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THE FUTURE OF THE DEFENSE BUDGET

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P R O C E E D I N G S

MR. O'HANLON: Good morning, everyone, and welcome to Brookings. I'm Mike O'Hanlon with the Foreign Policy program. Thanks for joining us to talk today about the U.S. defense budget in the aftermath of a lot of big changes, including the midterm elections, but also apparently some rethinking within the Trump administration about how much they want to spend on the military.

We have a fantastic panel to discuss this today and we're going to have a bit of a logical flow in how we try to do it. I'm going to begin with our discussion here -- before we go to you for questions later -- with Elaine Kamarck at the far left -- at least physically speaking (laughter) -- who is actually one of the people who helped redefine the Democratic Party as not being far left.

MS. KAMARCK: Thank you.

MR. O'HANLON: She is one of the people who helped bring the democratic centrist movement to power in the 1990s, a longstanding associate of Bill Clinton and Al Gore, led the Gore "Reinventing Government" effort, and is now at Brookings as well as the Kennedy School at Harvard. We'll ask her to talk a little bit about the politics of where we stand on both sides of the aisle after the elections, after the first two years of the Trump presidency and with the 2020 presidential election only moments away. So I'm sure we're all enjoying our peace and quiet before the campaign begins because once we're through these holidays we all know what's coming and it's not going to be that far away.

Next will be Maya MacGuineas, who is sort of in my mind the fiscal conscience of Washington and sort of what's left of it. She used to have some company back in the day when we had the great Pete Dominici of the world and a few other people, Bob Reischauer -- some of these people have retired or gone on to better places. And we still have greats at Brookings, like Alice Rivlin, carrying the water a bit, but Maya

really has become at the Committee for a Responsible Federal Budget, I think, the most important voice on remembering the importance of fiscal discipline at a time when neither party is really listening. But we probably can't afford not to listen forever, especially if interest rates rise. That big debt is going to start to hurt some day and probably hurt our kids and our grandkids even more. So Maya will help put the defense budget debate in this broader fiscal perspective.

Next is Jim Miller, who was the undersecretary of defense for policy in the Obama administration. I see my friend Dave Mosher in the back. Dave Mosher and I used to do studies for Jim Miller 25-30 years ago at the Congressional Budget Office when Jim was with Les Aspin on the House Armed Services Committee staff. He has had a long and distinguished career in government, worked on a lot of issues. One of the reasons I'm an admirer of Jim is because of his understanding of technology. So a lot of time undersecretaries of defense for policy know the world very well and all of its hot spots and strategic challenges regionally, Jim also really tracks and studies the technology and he's on the Defense Science Board. Also, some of you will have seen from his bio, if you go the printed version, that he was on the Stanford tennis team. Some people know he was on the Stanford tennis team at the same time as John McEnroe. What a lot of people don't know is that Jim and John McEnroe were teammates in intramural basketball, three on three, during the same period of time when McEnroe was headed for number one in the world. I have no idea why he subjected his body to the punishment, but -- maybe it's because Jim Miller could protect him and get the rebounds after McEnroe missed his shots. But in any event, that's a little bit of added biographical perspective on Jim.

And then finally, next to me is Frank Rose. And Frank is now a senior fellow at Brookings. He was most recently in the State Department for President Obama as the assistant secretary for arms control verification and compliance. And don't forget

that last part because Frank has a hard edge, even though he's a nice arms controller at one level, he's a tough strategic thinker at another. And so he will, in contemplating any kind of changes in our strategic or nuclear missile defense portfolio be sure to emphasize the importance of a robust defense capability, not just trying to maintain fiscal discipline and arms control pursuits.

In other words, we have a panel of open minded people who have wrestled with these questions from many different directions for a long time. I'm going to begin in just a second with my first question to Elaine, which will be very simply, how have things changed in the last few weeks, and how should both parties be thinking about defense as they fashion bigger, broader messages for the new congress and then for the looming 2020 campaign.

Before I do that, though, I am going to go through one quick list of numbers to try to structure the conversation just a little. And I'm going to use very round numbers. And people up here can correct me and be more precise as they wish, but I just want to frame this, because it's important to remember sort of what we're talking about in overall perspective.

The U.S. gross domestic product in 2019 I believe is going to reach \$20 trillion, but certainly in round numbers, that's a good number to keep in mind. I think it actually may get there, but it's going to be borderline. So \$20 trillion gross domestic product. A \$4+ trillion federal budget, maybe -- Maya can correct me -- maybe \$4.3-4.4 trillion, something like that, for overall spending. Federal revenue, substantially less. So if federal spending is a little more than \$4 trillion, revenue is a little more than \$3 trillion, we still have almost a trillion deficit in the United States, and it's headed upward. Within that \$4+ trillion of federal spending, what you could define as the entire national security enterprise is about \$1 trillion. But I'm counting in that not just the national defense budget, but also veterans affairs, homeland security, state department, security

assistance, everything that could be broadly defined as related to U.S. national security. But what's called the national security budget, just the Department of Defense and the nuclear activities at the Department of Energy, that's now \$716 billion. So pushing, you know, 70 percent of a trillion, and that's the part we're here to talk about today. Should that part keep growing, as General Dunford and Secretary Mattis and last week's Independent National Defense Strategy Commission have argued, and as last year's Trump budget argued? Should it now plateau or be cut -- which seems to be where President Trump and John Bolton and others within the Trump administration are today. Should it plateau? Should it go somewhere else?

So that's ultimately where we want to get in the conversation. And we look forward in the second half of the discussion to your questions as well.

But, without further ado, Elaine, if you could please help us frame this politically in the aftermath of what we've just seen.

MS. KAMARCK: Okay. Well, thank you, Michael. It's nice to be on this panel with everyone else. I suspect as the panel goes on, I'll have less and less to say once we get into some of the details here.

But let me start by saying obviously you know the headlines, democrats took over the House. One of the interesting things about the election was that I've never sat through an election where the lead grew so steadily and it took a solid week for us to realize that this was in fact a major wave. And although on election night -- and some of us who rushed to write and publish election night now are sort of saying, oh, we were way too cautious. This was a big victory for the democrats. They have a lot of new seats in the House.

Let me talk a little bit about some of the things that will change in the House. The big one, of course, apropos, Mike, of your remarks, is Congressman Adam Smith from Washington State will now become head of House Armed Services

Committee, and he does have a reputation as a budget hawk. He has told us back in the spring to prepare for a lean future, okay. So I think we need to see what he's going to do in terms of overall spending. One of the issues battling around there, of course, is going to be the space force and how big or how small it should be. And I think that the budget issues are going to be very much front and center with a new leadership in House Armed Services.

He will be buttressed by some new stars in the House. And let me talk about some of the starts. One of the interesting things about them is that several of them are women veterans. And so a lot is being made about the diversity and the first Native American woman, et cetera. But we also have Mikie Sherrill, who was a Navy helicopter pilot, as was my son. We also have Chrissy Houlahan, former Air Force, Elaine Luria, who was a Navy Surface Warfare officer, and they're going to be really interesting for a couple of reasons.

First of all, I think the press is very interested in women vets. This is really the first generation where we have a lot of women vets. There were some others, Amy McGrath, who lost in Kentucky but who got quite a lot of attention, and, of course, Sally McGrath in Arizona may end up in the Senate still, even though she seems to have lost her -- I'm sorry, her name is not Sally McGrath -- what am I talking about -- it's Martha McSally. I was confusing them all. Martha McSally may still end up in the Senate even though she looks to have lost her race to Kyrsten Sinema.

So there's going to be a lot of women officers in the United States Congress, and the question is what effect will they have. There's not much evidence on this because, in fact, as you know, the number of veterans in congress has been steadily decreasing from a high of 71 percent back in 1971 to around 19 percent now. And this doesn't seem to have changed very much with this election. But we do know a couple of things that they might do. Maybe right off the bat I think they're going to question

President Trump's putting troops on the Mexican border. Already today it's announced that some of those troops are going home for Thanksgiving. It has been called a "stunt". I think that that's going to be front and center and you can probably see many of these new veterans taking the lead on that.

Something that's not quite as obvious, and something that Congresswoman-elect Mikie Sherrill talks about is gun control. She has a very powerful speech where she takes her audience through all the different weapons that she was trained, that she can clean and shoot with, and then she talks about being a prosecutor, and how as a prosecutor in New Jersey she spent a lot of times trying to get those same weapons off the street. So I think you're going to see some very powerful voices coming from veterans when it comes to gun control, arguing that weapons of war are not what we should be having on the street.

Finally, I think you're going to see there's a little bit of evidence from a political scientist named Danielle Lupton at Colgate, who studied sort of voting patterns of veterans in congress. And one of the things she said made them distinctive, regardless of their political party, is that they were more interested and more active on congressional oversight when we were deployed somewhere in the world. And I think that's very, very interesting, particularly with this new crowd coming in, who are Afghan/Iraq vets and given how long that we have been deployed, especially in Afghanistan. I think that you're going to see much more serious oversight than perhaps we've seen in the last several years over the nitty gritty, why we're deployed, what we're doing there, et cetera.

Finally, I think we know from some of these vets in their campaigns and from some behavior of other vets, that they will not be shy about standing up to Donald Trump when he does some of the more outrageous things he does, like insulting military leaders. So his assaults lately on Admiral McRaven make you -- who led the operation against Osama Bin Laden -- his assaults here really hit people the wrong way. And I

think that with more veterans in congress you're going to see them standing up to the President and disciplining him every time he takes on someone, whether it's John McCain, as he was fond of doing, Admiral McRaven, whoever it is, I think you're going to see these veterans front and center.

In conclusion, it's always difficult to say that some group or another is going to have this affect. I mean, of course a lot of people are talking about this with all the women in congress, but -- and, you know, party affiliation, party loyalty does tend to trump most things. But I do think that the experience that this new group is bringing to congress is going to be invaluable and I think their sense of loyalty to mission and public service is going to really help uplift the tone of congress, which has not been as we may have seen very uplifting in the last couple of years.

MR. O'HANLON: Thank you. That's a great framing. Before we go to Maya, though, I want to ask one quick follow up. And Maya may want to comment on this too when she gets the floor next, which is you mentioned that Adam Smith is a relative fiscal budget hawk, but my question I guess is do you really think the Democratic Party, either in the congressional leadership or in upcoming presidential campaigns, is likely to want to cut the defense budget a lot? Because it strikes me that if democrats were to make that argument they would risk giving a big issue to Donald Trump, which is that he could say I'm the guy who fixed the military and I had Jim Mattis do it, he's popular. And it seems like democrats are more likely to fight on the specific tactical sorts of issues that you mentioned, Mexico border deployment, tone of discourse, et cetera, but do you think that most democrats are likely to maybe, you know, try to curb the defense budget growth or shrink it a little, but not really engage in a big debate about big cuts?

MS. KAMARCK: I can't see democrats engaging in a big debate about big cuts. As we look at the composition of the democratic caucus right now, with a little

bit of change to come, but it looks like if you -- there's about 90 progressives in the progressive caucus, so they might be inclined to use defense -- do some cutting. But it looks like you have about 95 in the new democratic coalition and then about another 20 among the blue dog democrats. The blue dog democrats are your most conservative democrats. They tend to come from southern states. There were pickups in that group. So I think that the balance of power within the caucus will probably keep the democrats from doing any large scale cuts and focus them more on things like the wisdom of the deployment at the border, which they've called a "stunt".

And also, with all the new women in congress, I think you might have some more emphasis on family issues, which relate to readiness, which is just military family issues. And I think you might see more of a shift in that direction.

But, no, I don't think there will be any big moves to cut.

MR. O'HANLON: Great. Thank you. So, Maya, over to you, both on that question, but also just more generally, how should we think about defense in this fiscal mess that we've gotten ourselves into?

MS. MacGUINEAS: Thank you. And, Mike, thank you. It's nice to be on a stage with you. And I liked how you set the whole beginning with those numbers, which is really helpful. It's very nice to be at the Brookings Institution, one of my favorite think tanks in town.

So I'm going to start by saying if there's one thing I love it is spreadsheets. I really love spreadsheets. And yesterday my 12 year old daughter, who didn't have school, went to the office with her father for the sole purpose of he was going to teach her how to use spreadsheets. And I just think that's the greatest thing I've ever heard. I was like, can I come, this is going to be a great day, how did it go. I have a coffee mug that says I love spreadsheets and my policy director now has a coffee mug that says I love spreadsheets more. So that's the starting point.

That said, I do not look at defense policy or security policy as a spreadsheet exercise. This is something you clearly want in terms of getting the right policies, setting your national priorities, looking forward and figuring out what the most effective ways to meet those security objectives are. So I don't come into this as saying because I am a budget expert or a fiscal expert, I should have an opinion about how security policy should work. What I do know is that we have incredible fiscal challenges facing the country and that means we have to take budgeting more seriously, and defense is a huge part of that budget.

So let me just start with the fiscal situation. As Mike laid out, we are on the precipice of having trillion dollar deficits a year. What's stunning about that is that those are -- it's not just the number, it's relative to GDP. Those are very large and very large at a time of economic prosperity. It is very unusual to have deficits that are large and growing when your economy is doing as well as ours is. That comes on top of a period when our national debt relative to the economy is the highest that it has ever been in this country since right after World War II. And we had just fought a world war, so that was why it was so high. And it came down very, very quickly after that as the economy grew and our spending shrunk. Right now, our debt is projected to continue growing, again faster than the economy, every year forever.

So there is really no way to over emphasize that the fiscal situation we face is not only challenging, it's uncharacteristic and I would say inappropriate for a time of strong economic growth. Because, ideally, what you want to do is have a budget that's manageable. Over a business cycle your deficits are shrinking or are surpluses during times of economic strength, so that you're prepared during times of weakness. And in all likelihood, we are going to have a recession in the next couple of years just because of the length of the business cycle. It's very unlikely that we'll be able to go for much longer.

The second thing that I would point out is that many leaders in the

national security field have pointed out that one of, if not the single biggest threat facing country, security threat, is our debt situation. So there are many reasons one cares about the debt, high levels of debt, slow economic growth, just at a time we need to be worrying about economic growth, in particular, because of the aging of the population. High levels of debt mean that interest payments in your budget are pushing other things out. Right now interest payments are the single fastest growing part of our budget, and that means there's pressure on all other parts. And high level of debt leaves you unprepared for the next recession. So that's where we are right now. When a recession comes we won't have the same kind of tools to fight it that we normally would. That also means we're particularly vulnerable at times when the U.S. were to hit a recession, depending on what else is going on in the global environment. We don't have the tools to fight our own recession and national security priorities. And, keep in mind, we borrow roughly half of what we borrow from overseas regularly, not from people where our security interests are completely aligned. So that seems to me like another vulnerability that hasn't gotten sufficient attention.

If you just look at the notion that we are in or approaching a trade war with China, it seems to me that that leaves us very vulnerable given that we borrow a significant amount of our funding from China and that gives them a lever that affects us both economically and throughout our security agenda as well.

So I would say -- not that I have any idea what the right level of defense spending is -- I would leave that up to our experts, and I think there are some things that are luxuries in a budget and there are some things that are about values. But I think national security is a public interest, really holds its own space. And we need to get that level right. But we do need to budget and we don't budget in this country anymore. What we do is we say if we want to spend something or if we want to cut taxes, we're going to borrow to do so. And over the past two years what we did is we had a massive tax cut,

over \$1.5 trillion, even accounting for growth, that made the deficit situation much, much worse, and we borrowed for that. And right after that we had this huge spending increase. We'll talk more about this probably, but we had spending caps that were arguably way too low and cramping both domestic discretionary and some security spending, but instead of lifting those caps and offsetting the cost with other savings, either on the revenue side or the spending side, we just lifted them. And we had -- and this is to your question about the republican and democratic part, we had what is basically the only kind of bipartisan agreement we seem to be able to get in town these days, which is one side -- to generalize -- republicans saying we want more security spending and democrats saying, okay, well we want more domestic discretionary spending, and both of them saying, okay, let's do that and I won't pay for mine and you don't pay for yours. And then there was a lot of backslapping about what a great job it was to have a bipartisan spending deal, with little or no discussion about the fact that if you extend those spending caps, which we may, and we should talk about, that will rival the tax cut in terms of the size and additional to the debt. So this spending increase was massive.

So the point I would make is that if -- and this is just a basic point of budgeting, but you don't hear it anymore -- is that if in the defense budget we decide something is worth doing, then we decide it's worth paying for. What we have to stop is the notion that we can have it all because we don't have to pay for it, we will borrow, we will hand that bill to the future. And that makes everything seem worthwhile. Because if it's free there's not nearly the same kind of tradeoffs that you go through to evaluate whether the security spending and defense spending is right. And that applies to all parts of the budget.

So what I will argue for is a return to actual budgeting, which this country has stopped doing. Not only do we often run without budgets in place, which for the

biggest entity in the world is unforgiveable, the notion that budgets are about picking national priorities, determining the best ways to achieve them, and then ultimately figuring out ways to finance them, has to come back to kind of the first principle of budgeting.

MR. O'HANLON: Thank you. I'm going to ask you one follow up though, too, before going to Jim, which is you've been very polite and very kind and gracious to sort of let the defense crowd decide what we think is the right budget and then you'll -- you didn't quite say --

MS. MacGUINEAS: I don't want to live in a world where I decide the right defense budget.

MR. O'HANLON: Understood. But I want to turn this a little but bit around because in reading this National Defense Strategy Report last week, this independent commission that Secretary Edelman and Admiral Roughead chaired, they said we should keep growing at 3 to 5 percent real terms per year in the defense budget. And things like entitlements and tax reforms should be what get us to fiscal discipline. And isn't -- with all due respect to Secretary Edelman and Admiral Roughead -- isn't that a little too facile of an argument in a world where it's very easy for democrats to say let's do more, you know, tax reform that increases revenue, very easy for republicans to say let's reform entitlements. But these two things are very hard to do in practice. And even if we did them both, we wouldn't be closing a trillion dollar annual deficit.

So isn't there a counter argument -- or not a counter argument, but a need for defense to at least look for where it might be able to tighten its belt?

MS. MacGUINEAS: Yeah. I mean I think it's unquestionably true that the only way to get a really big deal that actually gets our budget back under control -- and that's not getting it to balance necessarily, that's getting it so that the debt is not growing faster than the overall economy. It's certainly that the starting point has to be every single thing has to be on the table, and when defense is as big a share of your

budget as ours is, obviously it has to be on the table. And I'll go a step further, which is it's clear that there are many things in the defense budget that are outdated or unnecessary or due to entrenched interests, and there are places where savings could be generated. It's also probably clear that there are new forward looking needs that need to take more seriously, that in many ways our budget are for the past threats instead of for the future threats, which is a very common thing in budgeting, but particularly troubling in defense sector.

But there's no question -- I've worked with plenty of defense experts over the years -- there are many areas of the defense budget where we can have reforms, including entitlement programs within the defense budget. So there's a lot that can be done there in terms of the benefits there. Revenues and entitlements have to be a piece of this unquestionably, but so does the single biggest discretionary slice of our budget pie.

MR. O'HANLON: Thank you. Jim, there's a lot on the table already. I'm sure you can just react. But, of course, for me the overall question is, to the extent we need to prioritize, perhaps more than we've had to in the last year, how do you propose that we start to think about doing so?

MR. MILLER: Thanks, Michael. President Trump has been fond of giving grades to himself and others as well. Let me start by giving you an A for your opening, including the framing of the issue in terms of overall dollars. And I would give an A or an A+ to Secretary Mattis for the new national defense strategy. The new national defense strategy gives principal focus to great power competition, it really articulates clearly something that's been underway for some period of time.

So, for reference, under the Obama Administration the budget for other contingency operations was reduced by over \$100 billion per year, as you know, basically from fiscal year '10 to fiscal year '17, when the President left. The number of troops in

Iraq and Afghanistan down from 180,000 in fiscal year '10 to 14,000 in Iraq and Afghanistan when President Obama left. That number is now back up, including Syria, to about 18,000. Does not include the support forces, as you know. So the shift away from counterinsurgency operations really occurred during the Obama Administration. Initial moves to focus on great power competition occurred as well during the Obama Administration with the so-called pivot to Asia. Some people who have liked to have seen more in terms of the movement of forces and capabilities. And after Russia invaded Ukraine and annexed Crimea, the European Reassurance Initiative as well. So those changes were underway.

What's different is that Secretary Mattis has articulated these priorities clearly in the national defense strategy, and with a big increase in the budget for fiscal year '19, now there are the resources to apply them.

And so as you look at this shift in strategy, a key question is will the Administration, will the Department of Defense, put its money where its strategy is. And as you think about that, there really are three kinds of tradeoffs to consider. A first tradeoff is to think about current operations versus future operations, where future operations incorporates both readiness and modernization. And there, Obama made the big reductions in other contingency operations that I mentioned before, and now this Administration in the last budget, in fiscal year '19, increased spending on procurement and on research and development, respectively, by about 23 percent and 28 percent. So those boosts are happening. That shift is occurring. Readiness is moving up and I would encourage this Administration to continue that. And modernization has been increased with the increase in the defense budget. Those are both, from my perspective, positive and in a sense overdue.

Second big trade, after thinking about current versus future operations, is thinking about capacity versus capability or quantity versus quality. Here we've seen a

mixed story from the services. And, in fact, the Air Force has said it needs more fighter squadrons, more squadrons of multiple types. The Army continues to look to build force structure, and the Navy is focused on additional capital ships. My recommendation and judgment would be focus much more on quality rather than quantity, continue to invest in that research and development, innovation, and focuses in areas in particular where we have relative advantage. Under sea is a great example. For the Navy, more undersea, less focus on the surface.

Third, trade space that the Pentagon and the country need to deal with has to do with specific capability areas. And here, if the Administration follows the strategy, it will, in general, terms protect nuclear modernization to recapitalize the triad. Not to provide new capabilities for war fighting, but to recapitalize the triad, which has aged. It will then particularly -- and Frank I am sure will have some things to say about these two -- it will particularly want to invest in improved capacities for cyber, particularly cyber resilience, not just in the Department of Defense, but elsewhere, but within the Department of Key Capabilities, including nuclear forces, long range strike, and offensive cyber capabilities, and it will want to invest in space resilience. There is a bill coming for the new Space Force. My judgment would be that setting up a new space command, breaking that out of strategic command, is a good idea. It's perhaps overdue. Setting up a new Space Force is a bad idea whose time appears to have come.

But as we look at those trades, today versus future, quality over quantity, and picking the select areas, still need to prioritize within the defense budget, whether it's \$716 billion for FY '19 or \$700 billion or \$733 billion.

My final point would be the numbers we're talking about for defense are now in the range of 3 percent to 4 percent of GDP. When you include other contingency operations, closer to 4 percent. The Nation can afford 3-4 percent of GDP to defense. It needs to spend it wisely, it needs to spend it focused in particular on the great power

competition that this strategy has said we will, and it needs to make the hard choices that truly are difficult to make, but it involves reduced force structure, more quality versus focus on quantity.

MR. O'HANLON: So let me do a couple of follow ups with you before we get to Frank. One question is going to be -- actually, let me do it in two chunks. First, are you generally comfortable with this possibility of a \$700 billion national defense budget in 2020? The number that we're starting to hear from OMB, from the National Security Advisor. It would be about \$33 billion less for that year than was expected. Again, we're at \$716 billion in this fiscal year 2019, which has already begun as of October 1. The expectation, as many in this room will know, but others may not, was that we were going to be at \$733 billion. That's the combination of the base defense budget, overseas contingency operations, and nuclear activities at DOE. And now we're hearing a lot of talk that we'd be at around \$700 billion. You may not love that number, but is that one you think you can live with?

MR. MILLER: Michael, I can live with the number. I don't love it. The test here will be if you look at the difference between the \$733 billion budget and \$700 billion, did the difference come out of force structure, not readiness, not future capabilities. So if the answer is to do a cut across all accounts, that's not strategy. If you're going to have a strategy driven budget, including strategy driven lower number for defense, you ought to be emphasizing the capabilities that support and the quality of forces that support the strategy, which is rightly focused more now on great power competition.

MR. O'HANLON: So the last question follows very naturally, but just to get it on the table, there are some numbers out there. The Navy wants 355 ships, which is growth of about I think 70 relative to the fleet today. The Air Force would like, as of last fall -- as of this fall, Secretary Wilson announced a desire for 386 operational squadrons

between the active and reserve, which would be up from 312 today. And the Army wants to grow more modestly to a little more than 500,000 active soldiers, relative to about 480,000 or so today. You're saying those are the kinds of numbers that should be challenged and rethought if we have to make tough choices?

MR. MILLER: Exactly.

MR. O'HANLON: Yeah. So, Frank, you've been very patient and I know you've got a lot to say. Why don't you just pick up where we've left off in terms of the strategic portfolio?

MR. ROSE: Well, Michael, thanks so much. It's great to be here and to be on the stage with the other panelists, including Elaine. I was actually Elaine's intern 25 years ago. So for all of you interns out there, there is hope. (Laughter)

I want to focus on the strategic capabilities portfolio because in the upcoming congress I think there's going to be quite a bit of friction between the democrats in the House and the Administration on this set of issues. And let me focus on three areas, nuclear modernization, space security, and missile defense.

Starting with nuclear modernization, believe it or not, during the Obama Administration there was a certain amount of bipartisan consensus on the need to modernize our strategic nuclear deliver vehicles and infrastructure. Despite the fact that many on the Republican Party had accused the Obama Administration of not paying enough attention to nuclear issues, Obama was able to do what the Bush Administration was not able to do, create a bipartisan consensus in favor of modernization. And that was also attached to arms control. I would argue that the New START Treaty in 2010 was very, very critical in building that bipartisan support for the modernization. Had we not had the New START Treaty, I think it would have been difficult to bring aboard many congressional democrats. And Jim played a big role in the negotiations on the New START Treaty and I really commend him for his work.

MR. MILLER: Thank you.

MR. ROSE: However, that consensus is beginning to fray for a couple of reasons. One, the potential price tag of the modernization program. I see Dave Mosher from CBO in the back there, and Dave and his colleagues at CBO came out with a report earlier this year saying the modernization will cost \$1.2 trillion dollars over the next 30 years. That's a lot of money. And when you compare that with all the other challenges, I think there are legitimate questions about whether we can afford it.

Secondly, in the 2018 nuclear posture review, the Trump Administration included a number of new low yield capabilities, and that has gotten a lot of pushback from some congressional democrats.

And, thirdly, and I think this is a really important point, is there is a view amongst many democrats that the Trump Administration is hostile to arms control. Their decision to move out of the JCPOA, the --

MR. O'HANLON: The Iran nuclear deal.

MR. ROSE: Yeah. The Joint Comprehensive Plan of Action with Iran, the recent announcement that the United States intended to get out of the Intermediate Nuclear Forces Treaty, and the potential for not extending the New START Treaty. My personal opinion, having spoken to people, having working on the House Armed Services Committee, is if New START is not extended, I think that the Trump Administration is going to have a very difficult time maintaining that consensus for strategic modernization. If the Administration is smart, I think there is a deal to be had, and that deal would be as follows: the Administration would move forward with extension of the New START Treaty and in exchange democrats would support the strategic modernization program.

Now, shifting to space security, there's no doubt that Russia and China are developing a full range of anti-satellite capabilities designed to deny the United States access to space derived information. Indeed, in the Obama Administration we began a

major initiative to enhance the resiliency of our space systems to deal with this threat. Now, we've heard a lot about the Space Force. Honestly, the Space Force is not as crazy as it sounds. Like Jim, I don't think it's necessarily the right solution to the problem we face. However, I think it's a legitimate issue to discuss, and it really shouldn't be a partisan issue. Unfortunately, President Trump has made it partisan issue. Where did he announce the decision to establish a Space Force? At a campaign rally. And right after that his re-election committee sent a fundraiser email out on the Space Force. So he's taken what should be a non partisan issue and turned it into a partisan issue. I think that's going to really present challenges when the Space Force is debated next year.

And, finally, on missile defense. I think one of the biggest questions in the national security community right now is when is the missile defense review going to be released. The world wonders. We don't know if or when it will be released, but I think there are two issues we need to watch to see how the Administration handles them, because I think it will have political implications.

First, how do we use missile defense to address Russian and Chinese strategic missile capabilities. In the previous several administrations, both democrat and republican, there has been a consistent message that U.S. missile defenses are not designed or aimed at dealing with Russia or China's strategic deterrent. However, we've seen a number of analysts and some in the Administration start to question whether that is the right approach or whether the United States should assume a "damage limitation strategy". So that's a question that we'll need to look at very, very closely.

The second issue is space based missile defense interceptors. Over the last year we have seen a number of senior administration officials, including the Undersecretary of Defense for Research and Engineering, saying that the United States needs to develop a space based layer of its missile defense capabilities for intercepts. I don't know how much support there is for space based missile defense amongst the

democratic caucus. When I was on the House Armed Services Committee from 2007 to 2009, there was not a lot. And my gut tells me there will not be a lot of support for space based missile defenses amongst the current or incoming caucus.

So those are a couple of issues to watch. But fundamentally, if you ask me where the friction points will be for the upcoming congress, I think it's going to be in this area of strategic capabilities, nuclear modernization and arms control, missile defense, and space security.

MR. O'HANLON: Frank, that's great. Just two follow ups for you and then I'm going to go straight to the audience because I've managed to get my follow up questions in already as you see. And if panelists want to comment on each other's remarks, I hope you'll weave those into your answers to the questions we're about to get.

But let me pose to you, first of all, space based missile defense, you know, that's been around as an idea since Ronald Reagan's 1983 speech, if not sooner. And the technology is better than it was then, but is it really realistic to talk about that now? That's my first question.

And then my second one, within that \$1.2 trillion nuclear modernization agenda, are all things really created equal? Aren't there some areas we could prioritize? For example, the idea of creating more capacity at the Department of Energy Nuclear Security Agency to be able to produce 80 plutonium pits a year, when last I saw the weapons labs were still confident that existing plutonium pits were going to hold up very nicely for decades to come.

MR. ROSE: On space based missile defense this has been a controversial issue for a very long time. I would argue there are a lot of technical, as well as fiscal, challenges to moving forward with space based interceptors. However, one area where I think there could be consensus is that is improving space based sensors, giving us the ability to better track incoming missiles. Indeed, the Bush Administration

and the Obama Administration had programs designed to improve our space based tracking capabilities.

With regard to the modernization program and the rack and stacking, what I would say is this, I support the triad, but as I have said publicly on numerous occasions, it is going to be really expensive and we will probably need to make tradeoffs. From my perspective, number one priority would be the submarine followed by the bomber and the long range standoff nuclear cruise missile. And last on my list would be the ground based strategic deterrent or the intercontinental ballistic missiles. If I were going to have to take some risk, that's where I would take my risk.

MR. O'HANLON: And before I go to the audience, Jim, any comments on the nuclear agenda or the space agenda?

MR. MILLER: I agree with Frank's prioritization, just would add two things. One, nuclear command and control needs substantial investment so that it is resilient, survivable, and supports our second strike capabilities. And second, as you look at where to go with ICBMs, the potential for reducing the Minuteman-III force, the currently deployed force, over time buys some additional time and defers investment. And I believe looking at the possibility of deploying a small number of silo based single war head ICBMs lighter, ICBMs that are currently planned less expensive, and having a mobile research and development program makes a lot of sense because what we really want to do is ensure that we have a survivable leg in our sea base and a hedge against that any problems in the sea based leg with our land based and air based legs.

On space I just want to add one thing, if I may, to any technical and fiscal concerns, which I think both are far less than they were say in 1983. Two minor problems with deploying space to space interceptors in outer space, if one does it. One is you blow space stability out of the water. The incentives for Russia or China to go after those interceptors, whether through kinetic or electronic warfare or cyber are

overwhelming because otherwise we have space superiority. That is untenable for them from a strategic perspective.

And, second, if those interceptors are effective vis a vis Russia and/or China, or have any possibility of being so, it's an invitation to a nuclear arms race.

MR. ROSE: And can I just come back to Jim on that. I think he's absolutely correct. What I have said and what I have written is that be assured that Russia and China will do whatever is necessary to maintain and assure second strike capability against the United States. And if we do move forward with space based interceptors, I am very confident that they will have countermeasures.

MR. O'HANLON: I'm going to add on technical thing and then we'll go to you, which is that don't forget -- I'm sure most of you know this -- but to be effective as an interceptor, you typically have to be in low earth orbit, relatively low, which means you can't stay stationary relative to the points on earth, which means you need a lot more satellites in space to have one in the right place. So you have this absentee ratio problem, which adds further to the cost.

Let's start here in the second row and both gentlemen, and then we'll have Sandy, and then we'll go to the panel, and then I'll work back. So, starting on the far side by the wall please. And please identify yourself before asking your question.

MR. BERTUCA: Hello, Tony Bertuca, *InsideDefense*. Thank you for being with us. I wanted to ask about the audit recently the Pentagon has just completed. They did not receive the clean opinion. No one thought they would. How ought we think about that politically, fiscally, and then sort of in terms of managing the Department? Was it worthwhile, is it worthwhile to keep doing it? You know, they didn't find the pots of gold that may be some critics who wanted to weaponize the audit politically thought they'd find.

How ought we think about it?

MR. O'HANLON: Thank you. Then to Harlan please.

MR. ULLMAN: I'm Harlan Ullman. Thanks. My question really is to you, Mike, and to you, Jim. The Commission on Nation Defense Strategy is a polite but scathing critique of the National Defense Strategy, in particular calling to account the fact that there's no operational concept for deterring or defeating Russia or China in a war, which basically says this is not really a good idea in the absence of civilian control of the military, which you may agree or not agree.

My fundamental concern is that if you take that report seriously and the expansion and growth of the services, you need a budget much closer to \$800 billion a year than \$700 billion a year. And I would argue and predict we're headed for a hollow force. If you go out in the field and look at the readiness, the maintainability of our forces, it is in great decline, training accidents are higher than deaths in combat. And so I agree with Jim in terms of prioritization, but the Department of Defense has always been bad in doing that.

And so how do we discipline the Department and the process? Because I think if we're looking toward something, we need a smaller ready force, but getting there is going to be increasingly difficult, especially in terms of the blended retirement that's now in fact in place. And also internal uncontrolled cost growth of about 3 to 5 percent for everything from people to pencils to precision weapons. So how do we make sure that we do have a force that both balances capacity and capability when I'm afraid the damocles sword of a hollow force is really descending quite quickly?

MR. O'HANLON: Thank you. And then over to Sandy please in the third row, on the aisle.

MR. APGAR: Thank you. Sandy Apgar, CSIS. Military installations and infrastructure have long been bill payers, which commander can easily dip into to fund operations and training. How should future budgets and the budget process control/solve

for that problem and, in particular, reduce the risk of mortgaging installations and infrastructure for the future?

MR. O'HANLON: And before we come to the panel I think I'll take a fourth question. If anyone has a question that's in broader terms and that could be directed primarily toward Elaine or Maya, since we had three questions that are primarily within the DOD world. So if we can get a hand on that. The gentleman here in the fifth row against the wall please.

MR. GATZ: Good morning, Jamie Gatz, U.S. Coast Guard. After World War II we had the arms race and we basically forced Russia in to bankruptcy. Is there a risk of that happening here?

MR. O'HANLON: I don't know if that's a good question for you, or if you'd like -- why don't we work from Elaine downward and then each take one or two.

MS. KAMARCK: Okay. Yeah, I'm not sure I can answer that question. But just to go back to what the political impact is, remember, Nancy Pelosi talks about her new members, some of them, as majority makers. Majority makers tend to be people from marginal districts. It's one of the reasons that it took so long for us to see the actual majority in the House. You want to look at those people carefully district by district. You want to look at the Jason Crows of the world, okay, you want to look at the Conor Lambs of the world. You want to look at their districts because those are the people that the new leadership of the congress -- and I expect it will be Nancy Pelosi -- they need to protect those people and keep those people. That means that -- and I think Michael had the right idea initially -- it's the same as mine -- that means that the correct strategy for the new congress is to be critical, do oversight, but not make any far left broadsides against the military establishment. I think what that's going to do is it might make the solid blue districts happy, but it's going to put into jeopardy those 30-40 seats where, as we've seen, the results were so close, so narrow, that we've taken more than a week to figure

out actually what the majority in congress is. So I think when you think about this going forward, put yourself in the shoes of the leadership, and the leaders are going to be very careful to structure decisions around areas where they can gain political points, like wasting money, not to mention manpower, on this silly buildup at the border. They're going to get points there, but I do not think you're going to see the democratic leadership taking them down a road where they are massively critical of a lot of things that the Pentagon is doing or wants to do

MR. O'HANLON: And, Maya, you want to take either the audit question or the long-term fiscal health question, or both?

MS. MacGUINEAS: I'm going to pull a couple of them into one thing.

MR. O'HANLON: Good.

MS. MacGUINEAS: So one thing is how we think about what we can and what we should be spending on our budget and on our defense budget. And you mentioned earlier sort of as a share of GDP and as a share of a budget. Overall, defense spending right now relative to the economy, relative to the budget, is more on the low side. And so that would make the argument well, we can afford to be spending more or spending more on other priorities. I'm not at all convinced that that is the right metric, in that as our economy grows it's not clear that we need to be increasing at the same ratio our spending on national security. You know, it depends on economies of scales, it depends how much is centralized -- a lot of different questions inform that decision.

I do think one of the useful things the Administration has focused on though is because defense as a share of GDP is a useful metric of what you can afford, is looking at our allies and how much they're spending as a share of their GDP. And I think that has been a helpful thing to think about and put forward.

Of course, I would love an audit. There's absolutely no world where I wouldn't love the idea of auditing more, of more scrutiny, of more accountability. We

have failed so dramatically in the Department of Defense to really account for how those dollars are spent and that everything that we can do to make that work better is something that I think is long overdue, very important, and we should learn from what we don't learn each time and try to make it better.

Similarly, kind of the question of how you don't steal from other parts of the budget. One of the biggest budget gimmicks that we have had in security spending has been OCO, the overseas contingency operations. So we plus that up and compensate for what's not going on when there are spending caps in place. We have just had -- what is it, monte three-card, three shells?

MS. KAMARCK: Three-card monte.

MS. MacGUINEAS: Thank you -- whatever that guy is. You know, we're stealing from one through another. And that's what OCO has provided us for way too long, and we need to be much more specific about how the dollars are spent so that you don't have across the board spending cuts. You are spending certain initiatives and that's where the money is actually spent.

One of the most interesting things that got me thinking was that question about the Cold War, because it seems like it will be a bad idea for us in so many ways to sort of engage in Cold War mindset. One, our fiscal situation doesn't look to me to be strong enough -- I wasn't clear who you thought would win or lose in that situation, but I'm not so confident the U.S. would fare well. But more than that, I think with globalization and intertwined economies, the notion that you can outspend your rivals to kind of lead them to a bankrupt situation, when we are so intertwined with the economies of those other countries, that would come back and hurt us. So in a globalized environment, thinking about the interplay between national security and economics, which is getting tighter and tighter all the time, is also true on a global stage. So I think that is clearly not the right model for trying to stay strong vis a vis other countries.

MR. O'HANLON: Thank you. Jim?

MR. MILLER: Michael, I'm going to try to give an integrated answer to several of the questions if I can, in reverse order, more or less.

There is zero prospect that the United States will successfully outspend China on defense as a winning strategy in the way that we outspent the Soviet Union during the Cold War. China's GDP is on a path to surpass the United States, their defense budget has increased by about 10 percent per year on an ongoing basis. As Secretary Mattis has said, we're going to have to use our brain not our wallet if we're going to be successful in competing effectively and in ensuring strategic stability, also vis a vis China and Russia.

Part of that I think -- to jump back to the first question -- part of that is to be more effective in so-called efficiencies in the Department. The audit, and having an effective audit, is a platform for that and a starting point. My recommendation, keep working on the Department of Defense, both as a matter of public responsibility and maintaining public trust. It's got to continue to be a priority and we need to continue to see improvement.

What that leaves is the reality of hard choices, whether it's \$716 billion this year, \$700 billion, or \$733 billion next year, less or more in the future, there are hard choices. And, Harlan, I agree with your assessment that it is not in the nature of a bureaucracy and each of the services to want to make those hard choices. That's going to rest very heavily on the Secretary of Defense and on the White House. And we'll see whether, as I said, they put their money where their strategy is. It can't all be addition. There's not enough budget to make it all addition. So your point is exactly right. If you try to do that you're going to end up most likely with a hollow force. And we've seen that a couple of times in the last several decades. It's not a good approach.

The spending on installations and infrastructure fall under the same

category. And for all of these issues, particularly that involve looking at tradeoffs, Congress should play a vital role. And in my view, the fact that you have a republican control on one side, democrat on the other side, will increase the likelihood that those types of issues get discussed. They need to start, as Chairman McCain did, start at the level of strategy and then look to what the implications are.

MR. ROSE: You know, on your question about can we spend our way out of this, my answer is no. I agree with Maya, we don't have the money, but secondly, I don't think the Russians or the Chinese are going to play that game. If you look at Russian and Chinese security strategy over the last 20 years, what has it been focused on? Developing asymmetric capabilities that can undermine U.S. strategic advantages, especially in the information security domain. And what we have seen is that both the Russians and the Chinese are investing heavily in offensive cyber capabilities and anti satellite capabilities. Again, the objective is to deny the United States the advantages it derives from information.

So, I don't think the Russians or the Chinese will play that game. They will look for Achilles' Heels and try to exploit that.

MR. O'HANLON: That's a great point. Let me just add one additional note and then we'll go to second round, starting with Michael Gordon in the second row.

But a couple of times people have mentioned percent of GDP. So let me just frame a couple of more facts and figures that people may find useful as they think through their own view on what the defense budget should be. Yes, we are at about 3.5 percent of GDP right now. The U.S. national defense spending, that's again not the VA, not homeland security, but Department of Defense, including contingencies and the nuclear activities of the Department of Energy -- about 3.5 percent.

In the Cold War we varied typically between 5 and 10 percent, depending on which era you're talking about. Always well above where we are now.

However, today's budget, when you adjust for inflation, is substantially above the Cold War average. And that's of course because our economy is much bigger, we can afford it, so that's why it's only 3.5 percent of GDP. I say only 3.5 percent of GDP -- that's still pretty hefty compared to most other countries in the world. It's similar to what Russia spends out of its much smaller GDP. By the best estimates we have it's about twice what China spends relative to its GDP.

So, yes, we're worried about Chinese modernization, yes, it's growing 10 percent a year. We can't really compare exactly, but it appears to be pegged at somewhere between 1.75 and 2 percent of GDP. Just an interesting point of reference to keep in mind. I'm not trying to minimize the Chinese buildup, but I think it backs up Frank's point, they're not necessarily trying to compete with us in every domain, and they don't have to, to make our lives complicated, especially in the Western Pacific.

And then finally this last point I'll make, this leads to the question of what do our allies spend, the burden sharing debate, which President Trump of course has highlighted. NATO's goal is 2 percent of GDP. Almost no other nations besides us meet that goal today. The NATO average is about 1.5 percent. South Korea does very well. South Korea is at about 2.5 percent. Australia is around 2, Japan is 1. And some people say well, Japan should spend more, except actually no one is asking them to spend more because the neighbors fear Japanese remilitarization and we fear destabilization in the broader Asia Pacific Region. So everybody is sort of happy with Japan being around 1 percent and the so-called Shinzō Abe buildup is really no buildup at all. It's still roughly in that same range of 1.0.

That may be more statistics than you wanted, but as we try to frame what's the right reference point, I just thought I would put those on the table as well.

And without further ado, Michael, over to you.

MR. GODORN: I'm Michael Gordon, *Wall Street Journal*. You know,

this national defense strategy that's been promulgated as not the most detailed document, and the Commission that studied the national defense strategy in their assessment pointed out that the classified version also contains a lot of assumptions that they thought were not well defended and really gaps in some of the logic there, perhaps because it was done rather quickly.

When I just listened to this group here, kind of what I hear you saying is you like the basic national defense strategy, but maybe the debate is over how best to execute it. Should you have more things or more technology? And what I'm wondering - - my question is, given the gap between resources and the threat, which doesn't seem there's going to be a good way to close that gap, should there be a more fundamental discussion about whether we have the strategy right, and is congress capable of conducting that kind of discussion. Should there be a look at nuclear versus conventional, or, as Mike O'Hanlon points out, you know, forward deployed, keeping stuff overseas as opposed to keeping stuff here. Should there be a more deeper look at these kinds of things, or really is the debate -- we accept what Mattis said, we're just going to debate whether we should put the money into ships or we should put the money into cyber, or we should buy this missile or that missile. What's your take on that?

MR. O'HANLON: Excellent. Let's get a couple of more for this round and then we'll come back to the panel. I'll go here to the gentleman in the fourth row on the aisle, and then four rows back more.

MR. GRADY: This one deals with a combination of modernization of forces and nuclear forces. If the Navy invests in 355 ships, primarily surface, what happens to the Columbia Follow-On ballistic missile submarine, which would eat up the shipbuilding budget as it now exists.

MR. O'HANLON: And I should have asked you to identify yourself.

MR. GRADY: John Grady, Naval Institute.

MR. O'HANLON: Thank you. And then four rows back please. Yes.

MR. LEVINSON: Hi, Rob Levinson, Bloomberg Government. This is really for Maya. Maya, you mentioned I think very clearly that ultimately national defense isn't a fiscal decision, it's about what is the priority for the nation. But I wonder your thought on we're now in seven or eight countries in combat, maybe a few more. There were a few classified contingencies that apparently just cropped up and we don't know where they re are. But the lack of fiscal constraint -- in other words, we're funding these things on a credit card -- allows the national security decision makers to perhaps get us involved in places that were there fiscal constraints or things like a draft or war taxes or rationing, might actually restrain us from making choices. So it's not just about are lack of restraint on the means expanding the available ends that we can pursue I guess.

Thank you.

MR. O'HANLON: So, Maya, shall we start with you this round?

MS. MacGUINEAS: Sure. That's a great question. Because I think -- I mean you've hit the nail on the head in the problem with all budgeting and here it's applied to the defense situation. But if you make the cost of something free, of course it's worth it. So we're actually building a tool right now called is it worth it, where you just look up what we're spending, whether it's education, the environment, defense, homeland security, you actually see in terms of where you are and how much you pay in taxes, how much that is costing you, your family, getting a sense of what these costs are. One of the problems with deficit financing, and there are many, as I said, but one of them is that it just doesn't allow us to go through the necessary exercise of is it worth it. And so if everything just has to meet the hurdle rate of zero, of course it's going to be worth it. So I think that's a huge problem that we have in budgeting right now.

I'm also going to expand my thinking on this security issue, and I'm not sure if this is going to work, but one of my big problems with how we budget is we've

always done it in a way that's too compartmentalized. We think about this category and this category and this category. If you look at what's going on in our country right now, and I'm fascinated with the thought that so many of our threats come from asymmetrical warfare, or things that are very different than what we're used to, but the national debt reflects how broken our government is. It reflects how unwilling we are to focus on long-term issues, hard choices, policy over politics, a number of things that are symbolic of what's broken in our government right now. Part of that is also that we can't look at from where our threats are, and our threats are both external and right now they're internal in terms of massive divisions and distrust and dysfunction within our own country. And so when we go to the question of what does security for this country mean in a budget, it's not just going to be defense, it's also going to be how do you build an economy where a middle class is more content or people are less polarized politically. And I just think whatever you're thinking about budgeting, it's not just spreadsheets. As much as I wish it were, and I'd be comfortable if it were, it is truly thinking about what a nation's national priorities are. Part of that is are we willing to pay for them, and part of that is looking forward at what threats we face. And I would just point out there are a lot of threats that are coming from within, which in many ways have been prompted from outside sources as well, that we're seeing the huge ripple effects of right now.

MR. O'HANLON: Great. Elaine, do you want to comment on that before we come to the defense guys?

MS. KAMARCK: Not on that, but I want to comment on the gentleman from the *Wall Street Journal's* question. One of the most interesting things I think we're going to see is how does the republican leadership in the congress take and internalize the lessons from this election. What do they do? Do they decided to engage in the sort of big debates that you referenced or do they decide to continue on a path that has characterized the for the last couple of years, of basically opposition, opposition,

opposition. And I don't think we really know the answers to that yet, but I think that as the election results get pored over and they look at how decimated they were in the suburbs and the weakness that was apparent throughout the country in rural areas and republican strongholds, they may decide to adopt a different kind of strategy than we have seen. But we don't know yet.

MR. O'HANLON: Thank you. Frank, you want to go? And then Jim to bat clean up?

MR. ROSE: Yes. Let me respond to Michael's question and then hit the shipbuilding issue. Michael, I think you're fundamentally correct. We have a mismatch between strategy and resources. And I think the United States government as a whole needs to have a fundamental rethink of some of these longstanding strategies that have been in place. I don't know if congress is capable of conducting that debate. Personally, I believe you will need presidential leadership, like President Eisenhower used with the solarium project in the 1950s. Indeed, I believe actually congress approved a commission this year in the Defense Authorization bill calling for a solarium-like commission for cyber. That's what I think we're going to need.

I also believe we can't do this on our own. I disagree with this Administration on a lot of issues, but I think they are fundamentally correct in their assumption that we have returned to an era of great power competition. We are in competition with Russia and China for the future of the international order. And therefore that in my view makes our allies even more important. We have a lot of asymmetric vulnerabilities, like outer space and cyber. But one of our asymmetric advantages is our system of alliances around the world. And unfortunately this Administration has not taken advantage of that, and actually leading us into a different direction with our allies. And that needs to be fixed.

With regard to your question about the ship building budget, I fully agree.

There's not enough resources currently in the budget to do the Columbia Class plus all these additional ships. So priorities need to be taken. For me, being a strategic guy, the Columbia submarine should be one of our top national priorities because, as Jim mentioned a little bit earlier, that is the backbone of the U.S. strategic deterrent.

MR. O'HANLON: Just for the generalist watching, what's the Columbia give us that we need so much right now?

MR. ROSE: The Columbia submarine is the replacement for our current class of strategic ballistic missile submarines, which provides us our secure second strike nuclear capability. It is really the backbone of our strategic nuclear force right now and will likely be the backbone of that force for the next 70-80 years.

MR. O'HANLON: The key point is the older submarines are getting old and you can't put submarines to sea forever when they're carrying nuclear weapons or any other way.

Jim?

MR. MILLER: Thanks, Michael. I'll just follow up on the Columbia point first. In my view, the Navy doesn't get to come to the table and say, sorry, we ran out of money and so we're not going to give the nation a secure second strike capability. The Navy needs to step up to the bill, and if it doesn't, then the Secretary of Defense needs to ensure that the resources are provided.

On the question of strategy, Michael, I think it's an excellent question. The congress should start at that level of strategy. Whether they are all well versed in that at this moment is beside the point. They can ask outside witnesses, they can have commissions. That's where they should start. And when they do, one of the key questions will be noting this Commissions view that there was not an operational concept for success. And let me just be very clear about something -- anyone who thinks the operational concept for success with respect to Russia is putting troops in Moscow, or for

China is putting troops in Beijing, is a lunatic.

But what is the operational concept? In my view it should be not that we want to devastate either country in a war, it's that we want to avoid a war with both countries. So we need to deter them, we need to think about strategic stability in addition to the military capabilities that we provide. And that's particularly important as we think about the nuclear balance base in cyber, and it means that with our allies, with our allies in each of those regions, we want to be able to frustrate their aims if they undertake aggression and/or impose unacceptable costs on them. That does not have to be an infinite bill, it does not have to require massive force structure, it requires clear prioritization, and it is going to require a massive investment in the resilience of both our space forces and IT infrastructure, given the cyber vulnerabilities.

MR. O'HANLON: I'm just going to add one mundane point in response as well, Michael, which is that I think since Jim and I are in agreement, and many others perhaps, that force structure, we need to think hard about trying to grow it if budgets are stabilizing or plateauing. We have to ask, how do we get by with the current force structure, or something like it when the force is so tired, when it's working so hard? And I think we're going to have to ask the services, the service chiefs and the combatant commanders, to actually prioritize giving their people and commitment a little easier of a time when they can figure out a way to do it, because within DOD there is a little bit of a culture of machismo that says I have to always work hard and be tired. And there are times where you have to actually take a little bit of the strain off.

I would submit two very specific ideas. Not everyone here would agree, but the rotations we're making with Army soldiers into Poland and Korea, in the latter case longstanding policy, but with Poland newer policy, I think we need to think about doing those with permanently stationed brigades, so we don't have to keep rotating, which preoccupies multiple brigades just to have one in place. And maybe you would

agree with me on Poland but not Korea, or vice versa. But I think that kind of idea needs to be on the table.

Secondly, the Navy does not have a carrier right now in the Persian Gulf and it hasn't had one in or near the Persian Gulf since early this calendar year. And historically, that's the sort of thing that if you had said to not just naval personnel, but to strategists in general, they would have been horrified. And you know what, the Middle East was a mess before we took the carrier out and it's still a mess after, but there has been no new big Iranian aggression against Saudi Arabia or anything else. I would submit that we can be more unpredictable and more flexible in how we do naval deployments. And that may provide a way to get by with a slightly smaller fleet than the Navy now wants.

That's just off my soap box for the final round. So we've got time for two or three more questions. Let's see. I have not yet called on a woman in the crowd, but I haven't seen a hand from a woman. My daughters are going to give me a very hard time if -- okay, right here. So we'll go to the (laughter) third row and then there a couple more.

QUESTIONER: Hi, Ashley Roki with Jane's. We've talked a bit about the Navy's fleet. How about for the Army? I mean they're undergoing a massive reorganization, modernization, and as they're looking, racking and stacking their programs, what type of appetite do you think you're going to see from House or Senate leaders as they examine these cuts, and will Army leadership sort of be held to account? Like how are these new programs actually going to deter or be used operationally in combat with China or Russia, if it comes to that?

MR. O'HANLON: And we have one here in the second row. And then I guess the last one will be way in the back.

QUESTIONER: Hi, my name is Daniel. I'm a graduate student over at Johns Hopkins SAIS. Since nuclear weapons have been brought up and since we fought

a number of wars, the United States and nuclear bearing countries over the last couple of decades, how relevant are nuclear weapons in this time? Can there be a downgrade on the stockpile that we do have, and is that an area where costs could be cut?

MR. O'HANLON: And then, finally, way to the back.

MR. REIF: Kingston Reif with the Arms Control Association. I'd live to take a crack at the question that was just asked, but I'll resist the urge to do so.

(Laughter) So I had one quick comment and one question.

Jim, you had mentioned earlier that the nation can afford 3 to 4 percent of GDP on defense. I would just submit that when you're talking about a GDP of 20-21 trillion, there's a significant difference between 3 and 4 percent -- hundreds of billions of dollars different. So that's not trivial.

I wanted to get back to the question that a few others asked earlier regarding the NDS's emphasis on the return to great power competition and the implication that shedding force structure not relevant to those high end fights is something that should be done.

Jim, you got into what some of the tradeoffs might be, smaller Army, so fewer Army infantry brigades comes to mind, fewer surface ships. In my mind, the LCS immediately comes to mind. And then not as many Air Force squadrons, legacy aircraft like the F16 immediately come to mind. But how do you convince congress to make these cuts? As you know, the previous administration went to congress with proposals such as shedding the A10, which congress roundly rejected. So some of this legacy force structure has political constituencies that say, technology development doesn't have. So how do you deal with that?

Thank you.

MR. O'HANLON: Thank you. So what we're going to do now is go down the panel with responses to any question or two each person wants to address and any

final concluding thought people may want to have as well, and then we'll wrap up.

Frank, we'll start with you please.

MR. ROSE: Since the end of the Cold War, U.S. administrations of both parties have sought to reduce the role of nuclear weapons in our defense strategy. Unfortunately, Russia, China, and others have not followed us. So I'm one of these people who believe if we can do it in a way that is consistent with our security policy, we should reduce the role of nuclear weapons. Unfortunately, as I mentioned just previously, others have not. So I think we're stuck with nuclear weapons, they're not going away anytime soon. Therefore, it is critical that the United States maintains a safe, secure, and effective nuclear deterrent that can deter threats against the United States and our allies. That is key. As much as we talk about wanting to reduce and eventually eliminate nuclear weapons, that needs to be very closely connected to the security environment. And if anything, the security environment has gotten worse over the last 25 years.

And let me just leave you with this one last point. And that is that when you talk about nuclear modernization, don't forget the important role that arms control has played in advancing nuclear modernization. Had it not been for the New START Treaty I'm not necessarily convinced we would have been able to put the bipartisan consensus that currently exists in favor of the nuclear modernization of our delivery systems, of the DOE infrastructure, and our nuclear command and control. And that would be a lesson that the Trump Administration would be wise to pay attention to.

MR. O'HANLON: Thank you, Frank. Jim, over to you.

MR. MILLER: I'll pile on nukes first. The fact that no nuclear weapons have been used in anger since August 6 and August 9, 1945, Hiroshima, Nagasaki, is the success of our nuclear policy, not a failure of our nuclear policy. That said, I firmly agree with Frank that the nation should continue to seek to reduce the role of nuclear weapons

in our military strategy and policy and that we should aim toward the so-called no first use or sole purpose. The Obama Administration made a decision not to go toward that in 2010. It should still be an objective to reduce the role. And in my view there is still substantial room for reductions in numbers while sustaining a robust triad to deter nuclear attack.

On the question of conventional forces of all varieties, more is better. Stipulated. Better is more better, okay. Quality is more important than quantity, when you get into not just the strategic competition but the potential for the battle and the selection of the capabilities that are able to survive air strike, whether nuclear or non nuclear, to have command and control that's resilient and that can provide a punishing response to deny the aims of the adversary and/or impose unacceptable costs. That's the capabilities that should be the principal focus of the U.S. military. And I would put those non nuclear capabilities as a very high priority because we do not want to be in a position where we feel that we need to go nuclear to prevent aggression. We want to be able to deter aggression through non nuclear means.

That investment is doable. As I said before, it involves a lot of resources going to both space and cyber resilience, and it will involve a new operating concept, if you will, for how we think about conflict. That is doable and congress, I believe, should play a fundamental role. They will need help. I'm hopeful that many in the group today will help to serve that role.

MR. O'HANLON: Super. Thank you. Maya?

MS. MacGUINEAS: So the point I've tried to make is that our fiscal situation is at a historically very, very worrisome level, which projected, if we do nothing, we don't do anything to make it worse, to get significantly worse each and every year. One of the points that we've anchored this discussion and that I sort of didn't get to is that the spending levels that we're talking about in defense for next year, whether it's \$700

billion or \$733 billion, those numbers are ignoring the fact that we have spending caps that are going to be in place next year. So we increase spending for two years on defense and domestic discretionary, our spending levels next year are going back to \$576 billion for defense. All the talk that we've been hearing about in the budget is the President has asked for a 5 percent cut. That 5 percent cut follows on a 14 percent increase that just happened that wasn't paid for. So the point I would make is that if we want to get out of the habit of making this worse each and every year, we're going to have to find a way to offset the difference between where the cap is and that \$700 billion or \$733 billion. That difference again is as large as the overall tax cut that we just passed, which was in my mind one of the most fiscally reckless things we have seen in recent memory. So if we are about to double down on that by increasing spending caps and not offsetting the cost, we need to recognize just how we are unwilling to face up to the act of budgeting.

So, again, I don't know if the right number is \$576 billion. My guess is it's not. For a long time people thought that was too low. I don't know where the right number is, but I know that we have to pair it with our willingness to offset those costs, which is just the minimum, not digging the fiscal hole that we're in any deeper.

MR. O'HANLON: So just to clarify, and before we go to Elaine for the final word, that \$576 billion number in the Budget Control Act, which still has two more years in it, we gave ourselves a little bit of a reprieve for the current fiscal year and the last one, but that reprieve will expire, which means the budget we're talking about, that the President will submit to congress in February for 2020 would have to be reduced within the confines of the Budget Control Act unless there is new, you know, get out of jail free card legislation passed. And that \$576 billion, that would be without the contingency costs. So when you add in \$70 billion for contingencies, we're talking about roughly \$650 billion, right?

MS. MacGUINEAS: Mm-hmm. Yeah, that's right. And for the first -- so we've done this three times where we've increased those caps. And the first two times we did indeed try to offset them. Now, it was offset, a lot of budget gimmicks, it was -- some real and some not, but this last time we didn't try to at all. And so I think the real question is when we lift those caps and we decide how much, to what extent will we also figure out where it comes from, other places in the budget, which was the original intent of the caps and then the sequester.

MR. O'HANLON: Thank you. And, Elaine, finally.

MS. KAMARCK: In conclusion I think it bears discussing that as we listen to all the discussion here, we need smarter processes. We need to be smarter about what we're spending, et cetera. So I would posit to you the following history: congress has been dumbing itself down. Congress is not getting smarter because what they've done in the last couple of decades is twofold. First of all, there's been a shift in their spending from committee staff to staff at home. And so they've moved their staff out to their districts. You can see this, there's a lot of data on this. The second thing they have done is they have, in an effort -- which is kind of amusing because the total cost of congressional support is like a quarter of the drop in the bucket of the money we're spending here -- but between CRS and CBO and all the support agencies that help congress analyze the questions we've been talking about, they have been reducing staff.

Now, Senator Mike Lee from Utah has been very, very good on this topic, but his colleagues need to listen to him. Congress needs help. All of the things that smart people in the audience and the experts up here have been talking about, first of all this is going to be brand new stuff to the new members of congress, of which there are many, and secondly, congress has been cheating itself and making itself unable to make the kinds of hard choices that we're talking about here. So the best thing that might happen here is not \$716 billion or \$733 billion, the smartest thing that might

happen here is like \$100 million for getting congress the kind of intellectual help and expertise that it has not had for many years now. And I think you see that in some of the ways that congress is basically taking these issues and pushing them off to the side.

MR. O'HANLON: Happy Thanksgiving to all of you and your families and the families of the military around the world. I'm sure you'll want to join me in thanking them and thanking the panel as well. (Applause)

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