend Brookings' honor and influence (laughter) or not, as he sees fit. And then we'll go to Bob and Mike.

MR. WRIGHT: Yeah, just on the first question, you know, I see a few cameras here so I guess it depends whether or not there's a clip on Morning Joe or Fox & Friends, in which case (laughter) I think he will see it, but otherwise probably not. I do think it is actually an important question because he clearly is not intellectually curious in the sense of looking at the broader debate on these issues, but then he has appointed these people to these positions who are. I mean, Secretary Mattis and H.R. McMaster are probably two of the most widely read, you know, officers of -- you know, of any generation in terms of their sort of interests in these broader debates, and so the administration, I think -- and I say this as someone who's been quite critical and skeptical of them -- I think that has been one of the few sort of positive, you know, things, developments and so there are multiple ways, I think, for those folks on the

other side who are working these issues these issues at -- to ensure that those arguments are heard from within the administration, but not necessarily from the Oval Office. I do think that the big question really is how this all plays out in this -- in this internal competition of ideas. And particularly when you have someone like the two strategist, Steven Bannon, who would be widely read in a very different direction, listening to very different debates at very different ideas. What happens when sort of he bumps up against the more traditionalist forces? But I -- you know, it's going to be a very different time, I think, you know, there are -- I don't think we totally know how that sort of battle of ideas will play out. It will be quite unusual, so I do agree with that.

MR. O'HANLON: Secretary Hale?

MR. HALE: So let me return to your question first. You know, I'm acutely as aware as a former Obama political appointee that I'm out of office. My wife used to say it's kind of like being dead. So I've tried to focus on what Secretary Mattis and the president have said when I talked about priorities. Mattis has said Russia is his highest priority. He made that quite clear before the Senate Armed Services Committee. The president has mentioned ISIS repeatedly. Readiness, Mattis made a big point of that and he also, as I said earlier in the worse than aggressive program of business reform. So I think I would expect to see those priorities in his budget. If not, I think it's fair to ask why he's changed his mind. So I was trying to get the Trump administration view even if it isn't always my own.

I couldn't agree more that we need to look at the mix of personnel. Generally speaking, military personnel are expensive than civilian government employees. Contractors is an iffier issue; it probably depends on how they're used and -- but there are cases where we absolutely need the military, obviously. And there are cases where we can't use contractors because of inherently governmental -- we need to step back and ask. And maybe a good way to start and something that the Congressional Budget Office did and I thought was kind of interesting and the services have done to a point -- to an extent, ask how the services vary in the way they handle certain routine activities in terms of mix of personnel.

You find quite wide differences and it'll -- it's not the end of the debate, but it's a starting

point for asking question about what the cheapest mix is. So I can't answer your question definitely because I don't think that study's been done. I'm not aware of an overall look throughout the Obama administration and I'm not sure even before that. I think it's high time we did it given all the concerns about civilians and contractors.

MR. WRIGHT: Mike?

MR. O'HANLON: I'm just going to extend the answer from Secretary Hale. I agree with everything that he said. In addition, as part of that look, we really -- the services really need to take a hard look at what our dual military and what we would consider, stay-at-home capabilities and make sure that even when there are -- when we've got some overlap, the importance of if you handed all over to civilians or contractors, what does that do to your deployable force? I'll use the example, civil engineers in the Air Force -- civil engineers who used to be responsible for running the entire installation -- the entire base. When we -- when the service -- when the Air Force moved that to almost an entirely civilian contractor responsibility, what we found is that the draw down for civil engineers -- combat civil engineers that we needed to deploy -- the actual numbers were just too small. So as part of that mix, we really need to take a hard look at -- for those dual capabilities, what numbers do we need in order to be effective across all the services?

MR. O'HANLON: Thank you, another round? Gentleman here in the sixth row and then the young woman here in the third row. Yeah. Thank you.

MR. CRAMER: Good morning, my name is Dominic Cramer. My question is we focus a lot, obviously, this president isn't really thinking in grand strategic terms. We know people in his administration are. What he is actually focused on seems to be where he can take credit in contracts, or new programs, or things we've talked about for procurement. So my question is primarily for the general coming from industry now, but where do you see the President looking for competition in the defense industry and what's likely to catch his attention and where -- what should catch his attention as a priority in the broad -- in the broader context?

MR. O'HANLON: Right and then one more question here in the third row, please.

MS. KENNY: Hi, my name is Caitlin Kenny. My question is what you guys discussed earlier about how the administration's concerns are going to be about Russia and ISIS, but over the next four years, do you kind of see maybe another region; another conflict around the world that might be an even bigger concern. You know, there's all the issues in Africa; in the Middle East; the Pacific that you mentioned; Europe -- do you see any other like, really big issues over the next four years that they're going to have to work on?

MR. O'HANLON: Great. Why don't we start with John Moeller and work down this way.

MR. MOELLER: Well, let me just take the second question first and I'll come back to that. I'm convinced that the Department is going to take in the new -- the new national security strategy is going to take a very hard look at the global environment -- the strategic environment. And they're going to take a hard look, not just at the theaters as they are now, but in fact, actually identify and -- identify potential future hot spots and then, again, what are the capabilities that we need; the rapid deployment capabilities that the services need in order to get to those unpredicted -- unpredictable or pop up spots, if you will. So that would be from my perspective.

On the second piece, every administration -- at least in my career, especially in my time spent working in budgeting and program development, every administration has taken a very hard look at the defense -- the institutional defense both from a cost perspective, as well as from what's the capability that you're getting. Is it delivered on time and it is -- is it on cost? So those fundamental questions run through every administration, so nothing different there.

I would argue that if you want to talk about actual -- how we're -- how we need to function as a department going forward -- the Department of Defense going forward, if you really want to -- really want to look at how you're going to get to on cost on time and you're going to get speed, that is, you're going to bring acquisition programs from 10 years to three, you need to do four things.

First, you need to reform the acquisition system -- the process, which Mr. Kindle did get after with better buying power. I think we were up to 4.0 when I -- when he left, but that has to -- that better buying power started at the secretary level and worked down, but it didn't make it through all of the

layers down to the acquisition -- individual acquisition and contracting officers. You need to take a hard look and go all the way to the very tip of the sphere when it comes to getting new programs. So that's the first.

The second is -- the second is that you really have to have -- ask for support from Congress to get budgets on time and as I talked about earlier, I think longer -- a promise of more than five years. You really have to get after long-term funding state -- stability if you want to talk about getting fast. The third is that it's a contract between the services and industry. The services have to provide clear requirements and they have to commit to a funding profile and program. Industry then has to make that commitment and they have to deliver the capabilities and they have to do it on time and they have to do it on cost. If you do those four things -- it sounds easy, right. Very easy -- if you do those four things, you'll get after what the president is focused on.

MR. O'HANLON: Tom?

MR. WRIGHT: Yeah. On the second question and I probably sort of said this earlier, but I think the president has been very clear about this priorities. His first priority in terms of the regions is the Middle East. Number one, ISIS; number two, Iran. His second is Asia; number one, China, number two, North Korea. And the third, by some distance is your -- he really doesn't care about Europe and he really thinks, I think, that it's largely irrelevant or that it's actually a problem in terms of the EU and so the first -- the first comment I would make -- and that is not the view of Secretary Mattis. That is not the view of Secretary Tillerson and it's almost certainly not the view of the new national security advisor, but it is the view of the president very clearly and I think that one of the jobs that his cabinet is to sort of underscore that Europe may be the most pressing problem that he could face and that European problems tend to be worse when they emerge than problems elsewhere and that he ought to keep an eye on that. So that will be the first comment.

The second is, you know, U.S. strategy for many decades has been largely to keep a lid on international problems. There's lots of different -- whether it's India, Pakistan or anything you could imagine, the U.S. is engaged to try and limit that. The president has been clear that he doesn't really see

a role for the United States in playing that preventive sort of diplomacy and long-term sort of defense policy reassurance. But those problems will emerge. I mean, we don't know exact -- I think it's impossible to predict what they are, but whether it's the fall of a, you know, collapse of the Venezuelan regime, or a problem in South Asia, or something else, they will emerge. And I think it's really important, again, that the mindset, particularly within the Oval Office that the U.S. has an important role to play. The cabinet secretaries, I think, want to play that role, but they need to be sort of empowered and allowed to do so by the president.

MR. O'HANLON: Bob?

MR. HALE: So I'm probably guilty of the Russian ISIS and that was a shorthand, obviously, you've heard there's a more sophisticated set of threats and I always like to keep in mind when I work for Secretary Bob Gates, he used to say we're a 100 percent accurate in predicting where we're going to have to fight next. We always get it wrong. And I think there's truth to that that balances the key here because as your questions suggested, we're not sure where the next threat will come from.

MR. O'HANLON: I'm going to add a couple of words on these as well. Picking up where Bob left off. Of course, sometimes we're successful in deterring a threat that we can identify and that's why we end up fighting in a place we didn't anticipate. So Secretary Gates put it in a pithy, provocative way that was slightly unfair, I think to the broader accomplishments of U.S. foreign policy, but it's still a good point.

Let me just add a couple of things on scenarios. One of them is advance advertisement for paper that I'm finishing with General Odierno. We've been doing a project for the last year on global security in urban areas. General Odierno now has been obsessed by this issue since he was army chief of staff, commissioned a big city -- a big study on megacities and likes to point out that we now have for the first time in human history more than half of all people living in major urban areas or cities of some kind. That number will go to about two-thirds by mid-century and we're going to have several dozen megacities of 10 million or more around the world. So rather than think just in terms of countries and regions, think also in terms of cities. And it doesn't mean that somebody's going to all of a sudden create

a five-division force coming out of Karachi to attack some other country. What it means is that these cities can present a combination of crime, terrorism, cartels -- sometimes in countries of weapons of mass destruction, or the potential for outbreaks of disease. And what happens in cities often growing in fairly uncontrollable ways and developing mega slum areas that are hard for authorities to reach is another dimension to national security planning that I know H.R. McMaster is well aware of. But I think we're going to have to think more broadly. Donald Trump is not going to want any part of these conflicts, but none of the rest of us do to, but it sort of calls to mind the old Bolshevik saying, "You may not have an interest in war, but war may have an interest in you." We may find that the problems in some of these big cities are not ones we can easily ignore depending on when and how and where they develop.

One point on the weapons and industry question, if you don't mind and I'm aware that I'm speaking to this issue with a representative of a company that makes the excellent engine for the F-35, but also the excellent engine for a number of other aircraft, including the F-16; Donald Trump's talked a lot about the F-35 Joint Strike Fighter Program, the Lighting II. And I'll just say I've been a critic of the size of this program, but let me say three things in its defense, which underscore the difficulty of identifying a big program as a way to all of a sudden solve our problems.

First of all, the F-35 is actually a good plane. So whatever its limits, you know, it's not super long-range, but it is looking pretty good. Took a little longer than it should have. There have been problems in the program. It's stealthy, it's high performance, it's electronically very sophisticated.

Secondly, if you're concerned about its unit cost, one of the hardest things you can do to solve the problem is to reduce the number that we buy because you get an efficiency from buying more, not only here in the U.S. Department of Defense, but abroad. Now, I'm still personally in favor of reducing the scale of the buy, but I acknowledge that when you work through the math in a way that Bob Hale taught me at CBO 25 years ago, you wind up recognizing that anytime you make a program smaller, even if you do it in a very well-planned out way, you increase the unit cost and eat up some of your savings. And so those points, I think, are worth keeping on the table as we think about how hard it is to solve an F-35 funding problem and we can go on, but I'll just leave it at that.

Let's go to another round. We've got a question in the far back.

MR. MAUCIONE: Hi, Scott Maucione, Federal News Radio. I also had a cap -- a capability capacity question. With all the pressures that are on the Defense Department for budget even with the $750 billion budget or something like that. It's almost impossible to ramp up the capacity and capability to what Ash Carter has and what Donald Trump would want at the same time. So I guess my question is, you know, what is the fate of Ash Carter's initiatives from the past couple of years, things like DIUX and also just the capability in general for the future?

MR. O'HANLON: Let's take one more as usual. Go to the gentleman over here standing against the wall in the red tie.

MR. ROPER: I'm Dan Roper from the Association of the United States Army. Could you comment on strategic deployability? We kind of go around the fringes on that, but the infrastructure is aging. We don't have enough ships or planes to get this bigger force to the places that we can't predict precisely. So a lot of our strategic assumptions are based on the fact that we can get all this capability there and it's a tough situation that's going to get tougher as the force expands.

MR. O'HANLON: Mike, you want to start with that one?

MR. MOELLER: I do. I think that's a -- I alluded to that earlier about growing too fast and not talking -- not really, really doing the drill down the deep analysis into the second and third order of effects. I would argue that the department needs to look very hard at strategic deployability and includes concepts like -- that we may end up having to go back to because of the -- because of the constraints that we have on sea and airlift. We may, in fact, see that forward deployed forces with a larger Footprint, depending on the regions that -- that the administration focuses on in the National Security Strategy. That might be the only answer in order to get through the shortfalls on lifts. So there are a number of other options, but I would expect the department to really have to take a hard look of when you grow the force, you got to be -- you have to be able to get the force to the region and to the theater. So that's absolutely great questions and something I think is very, very important.

The other piece is I'll also go back to a previous response about I think that Secretary

Carter's initiatives as well as the experiment getting the services back into experimentation is critically important to solving that capacity and capability balance challenge going forward as well. If you continue -- if the services -- if the department continues on the traditional path of this is how we've always done it. We tried it before and it didn't work. And as we move forward into the bah wave of all the futuristic programs that Secretary Hale talked about -- future programs that secretary talked about in the 2020s, that we will not -- the department will not be able to get there. So I really think that they're even more important than they were in the past.

MR. O'HANLON: Tom?

MR. WRIGHT: Yeah, just one comment already following up on that answer. The president, I think has been a long-term skeptic of forward deployed forces and so it will be really interesting to see how this plays out. I mean, he essentially believe that there - the forward deployed forces are a trick by allies to take advantage of the United States and that there's really no purpose to having them, but clearly that's not where, again, most of the people in this administration are, nor is it where the general debate is. So I think it will be interesting to see how that plays out and whether he's movable sort of on that issue to see that it is sort of crucial to deal with the strategic threats and challenges.

MR. O'HANLON: Secretary Hale?

MR. HALE: So I suspect the world of a (inaudible) that Carter initiative -- the words will all change. I mean, when the Obama administration came in, Bush II used war on terrorism. The Obama administration didn't want that term used at all. I don't know that we'll hear things like, force of the future again, but the groundwork that's been laid in areas like innovation and some of the recruiting concepts that Carter was pushing, I think will be kept to the extent they're seen as useful and many of them are. And they'll build on those and they'll have some new opportunities to do it because they're likely to have some added resources. So I mean, the names may change, but many of the concepts, I think will remain in place.

MR. O'HANLON: I'm just going to add one word on the issue of lift and transport. In

addition to the points you raised, sir, about capacity, you know, we all say this, but we have to keep thinking about vulnerability and we're so used to fighting in places where infrastructure and major transportation hubs are uncontested. And no matter how many times we remind ourselves of that fact, it's so deeply engrained in our DNA after, you know, 30 years of Operation Desert Storm, Balkan deployments, the War on Terror -- whatever you want to call it where we had a lot of threats on the ground tactically, but we didn't really have threats to our broader regional infrastructure, at least not the tagging bases. So it's going to be very hard.

So I just think I would use the word vulnerability or achilles heels and Mike Moeller has already talked extensively today about cyber and about training for chemical or other weapons of mass destruction environments. As you well know, we have to keep doing that. We also need to think about vulnerability of space systems, vulnerability of ports and air fields. So it's not just the planes and the ships, it's the infrastructure they use to load and unload and then stage, which I think is almost undoubtedly going to be a greater risk in the future than it's been for the last generation.

Let's take another round. We'll go the gentleman standing in the back and then here to the gentleman in the sixth row in the blue shirt.

MR. DONNELLY: North Korea -- John Donnelly with Congressional Quarterly. North Korean and Iranian missile tests are not new, Russian spy ships off our Atlantic coast not new, Russian violence in Ukraine, not new, but there's a perception that since the inauguration, U.S. adversaries have stepped up their provocations and a perception that it's a test for Donald Trump. My question is should the president respond with some kind -- in some way in order to signal the credibility of U.S. deterrents and what kind of things should he keep in mind as he thinks about how to respond to these provocations?

MR. O'HANLON: Thank you. And then the question here, yes.

MR. NIMER: My name is Mohammed Nimer. I'm from American University. Question on the Israeli-Palestine issue, President Trump just threw out a long-standing policy since George Schultz recognized the PLO and so my question is, what implications does this have on U.S. national security strategy and U.S. military readiness?

MR. O'HANLON: You know what I'm going to do because we only have about six minutes left. I'm going to take two more and then I'm sort of going to hope for a perfect match for one question for one response --

MR. HALE: (Inaudible) remember all of it.

MR. O'HANLON: Yeah, so you might need to take notes, but certainly these are more foreign policy questions immediate challenges to American national security in the Trump administration. Yes, sir and then, we'll do one more. Let do front row after that, please.

MR. KRAVITZ: Thank you very much. Alexander Kravitz from Inside Teduc. I wanted to pick up on the mention of allies. President Trump is, you know, reluctant about Europe generally, so I'm wondering in one of the charges is that, you know, the Europeans are not carrying their fair share. So the question is what could -- should they do in terms of, you know, increased spending and if they do, how would that change the picture of what, you know, what we have been talking about here today?

MR. O'HANLON: Great and now, let's do the last question and then we'll wrap up here with concluding answers.

MR. ROSE: Yeah, this is a broad strategic question. My name is Gerald Rose. I'm with the Executive Intelligence Review. There is on the planet a very serious effort on the part of China and Russia and now, Japan to create what's called the one-belt, one road initiative, which the open offer to President Trump has been made repeatedly that the strategic -- a new way of thinking about strategy has to be on the table, which emphasizes infrastructure development, that's it's the poverty; it's the hopelessness; it's the overall decline where -- that creates these strategic threats and therefore, what China has done in particular, is put 20,000 kilometers of high speed rail linking China. Now, we have Djibouti, a new rail line in Djibouti by China.

You have Japan who has proposed to President Trump building high speed rail -- I think is very important that we not be cynical and really rethink what the potentials are given these initiatives.

MR. O'HANLON: Okay, thank you. So why don't we start with John. I'm going to take one or two of those questions, if you don't mind as we wrap up.

MR. MOELLER: Well, I think I'll take the question from the back about has anything changed besides perception -- has anything changed when it comes to theater -- the theater presence, posture and operations around the globe since the inauguration. My perspective -- the continuity is really from the theater combatant commanders. They -- none of them have changed and in fact, actually, their advice, insights and guidance both to the secretary of defense and to the president on responses for provocation or actual changes in status around the globe, that has not -- at least from what I've seen in the public, has not changed at all. And so my confidence in the combatant commanders providing their guidance as well as ensuring that U.S. military forces are accomplishing the full spectrum from -- of operations today is unbroken. No change.

But I want to go back to where we started in that five years from now, 10 years from now, the combatant commanders and the Department of Defense needs to focus very, very, very, very clearly on what do they need in order to fight their way in for deployments; and fight their way with the adversary. I mean, there are multiple challenges for the future and that's where the department is focused -- at least from a funding resourcing and strategy perspective. And the department's going to have to make tough choices, ladies and gentlemen. You can't do it all. You can't keep it all and you can't pay for it all. So that's where I see the real challenges, not in the execution and current operations with the -- within the theaters.

MR. O'HANLON: Thank you. Tom?

MR. WRIGHT: Yeah, just to comment briefly on the first and the third question. I agree with the general. I don't think there's been a qualitative change in the threat environment in terms of what adversaries are doing since January 20th, but it could happen and it could happen soon. And it would happen because of ambiguity about American broader commitments and so it will be a sense that maybe this president will not respond to an act of aggression in Europe or in Asia and that, that -- somebody will test that. I mean, Russia's already started to probe a little bit just to get the temperature of the administration.

I think a lot of that is -- not all of it, but some of it's solvable and with one step, the

President should give a speech on alliances and reaffirm America's commitment to security guarantees and to those alliances. He has not done that yet. His secretaries have done that. They've said that at open testimony and speeches, but he has not said it and when -- you saw what the press conference with the British prime minister when she said, you know, "He said to me a hundred percent committed to NATO, he was sort of shifting in his seat and he was really uncomfortable and sort of begrudgingly said, 'Ooh, maybe,'" I said that. So he needs, I think, to be very clear and his speech and like that will help a lot because it will just demonstrate that U.S. policy has not changed.

Then briefly on the third question on Europe. Europe should spend more -- should meet the 2 percent target for sure, but this is largely a crisis of the president's making, right. This is not a -- this is not something I think that is the most pressing problem in Europe. The most pressing problem in Europe is Russian aggression on the internal problems of European integration. And so by elevating this to the level that he has, I think it creates ambiguity over these other issues. And Europeans would also point out that you could, you know, you can measure commitment in different ways. I mean, half of European fought in Iraq and most of them fought in Afghanistan. Some of them paid a very heavy price politically and in other ways, including (inaudible) for that. That was a sign of commitment, I think to the alliance. It's not necessarily captured in the defense spending numbers. So European nations definitely need to do more, but I think the president needs to have a more balanced approach to this whole issue and a huge test to that will be the NATO Summit coming up that he's going to attend.

MR. O'HANLON: Thank you. Bob?

MR. HALE: So let me address a burden sharing question. Maybe from a little different angle than Tom. We've been trying for years to get our wealthier NATO allies to do more without much success. Gates went over there and gave a hard speech toward the end of his tenure. I'm hopeful that Trump's elevating this might put some pressure on them because they do need to do more in my view and they acknowledge it, they just don't do it. But at the same time, they probably need to rethink how they spend their money. They're always, compared to our budget, going to be modest. Maybe they need to pick particular areas -- maybe it's lift where they concentrate, not to say they have nothing elsewhere,

but I'm not so sure the British still need a nuclear deterrent if they can't spend significantly more. It's at least worth asking, so some focusing on their attention on areas that would aid the overall alliance as well as some added spending, I would hope would satisfy our new President.

MR. O'HANLON: I'll just say two last words on the outstanding questions of the Israeli-Palestinian ongoing issue and then global infrastructure and so forth. Very briefly, on the Israelis and the Palestinians, it's true that Donald Trump expressed a little bit of ambivalence towards the two-state solution, but if you actually -- I'm not usually in the business of defending President Trump, but if you actually go back and dissect what he said, he basically said, "Listen, I can live with whatever the parties can live with," which is a fairly unobjectionable comment. I can't see any way the Palestinians would accept anything besides the two-state solution and Nicky Haley confirmed -- by the way, I think she's been spectacular so far on a number of issues where she's -- as tom said, it's not enough for the U.N. ambassador or the secretary of defense to always clarify things. The President needs to worry about it as well, but her comment that we still, of course, support a two-state solution (inaudible) very helpful and to me reassuring. On the broad question you raise, sir, I'm just going to make a comment that may or may not speak directly to it. It's meant to be a sort of tying together of all the different situations we're discussing today, but yes, the United States has a lot of challenges; China rising; other countries creating infrastructure at, you know, better paces than we do sometimes; China expanding its access; but, you know, of all the countries in the world -- all the problems I want to have, I would prefer our problems over anybody else's because if you think about the way we look at the world today, we still have that $600 billion military budget and we're worried up here about whether it's enough. Well thank god we could have that conversation when we've got a resource base that allows us to have that and that's about 35 percent of world total military spending, even though as Tom points out it doesn't guarantee you'll succeed in any given conflict. But it's nice that the next 35 percent of world military spending is in the western alliance system, as well; all of our allies. Despite their under spending, we have so darn many of them because the western community of nations has become so strong and enduring partly because we're sort of à la carte, you know? If you agree with us on this war, you fight with us; if you don't, you sit

it out. We don't try to coerce most allies into doing things our way and so for all of our mistakes -- I don't mean to do a poor imitation about Kagan or anything up here, but for all of our mistakes we still have about 70 percent of world GDP and military spending loosely aligned under a western system. And when you combine with the advantage, economically, of maritime trade where trade is still a lot better than rail lines through Siberia, with all due respect to our Chinese and Russian friends. If I had to choose between putting things on container ships and putting them on 10,000-mile long rail lines through Eurasia, I'll take the former in a heartbeat. We are well-positioned for that kind of globalizing economy; there are a lot of other reasons we are, as well. So when Donald Trump says he inherited a mess -- and I'll finish it on this point -- in one sense, you could have some sympathy, right? Because the guy hasn't done foreign policy his whole life and now he's got to deal with 17,000 and a lot of them are hard and some of them are truly dangerous. On the other hand, the strategic position from which he is poised to address them is basically unrivaled in history and for all of the challenges to world order that Tom writes about -- and you should buy his book, and the (laughter) next few years -- the last few years of setbacks --

MR. HALE: And the title, yes.

MR. O'HANLON: -- we are still in a historically very strong position and we have the best allies in the world. So I don't mean to do a poor imitation of either Bob Kagan or John Belushi in the Animal House speech, (laughter) but I'll finish on that note. Let me thank all of you for coming today and please join me in thanking the panel.

(Applause)

* * * * *

CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Carleton J. Anderson, III

(Signature and Seal on File)

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2020