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THE FUTURE OF PPBES

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P R O C E E D I N G S

MR. O'HANLON: Good morning, everyone, and welcome to this Brookings event on the U.S. defense budget. I'm Mike O'Hanlon with the Foreign Policy Program at Brookings. And I'd like to welcome you, but also welcome my esteemed panelists and good friends, Bob Hale and Caitlin Talmadge to the discussion.

The Honorable Bob Hale was comptroller at the Department of Defense for a number of years during the Obama administration. Previously he had been comptroller of the Air Force. Previously he had run the National Security Division at the Congressional Budget Office, where in full disclosure I had the privilege and pleasure of working for him at about the time the Cold War ended 30-some years ago.

Caitlin Talmadge is a professor at Georgetown University, one of the best academic security scholars in the entire country by any measure, and certainly one who also pays attention to the Washington debate. Not surprising for someone with a perch at Georgetown, but still a fairly nifty trick to pull off in this day and age, to have such academic rigor and also her finger on the pulse of where the defense budget debate is and should go in the United States.

So we're going to have a conversation today that begins as a launch point with Bob's excellent new paper on the PPBES process. For some of you that's hold hat — and you know exactly what I mean. For others that's another acronym from the Washington defense world. In fact it's one of the biggest, longest and best known and most frequently used. It stands for Planning, Programming, Budgeting Execution System. And it goes back to the McNamara days in its origins, but it has certainly evolved and been changed and updated over the years, which as Bob explains in this paper, that you can find at Brookings.edu, it has survived partly because it's been so adaptable and because it's been updated and because Melvin Laird in the 1970s gave some of the responsibilities back to the military services while still keeping any oversight role. Anyway, Bob's going to get into some of that

And then as we get further into the hour we will also bring in Caitlin to talk about U.S. defense strategy today, where the Biden administration may be headed with its strategy and its budget,

how this links back of course to the PPBES issue. But more generally, how should we be allocating resources at a time of great power competition, but so many other challenges in the world and so many other challenges here at home, as we heard the president discuss again last night, when he asked for another big set of initiatives in regard to domestic and economic policy.

So that's the basic lay of the land. Again, I would like to welcome and thank the panelists in advance. And I'm going to begin with a few questions for Bob. After we also bring Caitlin in we will happily bring in your questions, to which you may email at Events@Brookings.edu, and they will be channeled to me to be posed to the panelists, Bob and Caitlin, within the next half hour or so.

But, first, Bob, I again wanted to congratulate you on your paper and begin by just asking the big picture question, why is this issue important. And, specifically, why is the PPBES issue so important?

Over to you, my friend.

MR. HALE: Well, Mike, thank you. Thanks for the chance to be here.

So the Department of Defense budget influences the strength of our national security and DOD also obligates more than — these days — more than $700 billion a year. I think for both of those reasons, the department needs a strong budget formulation process. It needs to be effective in channeling the monies in ways that meet national security needs and also reasonably efficient, trying to select options that meet needs while holding down costs. So I think for both of those reasons the budget formulation process is important.

MR. O'HANLON: And I want to ask you in a minute why it's controversial, which is the next big question, but first just one follow up on that very first question. Could you explain, for those who are still trying to make sense of this — because some of our audience is going to be very familiar with these issues, some a little bit more general — the role of comptroller. At which phase does the comptroller play the key role, at which phase does the undersecretary of fefense for policy, and then of course also, the famous CAPE, Cost Snalysis and Program Evaluation, could you link each of those organizations within DOD to each step in the process?

MR. HALE: Sure. So the planning —- PPBES starts with planning process —- that is led by the undersecretary of defense for policy. Certainly a comptroller and CAPE are watching, but don't play major roles in that. When we get to the programming phase, we're actually trying to decide what kinds of weapons and forces you have, that effort is led by CAPE, cost analysis and program evaluation, as you said, with the comptroller then playing an active role. As we move to budgeting, the comptroller has the lead, with CAPE certainly also playing an active role. Finally, during execution, at least in terms of financial portion of execution, the comptroller has a clear lead there for the department as a whole.

Now, obviously, many others are involved in the execution phase, but that's a brief answer to your question.

MR. O'HANLON: Thank you. And then why is this controversial?

And just by way of background again, there have been, I believe, congressional hearings this year on PPBES. There have been a number of think tankers actually elevating an issue that one might think is a little too arcane or procedural to such a matter of high debate and discourse. But, again, as you pointed out, we're talking about $700 billion a year, so probably should be important. But why is it so controversial at this juncture?

MR. HALE: Well, it's been controversial for a long time. And if you go back to the formulation or the start of —- the DOD was actually the national military establishment in 1947 and turned into DOD in 1949 —- the first secretary of defense, James Forrestal, was said embarrassed by the budget formulation process. In those days each military service did their own budget. There was really no coordination, no effort at eliminating duplication.

Forrestal tried to make some changes, but the big change was 1961 when McNamara, as you said, put in place what's now known as the PPBES system. It was highly top down and centralized and that immediately made it controversial with the services and some outside critics as well. Again, as you mentioned, Mel Laird played a big role when he was secretary of defense by decentralized a bit, giving the services back more authority, subject to fiscal guidance that could go over certain dollar limits.

If you fast forward to today, it's still controversial. Some of that is academics often

criticize it because it doesn't — they argue it doesn't promote wide enough discussion of alternatives. I think practitioners are sometimes frustrated by how much time it takes the management and staff. Certainly, the War Time Overseas Contingency Operation — or OCO — budget, widely criticized. It is going to go away this administration has announced in fiscal '22, but it's been a source of major criticism of PPBES.

The big issue that I think concerns me most in the PPBES system is a lack of flexibility, especially with regard to high tech projects. It takes several years to get through this process, including several years usually in the execution phase as we go through all the contracting work. Sometimes that's just — the whole technology changes during a period of that length. And we very much need more flexibility, we really need Congress to allow the department some more flexibility to move money around in the execution phase in order to accommodate changing technology. And because that technology is so important, DOD's strength and ability to maintain national security, I think this is the area of controversy that has me most concerned.

Back to you, Mike.

MR. O'HANLON: Well, yeah, thank you. And it sounds, Bob, like you've already begun to answer my next question, but I still want to put it to you because I think a lot of people, including generalists, are going to be wondering how well is the Department of Defense spending my tax dollar. You know, we can go back to the 1980s and the days of $600 hammers and toilet seats, we go through the modern era where DOD still can't audit itself, as people say, where it's still seen as a bastion of waste and inefficiency. But I really would welcome your overall assessment of just how well does the budget process work at DOD. Just how well are we allocating and managing defense resources today?

MR. HALE: Well, I think most of the critics focus on the problems I just mentioned. And they are real. I think sometimes they forget the benefits it offers to the department, PPBES. For one thing, it takes a multi-year look at programs, and that's very important in defense because the decisions you make now may have important influences in the future. It tries to bring analytic techniques there to compare (audio skip) move toward that deficiency. And I'll come back to a better answer to your question

in a moment. And it also —- the process allows all voices to be heard, or at least all relevant voices, even if those voices don't win the day, their program doesn't get selected, I think that the process of hearing all of them helps. In the execution phase you're more likely to be willing to move forward.

And so overall, I mean my conclusion in my paper is there are a lot of good things about PPBES that need to be capped. There are also some important changes. And I mentioned the flexibility one is the most important, but there are others.

So I started out by saying that a budget formulation process needs to be effective in meeting national security needs, but also efficient in trying to hold down costs while meeting those needs. I think the formulation process in DOD is stronger on the effectiveness side —- is really how they feel they're measured. Are they able to deter and, if necessary, win future wars.

I think there the budget process is reasonably good at effectiveness. It is harder for the department and this budget process to really be efficient. There are lots of reasons, but the one I'd note is no bottom line, there's no profit and loss like there is in a private industry. So it's hard to measure whether you're actually being efficient. Certainly PPBES has worked to bring about some important changes, and we can discuss some of those that have made it more efficient, but overall I think that's the weaker of the two, that DOD struggles to be efficient.

MR. O'HANLON: One last question before I go to Caitlin, because it has just occurred to me in listening to you, and going back to when we worked together for the Congress, I want to ask about what's the main contribution that Congress makes? Or maybe you want to use an example or two as opposed to a, you know, maybe it's not always the same, maybe it varies from era to era. But, as you well know, since the 1970s we've had the Congressional Budget Office, we've had the Government Accountability Office, obviously the congressional committees, the budget committees, the Armed Service Committees, the appropriation committees. Is there a particular role that you find that's been most important over the years that Congress plays? Because obviously, on this issue of budgeting, the Constitution gives Congress the first dibs at the issue and probably in a way it's at least a co-equal branch of government on how to spend money. So I'll be curious of your thoughts there.

MR. HALES: Yes. Sure.

Well, I mean, as you just said, Congress has a fundamental role. You can't spend any money unless they've appropriated it, enacted a law, and the president has signed it. And, you know, there's good news and bad news about Congress. I think it's — probably one of its greatest strengths is that it foments a public debate on what are some very controversial issues. Budget may not be the most important in that sense. I think decisions about war and peace are kind of more fundamental. And even though obviously the department and the administration, and certainly the president, has to have an important role, I think Congress does well at bringing about a public debate.

Especially in recent years I also believe they've gotten too much into micro management. I mean in fiscal year '21 there were more than 1,200 pages in the National Defense Authorization Act. I think Congress needs to weigh that. They are harming the efficiency of the Department of Defense I believe by that micro management. And of course the congressional budget process has pretty much broken down and now we're really pretty much doing omnibus appropriations each year, almost always these continuing resolutions because they can't agree by the beginning of the fiscal year.

So Congress is an important part of the problem, but we shouldn't forget that they have a fundamental role, and as I say, I think that the public debate on major defense issues that they bring about is very important.

MR. O'HANLON: Excellent. Thank you. And we'll come back to many of these issues in the discussion. But now I want to again welcome and bring into our conversation Caitlin Talmadge.

And, Caitlin, I'd like to do a slight tangent to the conversation we've just had, which is of course fairly specific and in some ways technocratic, on how budgets are produced, but ask you to talk a little bit about the high level of policy and strategy. And the most obvious and interesting question, now that we are at the end of April 2021 is what kind of differences do you see emerging in Biden defense thinking relative to the previous Trump administration National Defense Strategy, the focus on great power competition, Secretary Mattis' National Defense Strategy of 2018? Do you see any fault lines emerging? Or what will you be looking for in the coming months if there are going to be any such

divergences?

Over to you.

MS. TALMADGE: Sure, great. Thanks, Mike. It's really a pleasure to be here with you and with Bob. And I want to second your praise of Bob's paper. I really commend it to anybody out there who is just wanting to kind of understand the context in which these budget decisions get made, because there really is a tight relationship between process and substance. And I think you kind of already made some of that linkage. But the paper really spells that out.

So you asked this question about kind of what's different, what are we looking at in the Biden defense budget, what does that reflect about their priorities. I think we have to preface any discussion of this by just kind of recognizing there's a lot we actually still don't know because we don't have a super detailed budget request yet. It's been a bit delayed, both because of the transition issues and — you know, you both mentioned the role of the undersecretary of defense for policy in this process, who of course in this case was confirmed like two days ago, so there are things that we don't know.

But there are some things that we know. We know what the top line is that they're aiming at. I believe it's about $715 billion in the Pentagon budget, which is a smaller increase than what the Trump administration had signaled that they were going to ask for. But, you know, a $7 billion difference in a budget of this size — you know, if somebody offered me $7 billion in unmarked bills in a suitcase, that would be a really good day. I'd be really excited about that. But, you know, at the Pentagon that's kind of couch cushion money. We're still talking about a really big defense budget here, a defense budget that in inflation adjusted dollars is larger than defense budgets at the height of the Cold War. Of course it's smaller in terms of percentage of GDP, but it's a big defense budget. This is not an administration that's making big defense cuts like some progressives want, or as some Republicans fear. We're kind of seeing steady as she goes as far as the top line, in my view. It's not a big delta there.

But I think what could look different is how some of that money is being spent. It's not just the amount, but what are the strategic priorities, what might look different there. And I think actually President Biden last night gave us some sense in his speech of his theory of the case on defense. I

thought his speech was really interesting because in many ways, as a defense person, what I heard was a speech that was highly relevant to defense, but was actually not very much about defense. A lot of what he was talking about was spending that he wants to do in non-defense categories that are actually highly relevant to the long-term generation of military power. So investments in education, investments in infrastructure, reducing domestic political divisions, being an example of democracy. You know, all of those kind of I think tell you something different rhetorically just about the place of the defense budget in the larger picture of resource allocation.

But then, even within the defense budget, you know, we know some changes have already been made. The biggest one of course — and you've written about this, Mike, extensively — is that the decision to get out of Afghanistan and get out of the business of forever wars. I think an interesting question is like what does that actually mean for the budget. Like what are the savings that might be delivered by that. Presumably there's something. And I think Bob probably can speak to that more. But in the context of ending a 20 year war and kind of getting out of the forever wars, it's not surprising that we would probably see some dip in the defense budget. Anytime you end a big land war in the United States the defense budget goes down. That was true after Korea and Viet Nam and the end of the Cold War, and so forth. So I think that's one change where we can already see kind of a delta from the Trump administration.

I think in other areas there's still more uncertainty. So one that I watch pretty closely is nuclear weapons. And I think there are some big nuclear posture choices that are sort of before the administration. And we don't really know where those are going to come out. And I'm not even sure we're going to know in this budget cycle. It maybe another one after they do a nuclear posture review or something like it. But one question I have is where is this administration going to come out potentially on building a new ICBM, building the ground based strategic deterrent. That was an issue that was flagged in confirmation testimony by Deputy Secretary Hicks and I believe Secretary Austin as well. And they basically said GBSC is TBD. We're going to think about it, we're in favor of modernization, we heart the triad, but we don't know what we're going to do on this. And I think that reflects the fact that that's actually

a budget decision that has to flow from policy choices.

And also on nuclear weapons there are debates over whether the United States should continue to deploy new low yield nuclear weapons. We have one that's already on our ballistic missile submarines. But there are also debates about like the nuclear sea launch cruise missile. And I think those are tied up also in debates about declaratory policy. So if the administration is thinking about moving to a sole purpose formulation for U.S. nuclear weapons, that probably has implications for a low yield nuclear weapons and so forth.

And we know that these nuclear issues are also really closely watched in Congress. And as you both pointed out, Congress plays a really big role here. And the fact that Congress is Democratic controlled I think probably is going to have an impact on where we come out on these nuclear issues.

So there are areas where we see hints of change, both in the rhetoric and the priorities and also in some of the specific policy areas, but I think there is a lot that is still to play out because it's going to depend on strategic decisions that haven't happened yet. And in some areas I think there's actually some continuity, some surprising continuity with Trump administration too. And we can talk about that.

MR. O'HANLON: So, thank you. And let's indeed talk about that. But I'm also going to invite you, on a twist, to offer your own view because I'd like to hear you describe where there is continuity apparently so far, but maybe also where there shouldn't be, where there's continuity that may look like bipartisanship at one level, or consensus, but may also verge on being a consensus we should shake up a little and rethink.

So, first and central part of the question is where do you expect continuity? But second do you agree with the continuity that you think you see emerging?

Over.

MS. TALMADGE: So, yeah, I think you've put your finger on a really important question there. I mean, look, the defense budget is an expression of political priorities and I think there is a really strong political consensus that has emerged on a bipartisan basis on the last — really I would say two to

three years, especially regarding China, that we're not going to reach a political accommodation with Beijing, China is going to be a long-term economic and military competitor, and we've got to kind of gear up for that competition. And I think that that discussion around China policy is very different now, as I said, from how it was even two or three years ago, much less five or ten years ago, when I think there was much more of a sense of openness and what is the direction of the relationship going to be. I think the discussion has narrowed a lot, that it is going to be a competitive relationship and the U.S. has to build a military that can deter China by raising the cost of war in the type of operating environment that the U.S. and China might find themselves in. And the debates are kind of over how best to do that.

And I think — I'll come back in a moment to the question of like whether that consensus is the right one, which I think is kind of what you're getting at. But I think what's remarkable just in the context of this defense budget debate is to hear the Biden administration emphasize things like the need to compete with China in the air and maritime domains. That to me sounds like a lot of what we heard toward the end of the Trump administration, where there was an emphasis on expanding the ship building and you had the release of this new Tri- Service Maritime Strategy that really emphasized the need for the naval services to have more distributed operations, fewer large capital intensive targets that frankly may not survive in the surface and air environment that a future U.S.-China conflict might involve given China's investments in long range precision missiles and anti-space capabilities and cyber capabilities and so forth. And we don't again know the specifics, like we don't know what this Pentagon is going to think of the specifics of the Navy ship building plan that came out at the end of 2020. But, again, kind of reading the tea leaves and looking at confirmation testimony, I don't see them chucking that. The investments seem like they are moving in the direction of preparing for deterring and competing with, and potentially even fighting China in those domains.

What I think will be useful to watch in terms of what that means for the budget, is that is potentially a really big reorientation of U.S. strategic priorities that we're moving away from this era of forever wars and land conflicts and emphasis on the Middle East and so forth and into a world where we're going to be needing to make more investments in air and naval forces. And typically when you

have a big strategic reorientation like this —— and some of the past ones are actually mentioned in Bob's paper. You think about the Eisenhower administration on nuclear forces and giving more funds to the Air Force and Navy, shifting back in the Kennedy administration toward flexible response and wanting to have more forces for the Army and ground forces and so forth. My point being when you have big strategic shifts in your priorities you often see changes in the service budget share, you see changes in resource allocations. That's how you really know changes are happening.

And, of course, that creates conflict. I mean that is a political matter, not just a matter of dollars and cents. And we even heard at the end of the Trump administration Chairman Milley saying basically that if we're going in this direction of competing with China and building up our naval forces, there's going to be —— what I believe he called an inter service bloodletting. There's going to be resource allocations. And he even kind of hinted like as an Army guy this is kind of painful to watch. And it's interesting, the secretary of defense now also is a former career Army officer and yet this chairman and the secretary may preside over a reallocation of resources away from their service, at least in their past roles. But that's kind of what I'm looking for. And I guess what I'm getting at is I'm not sure that if that happens that's actually that different from what the Trump administration would have done. That's kind of the direction that they were moving in.

You know you asked a big question, which I'll just touch on at the end here, which is, is this the right direction to move in? I think we do need to temper our tendency to assume that we're automatically already in a new cold war with China and that there's no room for coming to accommodation on some issues. But I do think we need to communicate to China that aggression and attempts to change the status quo will be costly for them. I think that is an important component of keeping the peace. What I think Biden has brought into the conversation that's really important is that in a long-term competition with China it's not just about the military power and military confrontation and deterrence and hard power and all of that. We can do a lot in that competition by taking care of our own domestic problems, being a good example of a democracy, and fixing domestic division, domestic inequality, healing divisions and so forth. That I think suggests that this is not all a matter of just buying

more ships.

And so that is the context I think he gave and that's an area that I think the consensus — you know, I'm worried it's getting a little misdirected down the path of everything being about defense spending in this competition when there's all these other components of national power that are going to be really, really important when you're talking about a decades long competition potentially.

MR. O'HANLON: Thank you.

And, by the way, I want to shift now over to Bob and actually ask you to pick up on the same issue. But before I do let me just thank you, Caitlin, for the writing that you've done over the years, not only on resource allocation, but how to think about raising the cost of war with China. I noticed you used that formulation twice, and I really like it, because it doesn't imply that there are easy victories for us to achieve against China if we just add a certain number of billions of dollars to the defense budget.

You've written, sort of in the spirit of Bruce Blair and Barry Posen and others about the dangers of escalation if we get too offensive minded in some of our war fighting strategies for the South China Sea and/or Western Pacific. I've tried to focus on that question as well. And so I would just commend folks to look at Caitlin's writing in international security and elsewhere. Not only resource allocation, but war planning, which I think is an equally crucial part of the question.

But, Bob, if I can come back to you, I'm sort of wondering what percent bloodletting might be a realistic amount to expect in the Pentagon. I'm not asking you to predict the bottom like outcome so much as the parameters for debate, because you've been through this before. I think back to 2013 when there was the so called Strategic Capabilities and Management Review, which some people called the skimmer and some people called the scammer and some people called the scummer, depending on how pejorative people wanted to be. Certainly the Army was not happy because when General Odierno, chief of staff, he was being asked to look at options that might cut 20% out of his active duty force, but he already felt that he was a little on the small side as it was. And that reflected President Obama's 2012 strategic guidance that we were going to try to stay out of big land wars in Asia, at least of the counterinsurgency and stabilization type. And so you've seen these kind of debates before.

As you processed the National Defense Strategy of President Trump you sort of prognosticate on where it may go under Biden, what are the parameters for realistic debate? If you want to put it in percentage terms, you know, what percent of the Army budget may realistically be targeted for shift? I'd just be curious for your gut instincts.

MR. HALE: Sure, I'll give it a try.

First, I think the shifts and shares tend to be slow in the Department of Defense. Many would argue that's because the process leaves everybody to get the same share. I actually think there's a reason that's more substantive than that, and that is we aren't very good about guessing where we're going to have to fight next.

And I'll take you back to the late 1990s, the Bosnia War, when I think the Air Force kind of felt that clearly air power was the solution. Probably still feel that way. But within a couple of years we were involved in two major land wars that heavily involved the Army. So I think the Department of Defense needs to keep in mind they can't be sure where they're going to have to fight and make these changes slowly.

That said, there probably will be some reallocation — I suspect modest — away from the Army and more toward the Air Force and the Navy. And as Caitlin said, it's probably more important how they accomplish that change than just the dollars involved. I mean I think the Department of Defense realizes they need to do a better job bringing new technology to bear on the areas of highest priority. They issues this thing a couple of weeks ago called the skinny budget — the press called it the skinny budget. It was an apt name because there wasn't a lot in there. But after China, which was the first thing they listed — R&D was the second, they didn't say too much, but I think they're going to need to move in the direction of actually trying to bring some of this technology to bear, not just spending money on RDT&E, but bring it to bear.

And so how they accomplish this shift away from the Army a bit toward the Navy and the Air Force, probably more important than the exact amount, but I don't think they'll be huge shifts, just because of the uncertainty about where we're going to have to fight. Russia is still there and so is North

Korea, and both of those unfortunately have the potential for involving us in land wars. I hope it doesn't happen, but they do. And so we're going to need a strong Army, even if we make some modest reallocations.

MR. O'HANLON: So one more question from me for each of you and then I'll go to audience questions, of which we have a number. But I wanted to invite you both to add onto what you just said about how to spend any shift of resources. And part of the reason I'm curious is because I think it's still essentially standing aspirational policy on behalf of both the Navy and the Air Force just to get a lot bigger. So the Navy has had a 355 ship goal going back to the Obama administration. Trump administration may have disagreed with President Obama on a lot of things, but they kept that. And then at the very end, Mark Esper, who I thought was a very good Secretary of Defense, but he gave a speech in which he basically said let's keep the 355 and then let's add on top of that all the sort of unmanned robotic kinds of ships and maybe we get a 500 ship Navy if you count all that stuff, but let's keep the 355 of the traditional ships as sort of our base. I maybe slightly mis-portraying or simplifying his speech, but I think that's essentially what he said.

Meanwhile, the Air Force, having watched how well the Navy has always done with these goals of 600 ships under Reagan or 355 ships under Obama and Trump, decided to get in the same game. And a few years ago they said we want to start counting our Air Force in terms of squadrons. And we've got 312 today and we want to have 386, which sounded suspiciously like the same percentage increase as the Navy's percentage aspiration for growing its fleet.

Now, the Air Force hasn't talked quite as much as 386 squadrons in the last couple of years, at least to my ear. And we've gotten into sort of joint all domain command and control. And there's always some new acronym and some new initiative.

But I wanted to invite to both of you to offer any guidance you might want to suggest to the Air Force, the Navy, the Congress, and everyone about how to spend any additional dollars they might get out of this potential inter service bloodletting, as General Milley so colorfully put it, Caitlin.

So if I could start with you, Caitlin, any advice for the services on how to spend more

resources?

MS. TALMADGE: Sure. Well, I think it isn't just a service decision, right. I mean these are political decisions and some of this I think has got to come from civilian political leaders inside and outside the department and what changes they want to make.

For me personally, I do think there needs to be inter service reallocation. I think we should be spending probably less on our ground forces, more on our naval, and to some extent our air forces. I think Bob's point that you draw down your land forces and find yourself in a land war and then you could look kind of foolish is spot on because that has happened to us. But I'd also point out that we actually don't just —— big land wars don't just fall from the sky, right. Those are political decisions that in many cases are deliberately made by elected leaders. In some cases they have more leeway than others, but at least one of the big land wars that we fought after the 1990s and the period that Bob was talking about, in 2003, was a war of choice, the war in Iraq. And I think part of the test of political leaders in this period where we probably are going to be seeing flat or declining defense budgets, given the non defense spending priorities that we heard the president outline last night, is the political discipline to stay out of conflicts that don't contribute to a grand strategy that is about competing with revisionist powers, and especially competing with China.

So I agree with you, Bob, that if we're not going to be disciplined about that then we're going to have some nasty surprises in store if we cut Army end strength and then decide to fight a bunch of land conflicts. But if we could have the political discipline not to do that, then I would say, yeah, we should be spending more on naval and air forces. We don't want to cut our ground forces to the bone, but if we want to actually build all those ships that Secretary Esper was talking about —— and I think he was right, that like we do need more autonomous distributed naval platforms. I think a lot of the capital ships that we've come to associate with naval power over the last 80 years are not going to be survivable in the operating environment that we're going to encounter in places like the Western Pacific in the future. And so we need to be having probably more ships, more autonomous ships.

And I think we also frankly need to be going like Sebastian the Crab in the Little Mermaid,

under the sea. I mean I think the under sea domain is where the U.S. can really remain dominant. I think it's likely to be the most survivable set of platforms. And so we probably need to be building more attack subs. And I think that debate about what the right allocation is within the Navy is to be had, but I think shifting from ground to naval and air to some extent, and then within the Navy really thinking about which domains are most survivable for future naval forces. I think the era of big carriers being the main tool of power projection, I'm not confident that that's really going to be the ticket going forward.

But I'd be interested in thoughts from you two as well.

MR. O'HANLON: Well, as we shift over to Bob I want to congratulate you. I've never heard Sebastian brought into a defense budget discussion before. But that just goes to show you're doing multiple things, including raising young kids. And more power to you.

Bob, over to you for the same question.

MR. HALE: So I'd offer two answers to how they ought to spend the money, and one we've talked about a lot, but it's so important it bears reiterating. And that is we need to find some ways to bring technology to bear in ways that actually do something, not just develop the technology. I mean is it betting on a battlefield command system that is based on artificial intelligence, is it the Navy, which I think they're trying to do, installing readiness indicators on their ships, kind of like commercial airlines have that are constantly reporting back to headquarters how the plane is functioning — perhaps you can do the same with the Navy — hypersonics, 5G, all these technologies. We need to find a way to bring them to bear.

I'm probably not smart enough to do it, but I think there are people in the Department of Defense, DARPA, and others than can and they should.

Let me go to another topic though that's more geared to my heart as a comptroller, and that is this Department needs to look for ways to control its operating and support costs. They're eating the budgetary lunch of the Department of Defense. I think the operation and maintenance budget, the day-to-day budget for operations is like 40% of the whole budget now. It's enormous. We've seen major problems with the operating and support costs of the F35, which are quite high and are going to strain the

ability of the department to get the most out of that aircraft.

We need to work to figure out how to hold those costs down. And you can't do it after the plane is fully designed — at least you can't do it effectively. You can do it a little on the margins. It needs to happen during the design of new weapons when we're actively thinking about operating and support costs. And I fear it is still the case that the major concern at that point is the acquisition costs so they can get the thing into acquisition. And they're not making the tradeoffs they need to avoid the sort of problems that we're having with the F35.

So R&D for sure. They need to place some actual bets and I'd like to see the department pay more attention to holding down future operating and support costs.

Mike, I think you're on mute.

MR. O'HANLON: Yeah, thank you. That leads to the first audience question, which is a little bit of a spring off from that same point you just made, Bob, which is about the overall operation and maintenance accounts and the OCO account, the Overseas Contingency Operation account, and whether we should be trying to — you already answered — whether we should be trying to reduce these, but not only in terms of finding weapons that are more economical to maintain, but also potentially lowering our emphasis on near-term readiness in order to improve our ability to modernize for the future.

Now, right now we sort of can have it all because we have a big defense budget, but what if that budget really does come under severe strain in the years to come? Do we have to make a little bit of a tradeoff between readiness and modernization? Near-term preparedness versus longer-term preparedness?

Bob, do you want start with that one and then go to Caitlin.

MR. HALE: So I think the key to success in an effective defense budget is balance. You really do need to have a reasonable level of readiness so your people are trained. And you can't know where they're going to have to be, so you can't go too far away from that. But you also have to be modernized in first developing new weapons, hopefully that are a little cheaper to operate, and rely on some new technologies. Then actually going into procurement and buying some of them.

My gut feel is that because of the readiness demands of our counter-terrorism commitments in the last decade, we probably erred on the side of a little more readiness and not enough procurement, or at least not enough procurement to modernize this force. So there will be a small OCO windfall, if you want, as we get out of Afghanistan — probably $15-20 million that are closely tied to Afghanistan that will be freed up and I would hope will go back into the base budget, so the department should be able to reallocate them. And I would hope some of that at least will go into procurement, because I think it's an area that needs to be beefed up in this defense budget.

Caitlin?

MR. O'HANLON: Caitlin, please.

MS. TALMADGE: I largely agree. I don't have too much to add. I mean think it is about balance. And I think — you know, I think the group of officials that's working on these issues at the Pentagon is a sharp team. I think they are studying these questions and I think they're very aware of these tradeoffs. We don't know exactly where they're going to come down on them yet, but I think they're aware of it. And like this is — you know, that is kind of the question of where that balance lies.

One thing I would just note, and I think, Mike, this kind of goes to some of the point you were asking about earlier about is — I took the subtext of your question to sort of be is the consensus about China right, you know, are we — we really want to not — aggressive is the wrong word, but do we really want to be in a confrontation with China? And I think we, as I said, want to communicate to them that the costs of conflict are going to be high for them, but at the same time I think if we have good political management of the relationship there may be some ways to lower the temperate such that we don't have to be on a hair trigger in terms of readiness at all times. I mean, again, like what ends up sending you into war? Often that's a political decision. If you have political discipline about those things, if you have political management of the relationship, you may be able to feel more confident in diverting some of your resources to the things Bob is talking about, the longer-term investments, procurement, instead of everything being about today's crisis and today's conflict.

MR. O'HANLON: There's a question about public-private partnerships. And this could be

in regard to logistics and housing or anything else. It could even be in regard to military health reform. I wanted to ask if either one of you sees opportunity there beyond, you know, just the general principle that this is a nice thing to do what we can and the private sector always has things to teach the government. But do you see big opportunities?

And maybe again starting with you Bob, please.

MR. HALE: Well, you know, I'm afraid they've been stained somewhat on their reputation because of the problems we've had with military housing. It was a major public-private partnership, which I thought at the time was a good idea because we just didn't have the money to modernize that housing. But unfortunately, I guess for contractual reasons, others I may not fully understand, it didn't work out as well as we'd hoped and there have been significant problems.

Let me mention a form of public-private partnership though that may be more germane right now. I mean we are seriously considering infrastructure improvements in the nation as a whole. I think one of the interesting things you said, Caitlin, because I listen to that speech by Biden last night and thought well, there wasn't too much here for defense, it was mainly a non-defense speech, and it was, but there was a lot of other things like infrastructure (inaudible). It was a good — it was insightful.

You know, if we do move toward funding infrastructure, which we need to do, I hope the department tries to hook its star — or its wagon to this horse, it may be a road too far to get any of that money actually spent on base, where there are major infrastructure problems, and they would certainly benefit probably from public-private partnerships in fixing them, but DOD would have to provide the money. But even if they can't get on base money spent, how about encouraging the communities around these bases, which are often very supportive of the base and which also have infrastructure problems, including infrastructure leaving the base, to try to spend some of their infrastructure dollars fixing that up. I think here's an opportunity here for defense, and I hope that they're watching as this debate unfolds and are prepared to try to fix some of their infrastructure problems as we move to doing that for the nation as a whole.

MR. O'HANLON: Great.

Caitlin, any thoughts?

MS. TALMADGE: I have to be honest, like I don't — this isn't an area I specialize in. I don't have any specific suggestions. I think Bob's point is a good one.

The one general point I would make is I think, to the remark that Bob made about how sometimes these efforts end up as disappointing, I think politically there's always an impulse to want to turn to the private sector, turn to market based solutions, try to get the government to be more like a business and so forth. And for some reasons that Bob points out in his paper, that's often just very, very difficult to do because the outputs that you're looking for are very different from kind of the profit loss that drives behavior in markets.

And so I'm all for exploring them, but I think often they end up as disappointing for that reason.

MR. O'HANLON: A follow on question is to what extent should we be trying to enlarge the universe of private sector players who are involved in DOD modernization? And I'm thinking of Silicon Valley, I'm thinking of the left coast, I'm thinking of the high technology supple and flexible response, Bob, that you say we need to get better at. And I've had events on this issue going back many years with Mac Thornberry and John McCain and Bill Lynn and Frank Kendall and others about how to use other transactional authority and various devices to access more of the nontraditional defense industry in this country.

Are there really opportunities there, or is it just sort of in the just too hard category?

Maybe Caitlin and then Bob on this one.

MS. TALMADGE: Well, I have kind of same the same reaction. Like I think it's always worth pursuing because a lot of the problems — I don't want to overstate kind of the technological piece of the competition with China, but I think it's really significant. I mean I think some of the platforms, for instance, that we're going to probably want to have in the future naval and air operating environment versus China are going to depend on technological advances that we either typically I think might benefit from accessing in a private sector. Or in the government we tend to develop by having programs that try

to mimic private sector operations, right. So giving them more autonomy from the acquisition process than they often have, or in some of the ways that Bob suggested, kind of giving them more budget flexibility so that they can change, depending on technological developments or kind of rapidly adapt faster than a budget cycle would allow.

So I think if there are ways to make that an attractive collaboration for private sector actors, or if there are ways within the government to create programs that maybe have some of that autonomy so that they can attract more talent, be more autonomous kind of in innovating, that's a good thing. I think we're going to need that, but it's hard to do. We've I think seen it founder in a number of cases on these same — you know, it's kind of the same answer to your question. Like it's just — this is hard for the government to do. The government is not really designed to have quick processes. It's sort of like schedule, cost, and performance — pick two. That's all you get, you know, so.

MR. O'HANLON: Right, right.

MS. TALMADGE: We have this battle over and over again. (Laughing)

MR. O'HANLON: Exactly. Thank you.

Bob, any thoughts on the same question?

MR. HALE: Well, yes. I mean we've done a lot. As Carter created Defense Innovation Units to try to harness the private sector and the head of them is now been nominated to head into government in the acquisition area in defense. The Trump administration significantly increased the RDT&E budget, so there's a good deal more money there. If I was picking one thing — and I'm humble here, this is not an area where I have expertise — I would certainly be looking to people like Frank Kendall, who has been nominated to be the Air Force secretary, and I think will be a great one if he is confirmed — but we need go place some bets on some major technology improvements. We need Congress to allow DOD some more flexibility. It's one of the themes of my paper to manage those. We also have to try some of this stuff. And I'm not sure what it ought to be, but I think if we did that it would bring the private sector. They'd be more involved because there would be more money available, there would be something actually to create and deploy. And then there would have to be hardware where

these may well be software fixes in artificial intelligence, for example.

So I like to see the department, and they've said they want to do this. Secretary Austin has said this. Actually place some bets. And I'll be interested to see if there are any bets placed in the fiscal '22 budget we're going to see in a few weeks, but I understand they need some time to think them through. It may be the 23 to 27 I guess program that we'll see in a year.

MR. O'HANLON: And that leads to another question from the audience about software and whether we need a dedicated pot of money to focus more intently on software, whether it's repairing vulnerabilities, the way the Defense Science reporter wrote about in our nuclear forces and elsewhere, whether it is artificial intelligence related, you know, and more often sort of related, or is it best just to keep this in mind, but not necessarily change process or change pots and pools of money.

Bob?

MR. HALE: Well, I'll take a shot at that.

I mean we need a change in the process in the sense that I believe we need to budget in some broader categories and then for the Congress to permit the department some flexibility in moving that money around in execution to reflect what they're learning from projects, but also new technology.

But right now that flexibility, especially in the RDT&E accounts, is very limited. You really have to reprogram, and that's a cumbersome process, in order to move money between line items. We have a little more authority in the operation and maintenance budget. And I'd like to see the RDT&E and procurement budgets move more toward the O&M side with somewhat broader categories of funding, some authority to move from within. Congress could keep control by say asking for a notification before those changes are made for 30 days ahead so they'd have a chance to know what's going on.

But we need to move toward more flexibility if we're going to accommodate technological innovation that moves at a heck of a lot faster pace that PPBES is every going to be able to move.

MR. O'HANLON: Caitlin?

MS. TALMADGE: Sure. So I mean I think software is super important. I think that's kind of obvious and 53 its just more and more integral to kind of every aspect of military capability. To my

mind, I'm not sure that it really makes a huge difference how exactly it's allocated. Whether that's its own new function on category or whether you're just recognizing it as a priority that's attached to the existing programs. I thinks, I think the key, as Bob points out, is really having some flexibility.

I would just note though that I think what Bob descried as the inefficiencies and the inflexibilities that are introduced by the defense budgeting process, we say that's a bug, I think Congress would say that's a feature, right. And they are kind of built into the process for a reason. I think the way that in the past we've overcome instances where our defense budgeting processes were too inflexible to accommodate really pressing military needs was by generating a political consensus that Congress needed to give some of that authority over to DOD or to specific programs to really have that flexibility.

And so while on the one hand it sounds like it's just a process issue, like you need a budget reform to X, Y, or Z. I think the way that you actually can get people on board with that is to kind of make the case for why this flexibility is needed, why these processes move faster than the budget cycles.

And, Bob, your paper I think very much gets to that, but this might be something the administration, if they're going to follow up on your recommendation, wants to think about, not just pitching in as a budget reform, but really pitching the substantive motivation. Why is it worth it for Congress to give up some of its — you know, essentially it's oversight, it's power to veto particular things that the Pentagon is doing. What's the return that they can expect on that and why is that important? That's really ultimately like a political and substantive case that I think has to be made and then the process can follow from it.

MR. O'HANLON: Excellent.

So one last question, and I'm going to wrap a couple of pieces that are still in the chat into this last one, give you each a chance to pick and choose where you may want to respond, and any final thought if you're looking to make a concluding statement as well as part of your answer.

So three specific issues that are still unaddressed and I haven't put before you yet. One, we haven't really talked about spending on people. And I take it to imply that we're probably in a pretty

good place in terms of benefits, in terms of healthcare, and also that there may be no big opportunities for reforms in the military healthcare system that would yield huge sums of money. I'm sure there are modest savings and reforms, but the implication of some of the conversation so far might be that the military personnel budget is sort of okay and doesn't need to be dramatically changed. Is that a fair assumption?

Second question is about BRAC, and you touches on bases a minute ago, but should we have another round of base realignment and closure, building on the five previous rounds. Many people would say yes, but many others would say is it really worth the money if all we're going to save once we're done a couple of billion a year and we've got to have these huge food fights in Congress. And we're at the point now where a couple of billion dollars a year is sort of a rounding error in the defense budget. Is it really even worth the trouble, especially because maybe someday we'll need more bases if we have to grow the military. So BRAC.

And then the final question — and, Bob, you know we're not going to get through an hour with a discussion with the former Comptroller of DOD without mentioning the word audit. And so someone in the audience definitely wants to know how DOD is coming along at being auditable and just how much of a problem it is that DOD is not so far auditable, at least not at a comprehensive global level?

And so maybe, Caitlin, I'll start with you. Pick one or two of those questions if you wish and then we'll go to Bob to finish up.

MS. TALMADGE: Sure. I mean I largely agree with your intuition. I think that major changes in personnel is probably not going to yield a lot in terms of savings or improving military effectiveness.

On the BRAC question, I mean I guess my reaction to it is it seemed like something that could use up a lot of political capital and not necessarily yield really big savings. Maybe the threat of a BRAC can be useful I think maybe for getting some other priorities taken care of. But I don't see those as areas that I — you know, if I were an incoming official that I would be focused on. I mean I think we've got — just to pan out, I mean I know that this is a panel about defense and the defense budget, but I think

the speech last night — again, I hate to come back to it — but I think it did point out that these debates are occurring in a much larger context where we've had a pandemic and our economy is — you know, we had 40 million people unemployed around this time last year. You know, we've got — and we've got China hanging out here and Russia and North Korea and Iran, all of which were mentioned in the speech last night.

And we've just I think got to keep our eye on the ball in terms of the procurement investments and really trying to build consensus around the strategic priorities in the defense budget. And so some of these other things I think you might get a little bit of savings, but the big changes that you need, particularly inter service and intra service reallocation of resources. I think the way you get those is a political consensus about the threat environment. And that's what I personally would focus on.

MR. O'HANLON: Thank you very much.

And, Bob, over to you to wrap up please.

MR. HALE: So personnel are key to the Department of Defense. I think we always to be looking at our personnel budgets, how well they are doing, and allow us to recruit and retain the people we need. Right now they're doing quite well in that regard. So you can keep that in mind as you set pay raises and adjust bonuses. And we do that at least some extent, but it needs to be an ongoing process.

Let me defend BRAC. And as a comptroller I find it a little upsetting that $2-3 billion a rounding error. I understand the point in a $700 billion budget, but these savings, if they were allowed, would be true efficiency as we would not give up any capability. And so it's not mainly probably operating bases that would be affected, it's a lot of depots and other support activities. And $2 or $3 billion of savings in perpetuity I think is worth considering.

That said, I'm not politically naive. The U.S. Congress has been adamant in saying it is not going to allow this. I think that's unfortunate because we are really wasting the public's money, but if I were in DOD I might question whether or not it's worth taking this on unless I could find some key members who are willing to support it.

And finally the infamous audit, the audit odyssey. So, look, I won't spend a lot of time on

this other than to say that I tried some different approaches when I was comptroller. Defense has broadened the audit. It's quite expensive now at $1 billion a year. But I believe the Department of Defense must continue to try to achieve, and eventually achieve, auditable financial statements. One, it will improve the way they do business financially, but two, and equally more important, maybe more in my mind, is public relations — and public confidence is a better words. I mean I just don't think the public is ever going to really believe defense is a reasonable steward of their money if they can't do what every public activity organization has to do, and that is pass an independent audit.

So I think they've got to keep doing it. They ought to look for ways to hold down the money. But they've got to keep trying.

MR. O'HANLON: Fantastic you two. What a fun conversation when it's about PPBES and the defense budget. Fascinating, invigorating, and obviously strategically important as well. So really grateful to both of you. Everybody has been part of this, thank you as well. And please check out Bob's paper at Brookings.edu. Please check out Caitlin's writing at International Security Magazine as well as elsewhere.

And we wish you all the very best. By the way, next week, Friday the 7, we will have another Brookings event with Admiral Richard talking about, among other things, the GBSD, Ground Based Strategic Deterrent and nuclear weapons issue.

So thanks to all of you for being with us today. And, Bob and Caitlin, especially you two.

Signing off now from Brookings.

MS. TALMADGE: Thank you.

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