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HOW MUCH MONEY FOR DEFENSE IS ENOUGH?

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WESSEL: Good morning. I'm David Wessel, director of the Hutchins Center on Fiscal and Monetary Policy here at Brookings. I want to welcome everybody to our event today. What are we calling this? "How much money for defense is enough?" This event began with a call I got from someone I respect who said to me simply, "How do we decide how much money the U.S. should spend on defense?" Now, I know a bit about the federal budget, but I have to confess, I'm a lot more comfortable talking about things like Social Security, the Low-Income Home Energy Assistance Program, the Opportunity Zone tax incentive, the State and Local Tax Deduction than I am about the defense budget. So, I called Mike O'Hanlon, my colleague here at Brookings, and I put the question to him, how much should the U.S. spend on defense? And Mike said, "Well, funny you ask, I just finished a 20,000-word answer to that question." So here we are. And you can read all 20,000 words on our website. But I prom-- he's promised me he won't try and read them all to you today.

I want to start today with a question that I can answer. How much does the U.S. spend on defense? So, Dan, can we get the first slide up? The short answer is we spend a lot on defense. There are lots of ways to measure this, but let's start with a few basics. This is a pie chart that shows how we spent the federal budget in the last fiscal year. We spent about \$900 billion on defense, roughly one out of every eight dollars in government spending, or 12% of all federal spending. And you can see here that the biggest slice of the budget is, of course, mandatory spending or entitlements, benefits like Social Security and Medicare, and that is a growing part of the federal budget. But that defense slice is pretty big, particularly when you compare it to the non-defense discretionary budget, which is funding all the things that we talk about the federal government does: national parks, grants to state, local governments and so forth. But even though it's only 12% of the budget, it's pretty big. The Department of Defense buys more goods, services, and software than all other federal government agencies combined.

The Department of Defense employs about 2.2 million people, uniform and civilians. That's substantially more than all the other executive branch agencies combined, their workforces about one and a half million, and something I learned in prepping for this, one-third of all civilian federal employees are employed by the Department of Defense. In fact, some people's tally says that we spend more on defense than the next, or as much on defense as the next ten countries combined: China, Russia, India, Saudi Arabia, the U.K., Germany, and so forth. Though Mike tells me that that sort of calculation may understate how much the Chinese spend on defense. They don't exactly have

an OMB-style table to tell us about function 0-5-0. But another way to look at the defense budget is to look at what we spent over history. This is a CBO chart that shows historical funding for defense in real terms, inflation-adjusted terms, and it shows what CBO projects will spend based on the Department of Defense's base budget. That green line is what Congress does. They say we have so much for the base budget, and then if we have a war like in Afghanistan or Ukraine, they put that on top, so it doesn't get built into the base, although I think it often does. But, mostly the point here is that you can see that defense is expected to rise in real terms over the next decade as Michael defends.

Travis Sharp was one of our speakers today, says the trend of generally rising defense spending represents one area where Washington policymakers of both parties keep finding ways to agree. And in fact, when you listen to the congressional debate, it seems to be should we spend more or less on non-defense discretionary or how much more should we spend on defense in real terms? Another way to measure the defense budget, though, is to look at as a share of GDP, is kind of how much of our, how much effort do we put into the defense budget. And of course, the chart looks a little different here. This is defense spending as a share of GDP. It was very high during the Vietnam War for obvious reasons. It's gone up and down with wars, and it's now about 3% of GDP. That's an interesting number because we keep telling our allies they have to spend at least 2% of GDP. So, Mike's going to talk about this all more in detail. And Dan, you can turn off the slides.

Let me explain to you a little bit about the order of the program today. Mike is going to give about a 15-minute presentation of his paper on this. Mike is a man of many titles, but most relevant to this one is he's the Philip Knight chair in defense and strategy and director of the Strobe Talbott Center on Security Strategy and Tech Technology Technology in our Foreign Policy program. Mike has been here at Brookings for nearly 30 years. He has a Ph.D. from Princeton in public and international affairs. After Mike speaks, I'm going to be joined up here on the panel with two other experts on defense spending: Mackenzie Eaglen was a senior fellow at the American Enterprise Institute and has had a variety of jobs and roles advising the Pentagon and members of Congress on defense spending. She has a graduate degree in foreign service from Georgetown. And also, will be Travis Sharp, who's a senior fellow at the Center for Strategic and Budgetary Assessment, where he's been for five years. Travis is also a lieutenant commander in the Naval Reserve. He too, is a Ph.D. from Princeton. His is in security studies, which he got in 2020. So, with that, I'm going to turn the podium over to Mike and I'll be back after his presentation. Thank you.

O'HANLON: Thank you, David. Good morning, everyone. It's really nice to have you here. And I'm going to try to spend 15 minutes making the defense budget accessible to those of you who don't think about it full time, like Mackenzie and Travis and I, and also set up a conversation about how much is enough, to quote the famous book from the two whiz kids of the 1960s who wrote a book with that title. And of course, David's already captured the yin and yang about how to think about this. On the one hand, our military budget is enormous, almost a trillion dollars, almost 900 billion anyway, and that doesn't count veterans benefits and it doesn't count homeland security. It's a lot of money, and it's substantially more than the Cold War average, even after adjusting for inflation. It's substantially more than the peak from the Cold War. You can believe that. On the other hand, as his last chart showed, it's only a little more than 3% of GDP. And as Mackenzie and I were observing just a moment ago, and David showed his pie chart of federal spending, 12% of the federal budget is a lot, but it's also a lot less than it used to be.

In the early years after World War II, even after World War II when we downsized but we're in the Cold War, we were spending about half our federal budget, half of the federal budget on the military. And so, it really is entitlements that jumps out at those of us who do defense and foreign policy quite often. And probably a lot of you when you see that chart as the big enchilada. So, I come at this from, as I say, the perspective of a cheap hawk. It's my, my paper is called "How to be a Cheap Hawk in the 2020s." Those of you who have been around a while and remember old Newt Gingrich when he was speaker after the Republicans had taken Congress in 1994, and Gingrich really wanted a downsized government, someone asked him, "Well, how does that square with you being a hawk? You know, with you being sort of part of the legacy of the Reagan revolution and, you know, a loyal apostle of President Reagan who had only left office a few years before at that point." And Gingrich said, "Well, I'm a hawk, but I'm a cheap hawk, and I'm not really of the same political persuasion as Newt Gingrich in general. But on this point, philosophically, I'm sort of in the same boat." So, what I'd like to do today is talk to you a little bit about how to be a cheap hawk. In other words, what I'm trying to do is spend enough to make sure that, at least based on my analyses, we are in a robust position in a very troubled time in global politics with a lot of challenges around the world. And yet trying to minimize the burden on the taxpayer and also viewing the overall size of the deficit and the debt as long-term national security challenges unto themselves.

Now, the Defense Department can't solve that problem. And I'm a little bit concerned about our politics that always come back to the discretionary accounts — the so-called discretionary accounts — which are only a third of the federal budget together, defense and domestic, and try to put pressure on those to reduce spending, while we leave entitlements alone and essentially leave the revenue issue alone. That won't work. But nonetheless, at a time of fiscal distress and challenge to our country's long-term economic foundations, I do think, for me at least, it's better to be a cheap hawk than to essentially bless each and every Pentagon request. So that's the philosophy that I'm coming from.

When you think about how to build a defense strategy, I think we should begin with this question. I think it's part of why David wanted to have this event because I think he wanted to think from first principles. If you're a generalist thinking about our role in the world and our military posture, how do you even understand the basic conceptual drivers of a \$850 billion-a-year national defense program? And a military that it's not huge by historical standards or even by current international standards, 1.3 million active duty, about 2.1 million total employees when you count civilians, as David said. Even if you add in all the reservists and guardsmen and guardswomen we're up to about 3 million. And that's small compared to our Cold War average. That's small even compared to China today. It's not even that big compared to India or North Korea, for that matter.

So, it's a defense establishment that's fairly small in size yet being asked to do a lot. So, what is it being asked to do? Well, let me briefly speak to that question. When you think about building a military strategy and a force posture, I think you have to consider who might fight against you, who might fight with you, how many of these kinds of fights or wars do you have to be ready for at a given moment, and with what degree of readiness in advance? And then finally, what does the war look like, and what is an adequate margin of insurance or safety in terms of your confidence level that you could win that war? With the ultimate goal, of course, being that we want to deter the war. We want to convince our would-be adversaries' it's not worth the fight against us. So, Mackenzie has used, coined this phrase when she talks about preparing for war: We want to be strong enough that if we wind up in conflict, our troops live and the enemy dies. When she says it, it sounds better, with that light Georgia drawl, and maybe you'll hear that in a few minutes.

But the the core point for me is you want to have enough military capability and credibility to fight. That we will prevent the wars from happening in the first place. We're at a point in our national

defense strategy where China and Russia have become our top concerns for planning. Heaven forbid we actually fight them. We have to now go back to the old Bernard Brody line that the purpose of military forces in the future must largely be to prevent war from happening. Now, ideally, that would always be true, but it's especially true when you're dealing with a nuclear-armed superpower. So, when you think about these kinds of general principles for defense planning, who might you fight, or against who might you fight? Who would fight with you? How many wars at a time? And what does the war look like? What margin of insurance or advantage or overmatch do you seek so that the enemy will hopefully not want to fight you in the first place? What I would say to those of you who think we spend too much on the military, what I would submit to you is we already have a fairly modest and minimal set of standards for how to define the answers to those questions.

So ever since Jim Mattis's National Defense Strategy of 2018 and continued now with Secretary Austin's of 2022, we're only planning to fight one war at a time. For a long time through the Cold War and after, at least we hypothetically envision being able to fight two at a time. And the goal was to make sure that if we get involved in one war someplace, no aggressor sees a window of opportunity or a weakening of deterrence elsewhere. So, you want to prevent opportunistic aggressors from seizing on the fact that you're already engaged in one place and attacking you at the same time. That's a nice standard to have. It gives an extra margin of insurance. It also gives you an extra margin in case you were wrong about how many forces would be required to win a given conflict. And by the way, we're always wrong about that because military planning is an imperfect enterprise.

So back in the Bush administration years, the first Bush administration, that administration thought that defeating Saddam Hussein might take five to ten times as much pain, suffering, and American casualties as it did. So luckily in that case, we exaggerated or overemphasized or over-inflated our best prognostications of what the war would look like. The second Bush administration made exactly the opposite problem. But what I'm trying to convey is not a political point about agendas, it's more a point about military planning. That in military planning, if you get it even within 25 to 50% of the ballpark of what you think you need to win a war, and that turns out to be validated by events, that's about as accurate as you're going to be. So the two-war capability gives you an extra margin of error. And that was a nice thing to have when we could do it when the Iraqs and North Korea were our chief concerns, wound up being harder to defeat even the Taliban and ISIS and al

Qaeda and the Iraqi resistance than we thought. And we did not have complete success even against those much more limited capabilities or foes. But today, we plan on being able to defeat either Russia or China, not both at the same time. And by the way, if we do wind up fighting Russia or China, we don't assume that North Korea will try to attack at that same moment. We want to maintain some limited deterrence against them on the peninsula, but otherwise not assume an additional conflict, and similarly with Iran. So, we're only assuming one big war at a time as a planning framework for our military.

We're gonna have a little bit of a debate in a few minutes about how much is enough to sustain that strategy, but I think it's worth just dwelling a little bit on the fact that that is a fairly modest set of planning criteria for what a superpower with 60 allies around the world really needs to have. And also, we've just seen a period of two decades of conflict, in which the United States did fight two wars at the same time. And not a very good job when we had to do both simultaneously, against much lesser foes than we're talking about today. So that's the framework. Let me now if I could, ask my colleague Alejandra to call up a few slides. I'm gonna give you a little bit of background on the defense budget and then try to race through just a couple of additional points before our conversation on stage. I'm gonna pick up where David left off with one of his graphs, which is again to remind you in historical perspective of where we are today. We're below the peak of the Iraq and Afghanistan conflicts in the size of the U.S. defense budget, once you adjust for inflation. But we are well above the Cold War peaks. But of course, this doesn't really answer any bottom-line question because dollars don't fight dollars on the battlefield. Dollars buy capabilities that hopefully then are adequate to win wars or at least deter them. And so, that's my first graphic just to remind you about where we are.

There was a mini build-up in the Trump years, as you can see. Not so many, but shorter than certainly the buildup we had after 9/11 or the buildup we had during the Vietnam conflict, or the Reagan peacetime build-up of the 1980s. And you can see those Cold War numbers typically ranged between about 500 billion a year and 700, 750 billion a year. If I could have the next slide, please. Just to give you a little bit of sense of this international perspective, David mentioned that depending on how you count it we spend more than the next six, eight, ten countries combined. Again, that's not really the ultimate question, but it is worth knowing as a matter of input who's putting resources into their militaries. And there is some good news if you put our defense budget in global perspective. I know this is a little hard to read. What I'll just tell you is that the United States on this graph a couple

of years ago was spending about 38% of the world's total of all expenditures on armed forces. Then our allies, our NATO allies, added in another 17% so that all of NATO combined is 56% of world military spending. Now that's good news and bad news. It's good news in the sense we have a lot of rich allies who are spending a lot on their military. But many have not been spending it very well, many are not spending as much as we think they should. And by the way, they all represent obligations, because now we have to have a big enough strong enough American military to defend all of them. So, it's not just that their defense budgets add to our own, but their territorial protection becomes our burden as well, as if it were American soil. That's what NATO's Article Five mutual defense pact really means.

So, I want you to have just some sense of resource allocation. We go to the next chart, it's going to continue this. Now, all of our other allies around the world add another 12% of total world military spending. So, the U.S.-led coalition, if you will, of NATO allies, Asian allies, other major security partners, including in the Middle East, represents about 68% of all world military spending. That should give us some confidence that we're in a pretty strong position, but it should not give us any kind of overconfidence for the very reason that most of the conflicts we might fight would be near adversaries own soil. And also again, dollars don't fight dollars. You don't have to have a defense budget anywhere near the size of the United States and its allies to defeat us. Just ask the Taliban. They just won a war against us with the defense budget of their own, or a military budget of their own, probably somewhere in the range of 1/1000 of ours. So, I want you to know and see these inputs, but not to think that they are conclusive analyses or predictions of outcomes in any hypothetical conflict.

If I can now go to the next slide, please. Just a couple more and I'm going to make some general points that we can go fast there. But this, yeah this is just giving you a sense. Mackenzie and I were also talking on the sidelines that \$240 billion dollar estimate of China's military budget is highly debated and is uncertain by probably plus or minus 50%. In other words, it could probably be well into the 300 billion range when you convert. AEI has done a study saying it could be even higher than that. But it's somewhere between, to my best estimate, one-third and one-half of American military spending. Easily the second biggest budget on earth, been doubling every 7 to 10 years, probably will keep doubling every 7 to 10 years. Interestingly, it's less than 2% of China's GDP, but their GDP has become substantial enough. That's still a lot of money. And most of all, the war we worry about fighting against China is near their shore and far from ours. So that's the fundamental reason why,

even though these numbers are important to look at, I don't think they could come anywhere close to being a bottom-line assessment of whether we spend enough on the military.

Couple more, if I could now to break down the granularity of the defense budget and defense budget request. If you're curious about which military services spend the most, at this point it's the Navy and the Air Force. Although bear in mind, the Air Force's budget includes a lot of our intelligence budget. Out of that 850 billion in total U.S. national defense budgeting right now, 100 billion is the intelligence budget, hidden within the Defense Department, sort of hidden in plain sight because the number 100 billion is now public and unclassified. Every other detail about the about the intelligence budget more or less is classified. But about 100 billion of that is overall defense spending. And much of it is in the Air Force to put up satellites and otherwise maintain technical capability. The Navy budget includes the Marine Corps because the Department of the Navy includes the Marine Corps. The Department of the Air Force includes the Space Force, which is tiny, but still expensive given all those satellites. The Army used to be our biggest budget service back when it was bigger and very active in Iraq and Afghanistan. It's now become the smallest of the big three departments. And then a lot of activities have been essentially shared across the whole defense space and represent almost \$150 billion dollars' worth of total spending themselves.

If I go to the next chart, please. And then finally, if you're wondering functionally, how do we spend, this is called the breakdown by by appropriations title. And we spend almost \$200 billion a year on our military personnel, as we should for an all-volunteer force. We spend about \$330 billion on operations and maintenance. The reason the '23 number is higher is that included a lot of the Ukraine money, 330 is probably closer to what it's going to be next year. And then we spend another 300 billion between procurement and research development, test and evaluation, acquiring new weaponry. So out of that \$850 billion, about \$300 billion is investment for the future. The acquisition budget 300 and some billion is operations, which includes, by the way, the civilian salaries, but also equipment repair, training, recruiting many other things. And then finally, almost \$200 billion dollars is for the men and women of the all-volunteer force. So, I think now what I'd like to do in really in closing of this part of the conversation and really just setting the stage for the conversation that will follow. What I'd like you to do is to understand basically how I did my calculation, to argue that we need small real growth in the defense budget above inflation. And therefore, I think that the agreement between Speaker McCarthy and President Biden from last spring, the default avoidance agreement that is now

in some degree of flux and jeopardy as we try to bring Congress back to town and see if they can come up with a budget for 2024. If I think that agreement actually was not quite enough money for the military. My colleagues on stage, or at least one of them may tell you that it's not nearly enough. I think it's about 10 billion too little. And the way I did that calculation was to take the force that the Pentagon believes that we should have for the future, that 1.3 million active-duty military personnel, along with the modernization agenda that we believe is important for deterring China and Russia and improving future capabilities.

Take that budget and then project it out over a ten-year period. Look at what kinds of expectations we should have about costs growing faster than currently budgeted for, what kinds of expectations we should have about weaponry inevitably costing more to build than we think. And by the way, you shouldn't be surprised by that because modernizing weaponry is the same thing as inventing new weaponry. And why would you ever think you could set invention to a schedule or an exact cost? I'm not trying to be a complete defender of each and every program in U.S. defense industry, but as a rule, you should expect costs to grow in some cases for technologies that we don't know how to build when we start the program and we have to figure it out along the way. The process of invention is inevitably nonlinear and unpredictable, so you're going to see some cost growth in that area.

A couple more points I would make in thinking about why I'm a cheap hawk and why it's so hard even for a cheap hawk to find savings in the defense budget. Let me just tick off two or three as I wrap. One is that in the personnel account, we really, this is not a good time to think about whether we can save a whole lot of money on military housing or maybe some benefits or are a little too generous. Generally speaking, we pay our all-volunteer force very well. But you know what? They're doing incredible work. They're being asked to do a lot. They don't make overtime and fewer and fewer people want to join. We have a crisis in recruiting in our all-volunteer force right now, which means one of the next times I'm up here may be a conversation about whether we need to seriously consider the draft. It's getting to that point, so it's not. Before we get to that point, we should protect robust military compensation. I think we owe it to our men and women in uniform and we certainly need to make sure we incentivize people to join the military and stay in the military. Military readiness, as reflected in the operations and maintenance budget. This is already today a difficult and dangerous world. There's the potential for crisis and conflict already today, which means we can't skimp on, on

maintenance. We can't skimp on training. We can't skimp on forward presence abroad. So, it's hard to think of ways you can save a lot of money there. I've got a few specific ideas here and there to save a few hundred million. A couple billion.

My old colleague and boss Bob Hale, who was comptroller at the Pentagon, once said that you know, finding savings in the military budget is hard, but keep trying. That was the title of one of his papers he wrote. And it wasn't a particularly Churchillian phrase, but he was right that you've got to keep looking for the savings. But when you find them, it's usually a couple of hundred million here, a couple hundred million there. It's real money. It's worth stooping down to pick up off the sidewalk, to paraphrase a former senator, but it is not going to solve a dilemma about unmet needs in an \$850 billion enterprise.

And then finally again, procurement RDT and E, I mentioned before, I like to quote Mackenzie. We want our troops not only to be well-compensated but to have the best equipment in the world so that if we fight, they live and our enemy dies. Again, Mackenzie puts it better than I do and I'm quoting here almost exactly. But more importantly, we're at a time when we must be successful in deterrence of Russia and China, rather than fighting it out and figuring out who is better after the fact once the smoke settles and maybe the nuclear mushroom clouds dissipate. We don't want to get to that point. So, I would submit that for contingencies in the Western Pacific over Taiwan, for deterrence of our NATO allies in Eastern Europe, we have to be pretty robust and especially look for vulnerabilities in our current force where China or Russia may perceive an Achilles heel. May perceive they can knock out our, our command, our command and control, knock out our forward bases, knock out our forward deployed combat units. In such a way, they have a window of opportunity to then successfully complete some kind of an aggression in their neighborhood before we can get ourselves back off the mat and come back at them.

So in my, in my paper, I recommend a few savings and a few cuts in certain weapons — and I'll talk about those in the discussion — but, but I also think that there are a few specific vulnerabilities we still have that I want to close as quickly as possible to make sure China and Russia don't see a Pearl Harbor-like opportunity to knock us out of the ballpark for a month or two so they can then complete an aggression. And hoping that we somehow won't have the verve or commitment to build ourselves back up and come back at them. I think that's the most likely way in which deterrence could fail. Not that an enemy thinks they can out-slug us, but they think they can knock us out of the fight

long enough to do their dirty business in their own neighborhoods before we can come and reverse the aggression. We, so we don't want to have those Achilles heels. We don't want to have those vulnerabilities. And I think there are some areas where the Pentagon hasn't yet proposed enough spending to redress some of those concerns. So, I realize this is a big broad picture overview, but we'll get into some of the details I'm sure in the discussion. I look forward to being joined by my colleagues on stage.

WESSEL: Thanks, Mike.

EAGLEN: Great job.

WESSEL: So, I want to start by reading something that Jane Harman and Eric Edelman wrote from the Commission on National Defense Strategy. They said that we understand that fights over the top-line budget are often shorthand for being strong on defense. And while spending more on defense doesn't guarantee we will deter China and roll back Russian aggression, spending less will almost certainly fail. But it is also true that buying incrementally more of the same mix of weapons and technology won't produce the force necessary to meet the challenges posed by an increasingly aggressive China and Russia. More alone isn't better. Better is better. Sort of hard to argue with that. But, with that is sort of a starting text. Mackenzie, do you think that we can meet what you think are the defense needs of the United States with the kind of big-picture budget that Mike is talking about, 1% real growth, over annually, over the next decade or not?

EAGLEN: Thank you for taking me back to grad school this morning, Dave. Since how much is enough? We had to read the book actually, and not just talk about the book. And I think it was basically two years of my life spent answering that question and ever since, alongside this guy, which has been a lot of fun. So, the point, the answer to your question and the answer to the op-ed is, if we lived in a world where you could clean sheet the defense budget, we've more than enough money. We're swimming in money. We're like Scrooge McDuck in this gold coins money. But we don't clean sheet anything, that's not how the budget process works. Every, there's no set baseline either, like for mandatory spending, which they get auto increases with or above inflation every year. There's no debate. There's no discussion in Congress, just money tacked on. And we just do that, because we do that, for what are primarily healthcare programs. But the defense budget has no sort of pre-established baseline. It's kind of what did the president say? You know OMB deciding, it's a little bit based, sometimes linked to strategy, sometimes more or less than other times. But it's really much

like your Pac-Man chart, as I'll call it Dave, which was great on the federal budget, kind of where the dollars go essentially on the mandatory side, the House I call the Pac-Man, the blue that you had. You know, those are essentially healthcare programs, for the most part. And within our own defense budget, it looks just like that too. It's just a microcosm of federal spending. It looks like a Pac-Man where you have fenced and fixed and automatic spending, spending that's on autopilot. That doesn't change year over year substantially, unless there's a total fundamental rewrite in our global strategy.

So, for example, two war to a one war. That's like a fundamental redo. There's been attempts at doing this, although it's what we tend to do more often is the chip away strategy where we just slowly cut to meet the reduced diminished top lines. If you could clean sheet a budget, build it from scratch every year, and then have a whiteboard behind you, there's enough money. But that's not the world we live in. It's not how budgeting is with a 535-member board of directors, with a set and strength every year that essentially and now it shrinks and changes slightly each year, but particularly in the recruiting crises that we're having for several years now, different levels of severity by service. But most of the defense budget is not available for strategic choices and changes year over year. It's probably less than 18%. Within that 18 or so to 20%, can you make a lot of changes in shifts and reductions? Sure. There's consequences and there's maybe some benefits. But I just want to present the budget as it is, not as we wish it to be. And we don't start from a whiteboard every year. We start with how they budgeted last year, and we changed from there.

WESSEL: So is 1% real enough or not?

EAGLEN: So CBO's done great work over many years looking at, you know, they put out those, their long-term defense budget reports. And what they find is depending on the major account within defense, operations of maintenance, research and development, whatever. Those accounts tend to exceed inflation by anywhere from 2 to 8% per year. Exceed inflation. So when you have defense budget total growth that's under inflation, then you have what are called underpaid under-budgeted bills. And then you got this cover those spreads with a top line that didn't even meet inflation. So, when you ask me, is 1% above inflation enough? But the typical annual cost growth for the defense budget just to, just to exist on autopilot, is 2% to 8% above inflation, you have to cut to exist. That was Bob Work's line as deputy secretary of defense. Just to maintain the military as it is today. No changes, no strategic thought, no big idea. You have to cut every year to exist. So, is 1%

enough? As long as you're diminishing your global objectives, your mission, your manpower, and your workload.

WESSEL: Hmm. Travis, where are you on this question?

SHARP: I think 1% real growth per year is not enough. I think that somewhere in the range of 1% real growth to 3% real growth is what will be necessary to afford the type of additional investments that Mike outlines as being necessary. I'll just briefly sketch, you know, where that comes from. You know, Mike's paper has a series of spending reductions that are worthy ideas, but the feasibility of implementing some of those proposals I think will be difficult.

Just to focus on the congressional side of things, each year, D.O.D. proposes certain divestments to weapons systems, and each year Congress blocks or limits some of those divestments. So, that means that I think because of constraints on Congress's ability to implement reforms and also on D.O.D.'s ability to implement reforms, the savings that we would get out of some of the proposals in Mike's paper would be less than we would hope for. To put that differently, the expected value of the savings is probably gonna be less than what is theoretically possible. So, since we're going to be able to save less through those types of proposals, in order to invest in the types of things that Mike outlines as being necessary, we're probably going to have to increase the top line. Just one more comment on the the 1 to 3% benchmark that I mentioned. From 2016 to 2023, average real growth in the U.S. defense budget has been 2.5% in real terms. That's when including supplemental funds. So, I think that a 1 to 3% target, given that 2.5% has been the average outcome, is sort of a reasonable projection that reflects some of the agreements that policymakers have been reaching.

WESSEL: So, I'm a little concerned that you guys are conceding defeat before you fought the battle here. If I gave you that same spiel and I said, well, we're stuck with Social Security the way it is, and it's going to run out of money in 2033. So there's no way we're going to cut benefits on old people. So, we just got to find a way to increase the spending on Social Security. Or if I said to you that, well, healthcare runs faster or else faster than everything else, so we need to keep pumping more money into healthcare. I mean, this seems like a dangerous way to run a government budget. Assume that everything that's screwed up will be screwed up forever and find a way to borrow money to pay for it. So, I understand what you're saying Mackenzie, that if we cut the defense budget below 1%, that they would have to make some ugly choices. I kind of wonder like, well, isn't that the point?

How are we ever gonna get an efficient defense budget or an efficient healthcare budget if we don't say, look, you guys got to figure out how to do better with this amount of money. Let's do it.

EAGLEN: I like. So, I'm going to fight the premise of that question, which is that government is efficient. I just, it's not, right? If the Defense Department were a private company, they'd be bankrupt, chapter eleven, sued repeatedly, taken to court. I mean, it just, it's not even.

WESSEL: That's not my question. My question is if you give them a budget constraint, they might have to meet it. And you're saying they take 80% of the spending off the table. And I'm saying like, well, force them not to take it off the table.

EAGLEN: So, right. Okay. So, let me revisit one of the main points I'm making, which I hope answers your question. If I don't, I know you won't let me off the hook. So, I talked about the limited strategic choices a decision maker actually has within that budget, because I think that's really what what's important here to focus on. And so there's basically like eight dials or rheostats, you can move up or move down. If you're the most senior person, you're the SecDef, you're the president, you're OMB head, you're whatever; chairman of this committee. And those range in things from, you know, more great power competition, less mid-tier defense the Irans in North Koreas, or counterinsurgency, counterterrorism. You know, kind of what do you want your military to sort of specialize in more than other skill sets or service or capability? But then you have force size like Mike talked about, readiness, total total dollar spent, and modernization. How modern is it? And of course, military is always a blend of old and new. Enduring legacy and brand-new stuff. So, that's kind of what you're working with in terms of making choices and changes and you're pretty limited. I mean, those are big choices and changes, and they have big dollar tails to them. But really, fundamentally, that's still a fraction of total spending.

Like I said, you want major muscle movements, you have to make major changes to outcomes that you expect the military to achieve. I see the opposite happening, Dave. What I see is, the military is the super Walmart of federal agencies, and it's the easy button that everyone pushes for everything. It's not moving in the direction of do less or be better at the fewer things we want you to do, China-Taiwan scenario, etc. It's actually, the House appropriations bill that just came out was more counter-drug. We have a whole bunch of other federal agencies that are really good at counter-drug but should be doing that. The border. Fentanyl. These are all really important things and I care about them too. I don't want the Defense Department doing these things. And so, I don't see a serious

discussion about sort of like, what do you want them to do, and then I can tell you where I'm going to take the money from. And I could. And Washington can. Absolutely. I'm not saying there's no un-sacrosanct dollar in the defense budget by any sense. I'm just saying we have to be realistic about the outcomes those dollars can then achieve.

WESSEL: Mike, you want to get in this conversation?

O'HANLON: Yeah, just a couple of things I would add, David, because I think, you know, it's, it's an important yin and yang. We always want this tension in the defense budget conversation. And so, some of the specific things that I proposed, which I know that at least a couple of them are not widely supported to my left here today.

EAGLEN: Some are.

O'HANLON: Would, some are, some aren't. would include ideas like, the Navy prefers to operate one crew per ship. And there's a logic to that. And I've never been a sailor, so I don't claim to understand all the details of how every ship, even in a given class, could vary from the other ships in that class. But it still strikes me that we could be more efficient. If we use an idea we already apply with minesweepers and some submarines, and to have a couple of crews work the same ship, You might train in home waters on one ship, then fly across the ocean to meet up with your ship in a port in Korea or Japan, and the crew swap out. I think we should ask the Navy to do more of that. The Navy doesn't want to, culturally and otherwise, it's hard. Logistically, it's hard. But I'm in favor of pushing them to do it. And that's one of the reforms that's in my paper.

Another one, and I know Mackenzie doesn't like this, is that there are a lot of jobs — you go to a headquarters in the Pentagon — there are a lot of jobs that it strikes you. These young strapping men and women in uniform are doing that look like the kind of work I do at Brookings. They're sitting around desks. And why not make some of those jobs into civilian jobs? Where the civilians don't need to go to training, they don't need to have professional military education, they don't go through various kinds of rotations to work their way up. The rank structure and estimates are that there are a number of maybe 300,000 out of the 1.3 million active-duty jobs are essentially like that. And I'm not suggesting all of them be turned into civilian jobs. But, because of the efficiencies of having somebody who doesn't have to do those military-specific tasks involved, you could perhaps cut your workforce by 20% for whatever number of jobs you decide is in that category.

I would like to put pressure on D.O.D. to look for those jobs. I don't know how to calculate exactly the right number, but I have an estimate in my paper. And then one more specific programmatic idea, I think we have a lot of nuclear weapons capability in the United States. And if we ever fight a nuclear war, heaven forbid, we've basically lost before we even know the outcome. On the other hand, we also have now two countries with big nuclear forces that are simultaneously problematic for us. And one of which is willing to throw around its nuclear saber a little bit. So, we've got to find a nuanced approach to nuclear modernization.

I'm in favor of building the B-21 bomber, partly because it also is important for conventional missions, and I think we will use that in the real world for conventional missions. I'm in favor of replacing the submarine force because you've got to keep our sailors safe undersea. But I'm willing to look at things like, do we really need a second place to build new plutonium pits for nuclear weapons down in South Carolina, as we're currently planning to build for the Department of Energy? Do we really need a long-range standoff weapon, a stealthy cruise missile? And can we delay the replacement of the ICBM? That's a closer call, but I think it's worth looking at. So, these are the kinds of proposals I have in my paper. Not none of which are easy to implement. And the sum total of which, as Travis hinted at, if you did all the reforms in my paper, and actually got them through, you're saving maybe \$15 billion a year. Which is a lot of worth saving, but compared to 850, it's a modest percent.

WESSEL: All right. So, lieutenant commander, what's what do you think about this more than one crew per ship thing? And and what else?

SHARP: They keep me on the shore because that's probably safer for everybody involved. So, I think I'll probably steer clear of telling my sea-based colleagues how they should conduct their business. I wanted to say something though, to remind everybody of something that Mike said in introductory comments.

There's this classic paper by Bob Hale about how to generate efficiencies in the defense budget. And the title of the paper is "Keep Trying, But be Realistic." I think that's a good description of what's happening on stage right now. Mike is emphasizing that we need to keep trying. Mackenzie and I are saying we need to be realistic. But here's why I think this dynamic is so important. I don't think you can realistically hope to achieve 1 to 3% real growth in the defense budget, of the type that I think is going to be necessary, unless you're actively pursuing the types of reforms that Mike outlines

in his paper. And the logic behind that, I think, is fairly straightforward. How can we in good conscience go to the American taxpayer and ask them to continue investing enormous amounts into defense unless we are demonstrating that we are making efforts to be more efficient? So, you know, the debate has to be about the specifics or some of the program, but the tension between these two impulses is essential to achieving any of our defense objectives.

WESSEL: Yeah. Mackenzie, you made a point in something you wrote that I think you said we've had 14 reform efforts in the last eight Congresses and the Pentagon. Is there any way to change the dynamics so that we don't end up with a situation where, which both you and Travis referred to, is that there are things that should be done that we can't do because the 535 members of the board of directors won't do them. As Travis says, they're buying weapons that the Pentagon doesn't want because Congress wants them. Is there any political economy thing that will change this dynamic, or do you think we just have to live with it?

EAGLEN: Yes, there is actually. I've thought and published a lot on that question. And basically, how I summer up, summarize those reform efforts, broadly spanning almost two decades now, is that zealous reformers or overfocused on how the Pentagon buys things. When of course, now they buy fewer things, and labor and services, and I.T. and technology and software. Weapons systems are increasingly the commodity. So, until reformers start to think differently and broader in scope about what covers reform. And so, similarly, you see flow from that. The kinds of reform ideas that come which focus on one account that for weapons systems, particularly procurement, as opposed to the operations and maintenance of those systems — not you, Mike — or the research and development imbalance, I would argue, between procurement and R and D ratio. And so, once there's a broader scope, of a broader view, of total defense investments and what can be reform reformed, then it opens the aperture.

And here's, but here are my big five takeaways at times for and I wrote about after we convened a group, I think. We had some friends from Brookings involved with kind of looking. We kind of took a scalpel to the defense budget line by line, but then we we took a step back and looked at it with members of Congress and others. And anyway, basically a couple of things on the reform. Serious defense reform is bigger than the purchase and acquisition of things, changing how the Pentagon buys things. That's important to some extent, although I think it's been overperformed and not enough on how it buys other labor, services, software, I.T. But serious defense reform is the

patient work of many years. Can you cut this weapon system and be like, yeah, we were smart, we're thoughtful, alike Gates or House appropriators? Yeah, sure. That's great. That doesn't make you smart or thoughtful. In my opinion. That's just an easy rescission that makes you feel good. That probably has a good argument by someone somewhere. Doesn't mean you shouldn't cut. But it requires leadership.

You have to build coalitions to have real defense reform that has any meaningful money behind it, the kind that Mike was talking about. You have to build coalitions with other parties, with other committees of jurisdiction in Congress, with service organizations like the Armed forces, the armed services branches, their own veterans' services organizations, and others. You have to do actual work and outreach to build a case, and make your case, and bring them in. Then, most reforms for the defense budget, including some that Michael talked about, is paper-like base closure, which I firmly support. There's an upfront cost before you save a single dollar, and usually, the costs are two or three years before you reach the savings that come about five years later. Almost no reform can I find, that doesn't cost money up front to implement. You want to close a base; you have to pay people to close bases. You have to do environmental remediation, for example. You have to do new military construction at another base if you're losing a certain capability at one, like a hangar. Like that happened in Maine when I worked for the senator, losing the PA hangars, and they had to go build new ones in Florida.

So, often there's a cost associated with the forms. I can keep going down the list, but serious reform is not like rescinding, rescinding one PE line in the budget and saying, I'm a reformer. Programs that's just a congressional mark, a program element line in the budget, a program.

WESSEL: Travis, I think from the back of the envelope I did about 30% of the defense budget is personnel, and personnel are expensive. We know that wages and health care benefits are going to rise faster than than the rest of the budget, or probably. We know, as Mike said, that there are some choices to be made about uniform versus civilians. But, unless we're going to replace the armed forces with robots and AI, which I suppose we'll have to talk about, how does the Pentagon get its arm around that cost? And is there, is that or that's just something we have to accept?

SHARP: I'll focus on Congress in answering that question.

WESSEL: I guess we've established that Congress is the root of all evil. I see a theme. I thought it was China, but I'm having second thoughts.

SHARP: They, they bear consideration. From 2016 to 2023, Congress added an aggregate \$80 billion dollars to procurement account. That \$80 billion dollars amount is larger than the congressional adjustments that were made to the three other major defense spending accounts combined. The point of me telling you that is to emphasize something that Mackenzie just said, which is that Congress continues to address the defense budget in programmatic terms, primarily through the medium of procurement and also through R&D. They take much, much less interest in terms of making spending adjustments to the military personnel account.

So, what does it require in order to make reforms to military personnel on the Hill? Well, as with all things, outcomes on the Hill depend on the actions of individuals. You need policy entrepreneurs who are willing to frame problems and build coalitions in order to to enact any type of meaningful change. So, it's worth thinking, I guess, about what is the current pipeline of defense policy entrepreneurs in Congress. Because the United States has been blessed since the end of World War II with having some incredibly powerful and effective defense policy entrepreneurs. But I think for various reasons relating to the political situation in the country, the political rewards associated with becoming an expert in defense policy, that pipeline of defense policy entrepreneurs on the Hill has shrunk a lot. So, you know, I think kind of a necessary first step in thinking about how you would implement any type of reform is identifying those members of Congress who will be willing to lead their colleagues to better outcomes. And it's unfortunately a pretty small list of people.

WESSEL: How are you going to end that by declaring your candidacy for Congress straight away? Mike, let me ask, I want to ask, I think there's a lot of things that are on people's minds about what's going on right now. And I want to address Ukraine in two respects. But the one that comes to mind first is, just as a layperson, I've just been startled by sometimes the stories out of Ukraine sound like we're refighting World War I with people in trenches. And sometimes, I feel like I'm watching a Star Wars movie where the Ukrainians are sending drones, unmanned drones, and hitting apartment or whatever they're hitting or trying to hit in Moscow. So, what is it that we have learned from A, how Ukraine fights and B, how, you know, the Russians seem to be better at defense than offense? What have we learned from Ukraine that we should keep in mind as we tweak the U.S. defense budget?

O'HANLON: That's an excellent question. I'm gonna first speak briefly to the previous conversation. And partly to the defense of Congress, in the sense that if you look at the interaction

between Congress and the executive branch over the years, and Travis was looking back wistfully at some of the great reformers and senators and congressmen and women of the Cold War and post-Cold War period, I think U.S. military personnel policy overall is pretty good today. There are some potential tweaks here and there, but, you know, I put it in sort of from a budget point of view.

In negative terms, I don't know how to shrink the military personnel account. That's another way of saying that we as a country are paying our men and women in uniform well, and we should, and we should be proud of it, and we should continue doing it. And we're not making them rich, but they are reasonably well compensated compared to people of similar age and experience, and educational background. In fact, they make more than about 90% of their civilian counterparts. Now, they don't make overtime. They don't control their own schedule. They deploy to combat zones when told to go. They can't take their families with them. They don't get the help for their families they might need, and a lot of people in the military have young kids. So, I'm not suggesting they're overpaid by any stretch of the imagination, but I, I think we should feel generally good about the compensation system. The flipside, however, is there's not a lot to cut.

And by the way, the one thing I thought was not particularly optimized when I got into this business 30 years ago is the way we did military pensions, and we fixed that. So, it used to be that you had to stay in for 20 years, and if you did, you got a very good pension. And if you stayed in for 19 years, in 11 months, you got zip. And to me, this was a perverse set of incentives. A lot of people would stay in just to make 20. A lot of good people would get out before ten because you know why bot-- unless you're going to commit to being in there for 15 more years, you're not going to get a pension anyway. Now we're doing it more like the 401k kind of style. That's a success of Congress and the executive branch working together over the years.

So, I just wanted to put that positive spin into things. Which, which then comes back to this uncomfortable reality. It's hard to cut the defense budget when you spend 50 years building up a compensation system, that even though it has some cracks and some strains and some shortfalls, has worked pretty well for the good of the country.

On Ukraine, I like the way you frame it. As usual, you're pithy and brilliant. Even on fields that aren't your your first order of business. And I think the way I would put it is, yeah, that more is more strikes me as being like the past than as being futuristic. There are good debates about this right now. Some of my good friends and and favorite scholars in the field have recently written about this.

Stephen Biddle wrote an excellent article in Foreign Affairs about why a lot of this war still looks like World War I. Dave Petraeus and Fred Kagan just wrote an article about how if we stick with the Ukrainians, they may still achieve a major breakthrough with some of the new weaponry that they have and should get in the future. I'd lean towards the Biddle interpretation to the extent there's a disagreement, but we'll find out on the battlefield, I think so. Lesson one is you got to stay flexible and supple because the lessons are being learned month by month. Lesson two would be, you've got to make sure your command and control survive the initial attack. And thank goodness we helped President Zelensky and his government do that. The CIA deserves a lot of credit. The National Security Agency deserves a lot of credit. They kept the Ukrainian cyber systems robust, kept Zelensky himself aware of the dangers to his own person and presidency. So he was more careful in those early days and weeks.

Decapitation strikes I think the number one worry that I would have. On the tactical battlefield, these drones and these apps that let you send in targeting information about where the Russians might be if you're a regular citizen, all of that, they're cool and they do work until the Russians figure out how to counter them. And that's essentially Bill's main argument in this Foreign Affairs piece, is for every measure there's a countermeasure. And so, on balance, Earth is still a really good protective medium against explosives. So, if you're dug in, you're still pretty safe. You've got to have ways of communicating. You've got to have ways of knowing where the enemy is. And that's where the competition happens between the drones and the anti-drones, the jammers, you know, the surface-to-air missiles. That competition will continue. One side may get a bit of an advantage, the other side may get a bit of an advantage. But so far, it looks like more or less a wash.

The one exception, and I'll finish on this point, again if you can strike hard and early with a capability the enemy doesn't know you have and isn't prepared against, then you can be effective. And if you leave yourselves vulnerable to that kind of a strike, then you could really be in trouble. Which is why the U.S. military posture in the Western Pacific is generally still problematic. We depend on big bases in Okinawa and Guam, and locations like that to defend Taiwan. And we've got to go towards more of a dispersed system, of not just alternative bases, as the Pentagon is doing, but unmanned underwater systems that can carry sensors and anti-ship missiles and help Taiwan acquire those capabilities in greater numbers, to make sure the Chinese don't see that sort of Pearl Harbor opportunity. That's my obsession. More, it's more about resilience and survivability than it is about

improving our lethality. We should do all those things, but I obsess more about improving our resilience and our survivability.

WESSEL: Travis, do you have views on what we've learned from Ukraine? And The Times has a story this morning about fighter jets with fleets of AI power drones. Is this? Are we? Is our defense budget prepared for this kind of technological change?

SHARP: Yeah, I think one implication of Ukraine that I think is important is, I think the conflict so far has emphasized to me at least the need for the U.S. military to maintain some degree of balance in the force, by which I mean not.

WESSEL: Like Star Wars balance in the force.

SHARP: Yeah, it's good. Not becoming overly invested or committed to the highest technology solutions to military problems, although in some cases we are going to want to make those types of investments. And the reason is as follows, as Mike already mentioned, the Ukraine conflict has been a conflict where lower-level technologies, classic technologies have often proven quite effective. Of course, the battle is moves and countermoves, you know, somebody exploits an opportunity, the enemy shut it down, it goes back and forth. But I would just be concerned about the United States getting into a position in the future where our military forces are not able to operate alongside our allies and partners military forces of the type that we're seeing demonstrated in Ukraine because we've gone too much into the the higher end technologies. Which, by the way, because of classification and other things, might make it difficult to be sharing information or operating alongside allies and partners. So, there's still a place for some of the lower-tech approaches.

WESSEL: Mackenzie, you once wrote, "Too often, policymakers are inclined to take half measures that reform, for instance, cutting staff by 25%, serious reform comes through eliminating 100% of something." I really like that line. And I want to make a question about what we should eliminate, goes a little bit to what Mike said. Does it make sense for us to still build huge aircraft carriers? Are they just sitting ducks for fancy attack missiles and stuff?

EAGLEN: So, I thought you were going to ask me about a different article I wrote, which was when I proposed elimination.

WESSEL: You write a lot of articles.

EAGLEN: I, I write a lot of articles. Not as many books. I am not a book, my career as a book writer, an excellent book writer, an excellent book writer I might add. I, I had proposed eliminating the

entire undersecretary of defense for personnel and readiness. Later this week, I'm going to call for elimination of, it's going to break the brains of Washington space command. So, you're talking about capability, I want to talk about organizations when I say elimination of something. But right. The future of the carrier. Michael, it's not that simple. Right? And I understand the thinking by some in this town is if X, Y, Z doesn't survive the the threat ring, the rocket missile range of China, it's not useful in war. I don't want to get to the war. Wars are really expensive. I'd rather prevent it.

We use our Navy primarily for presence. Global peacetime, presence, assurance, deterrence, persuasion, dissuasion, competition, gray zone, everything you can think of that's showing the flag or something like that. These are carriers primarily to do that, and there aren't enough of them, at least according to the combatant commanders. We have a supply-demand mismatch that is so fundamentally out of whack, I'm not really sure how to address that. But so, when you talk about this or that capability in the carrier, I think broader in terms of deterrence and presence, which is what we use our carriers for. And, avoiding the war, which is so much more expensive than maintaining this giant military on a peacetime basis.

WESSEL: I have about 100 more questions. I'm not going to ask them. You, you look like you wanted to say something before I turn to the audience.

O'HANLON: On the carrier, I do spend about eight pages of my paper on the carrier question. I favor a slightly smaller carrier fleet, not letting the combatant commanders have quite as much say in how we use them. Saving them more for deterrence purposes, surging them at times, but also having longer range unmanned aircraft flying off them so that they don't have to be within 500 miles of China shore to be effective. But they also, as Mackenzie points out, they're important for deterrence. Deterrence of North Korea, deterrence of Iran, deterrence of other contingencies. Potentially, if we wind up in a fight with China, heaven forbid, the carriers might be more useful in the Indian Ocean, interdicting oil tankers headed for China. If we wind up doing, let's say a counter-blockade. If China blockades Taiwan, which I think is their better strategy than trying to invade, and then we decide we want to break that blockade, we're going to need carriers to do so in the Pacific. We may also want to use carriers and or submarines in the Indian Ocean to threaten China's sea lines, to essentially apply pain on them to force a negotiated settlement. I think that's, we're going to have to get into a world of those kinds of somewhat messy ways of thinking about military outcomes. And carriers can still have a role, but it may not be right up against the shore of China.

WESSEL: And this has taken a depressing turn. But I want to turn to--

O'HANLON: Welcome to our world.

WESSEL: I'm gonna turn to questions. And please, if you have a question raise your hand or stand up so that I can find you. Wait for the mic. Tell us who you are. And remember the questions asked answers, questions end with a question mark. So, there are a couple over here. Why don't we, can we go over here? Why don't you go right on the aisle there? You can go here. I'm gonna take two or three at a time. Stand up, tell us who you are.

AUDIENCE MEMBER: So my name is John Raviv. I work for Capital One. Thanks for hosting this. Good to see you all. When I think about the OCO account that's designed for --

WESSEL: Guys, this is an acronym-free zone.

AUDIENCE MEMBER: -- the Overseas Contingency Operations Account, the supplemental account. Okay, I got it. When I think about the OCO account, I think about it in the context of something that's there to account for almost one-time costs in addition to the base. Thought got me thinking about the discussion about upfront cost were actually affecting real reforms. Sometimes in addition to the, you know, constituents who don't want to change things, there's sometimes just the money aspect of it, oh, we can't spend that because we don't have the money. Is there any appetite for establishing an OCO type account for what are essentially one-time costs that you implement in order to save money over the future? And even better than more cost you can actually attach a ROI, you can attach a payback period. It just seems to me it's a much better use of OCO.

WESSEL: You want to go over there to that gentleman in the blue.

AUDIENCE MEMBER: Thanks, Sean Carberry, National Defense Magazine. I think you've fairly and rightly knocked Congress through the discussion. But one big piece of this, that's easy, low-hanging fruit would be actually passing budgets on time and not continuing resolutions that result in substantial purchasing power loss, delays, inefficiencies. What, if anything, can be done differently at this point to get that message across, that that is arguably the easiest thing to gain efficiency and budget power in defense?

WESSEL: All right, you want to pass it to, there's someone behind you.

EAGLEN: Hear, hear.

AUDIENCE MEMBER: Hi, my name is Caroline Reid. I'm coming from the Embassy of Japan. So, I'm hearing, at the beginning, I'm hearing a lot of comparisons with glo, Cold War

spending. So basically, we all know that came to a head with the fall of the Berlin Wall, and then after that came peace dividends. I'm wondering what your opinions are on what kind of global conditions you would need to see before we could ever take a look at perhaps decreasing defense spending, or should it continue on this deterrence path increasing forever?

WESSEL: Great, great, great questions. I'm gonna suggest that not everybody answers everyone. So, the first question, this comes up on the domestic side is, is there something we could do to encourage Congress to spend money on things that will pay off in the long run, even if it costs in the short run? Anyone who would take that one?

SHARP: I can, I can take that briefly. One idea that I was kicking around last year, which is just borrowed from something that they had been kicking around in the eighties, was creating a reserve account that would be money set aside to deal with the unpredictability that is inherent to inflation forecasts in defense spending. Which has been a huge issue for the last few years. Inflation has been moving around a lot. It's been volatile. The defense budget is structured around a series of assumptions about inflation. But if the assumptions are wrong, then you may have less money available in terms of purchasing power than you need, or you could have too much. So, the idea behind this sort of reserve account is you set aside some money in order to make the defense budget whole, depending on where inflation actually turns out. And if it ends up that you don't need to spend more in order to make up for inflation, well the money just stays in the account. So, it creates this sort of way of dealing with this inflation issue that I think would be more rigorous and probably have better outcomes than alternatives. So that's just, that's one of those types of proposals that I also think merits consideration.

WESSEL: What about the other notion of the questioner? Can we tell Congress, can Congress somehow structure its scoring, so that you don't get penalized for doing things that cost money in year one and two and save money in year eight through ten?

EAGLEN: You're looking at me. I would, I like the idea a lot. It's it no one's looking at it, to your question, or at least I'm not hearing any chatter about it, but it's not a bad idea. It's worth trying. I actually argue for separate for for breaking the defense budget into more like how the states work their capital and investment. Exactly, where you have capital, excuse me, and operating budgets. So, where you have a clearer picture then, of sort of what buys true military capability that can go get the bad guy, not necessarily kill. I meant fair fight, not in a fair fight. I'm a good Catholic. We can cut

through, too. That's fine. But, you know, kind of what buys the tip of the spear capability to go fight and win when needed, and sort of that machinery and bureaucracy, that's everything else, the sort of the annual budgets. Because of course, capital expenditures are longer-term. It takes five years to get this building, to get this carrier, to get whatever. And that way, policymakers have a much clear, more clearer sense of where the dollars go because they think it's all going to, you can think it's quickly all going to aircraft carriers when it's not. So, I'd, I'd prefer that and on the on the sorry, but I have to take the second question. I've long advocated for Congress should, their paycheck should be sequestered for each day past the start of the fiscal year where they're on a continuing resolution. It's not a totally wacky idea. And, because they probably get their job done a little sooner, if there was some consequence for actual for members that they're imposing on the def, on the Fed.

WESSEL: So let me help my colleague there. So, what are the downsides of operating on a continuing resolution resolution for the defense budget?

EAGLEN: How much time do we have?

WESSEL: We don't have very much. Mike, you want to you want to try that?

O'HANLON: Well, in short, you can't start new programs because all you can do is continue what's already underway. So, if you're trying to be supple, learn lessons from Ukraine, and react, then you're delayed six months or what have you. And then when you try to get into longer-term maintenance accounts or longer-term acquisition buys, Mackenzie's colleague General Ferrari has advocated of multiyear munitions purchases. All those kinds of smart things that would allow you to do serious longer-term planning, become hostage to this process. So, it really interferes with strategy. It also interferes with good business administration and economics.

WESSEL: Thanks. And is there any hope that we can have a peace dividend in my lifetime?

O'HANLON: No, not for us, dude. We're too old. It's going it's going to take, it's going to take 10 to 30 years at least to settle the great the state of great power relations to a happier course, in my estimation. Obviously, I'm, you know, violating Yogi Berra's cardinal principle of never trying to predict the future. It's easier to predict the past and usually safer. But even if we do well with China, and I tend to think we have the means to stabilize this relationship over time and make deterrence work, but I think it's going to take 1 to 3 decades. So, you and I are in our sixties, right? I think our odds are modest for seeing it end for a big peace dividend in our lifetime.

WESSEL: Josh Gotbaum here and Dave Grannis.

AUDIENCE MEMBER: Josh Gotbaum now at Brookings, formerly an assistant secretary of defense. Mike, you did a wonderful job of putting our spending in the context of other nations. I think it's worthwhile. So, I'm asking if you or the other panelists would elaborate on the challenges involved in taking advantage of the defense spending and other nations coordinating. We have NATO in some places. We have other defense things, in other words. But as you're thinking about how much is enough and what should be done. Could you talk a little bit about leveraging ally spending?

WESSEL: Pass it to David.

AUDIENCE MEMBER: Hi, thank you. David Grannis with the Commission on the National Defense Strategy. We largely have a force structure that was built for the past 30 years, and not necessarily that applies to the defense threats that we are likely to face over the next 20 or 30. Earlier this week, the deputy secretary of defense announced a fairly significant change in approach, at least on the margins, to purchase up to 2,000 autonomous vehicles that that would be used in a fundamentally different way. Can the department actually do that?

WESSEL: Okay. Going to the easy questions now. Leveraging our allies?

O'HANLON: Well, I'll start by just maybe reiterating a point I made before but using different language to try to clarify the point, which is our allies are both our greatest asset, but also an extension of our commitment. We have 60 strategic allies and/or partners around the world. Sixty, one-third of all countries on the globe. We either have a formal treaty in which we say we will treat their territory like our own for all defense purposes. Or something pretty close to that by way of an informal understanding, mostly in Northeast Asia, Europe, and the broader Middle East. And what that means is that we've got a lot of places we might have to fight and hopefully deter. And so, I'm amazed at the strength of our coalition.

When I was in graduate school before the Cold War ended, and no jokes it was the Cold War was underway already by that point, but it hadn't yet ended. And all the theorists I read were talking about how the likelihood that once the Cold War ended, if it ended, that probably there'd be new blocs of power that would form because people would want to balance against each other. We haven't seen that. We've seen countries want to get into the U.S.-led alliance system even as we've continued to make plenty of mistakes in our foreign policy. You know, we've made mistakes in Vietnam earlier. We made mistakes in how we fought the Iraq and Afghanistan wars. But people still can see into our democracy. They believe that democracy is a better form of government because it's transparent and

people change power. So, we have all these allies. We kept growing our alliances in ways that sometimes have exceeded what I would have preferred. But nonetheless, that's where the allies are hugely helpful because they together constitute 30% of world military spending. But they also give us 60 more places we have to worry about around the world.

So, on balance, it's a very good thing for our grand strategy, which is based on the idea we should not let Eurasia tend to its own matters because that didn't work so well before World War I or World War II. So, I think the grand strategy is important, but it should not be seen as something where the allies' contributions just weigh in and give us these additional assets. On the other hand, they know that we've got their back and we know that it's going to be hard to convince them short of just threatening to abandon the alliance, that that they're going to have some help with these security challenges. And sometimes, I'll finish on this, the the places where we most credibly threaten abandonment are the places where they're already spending the most. Donald Trump didn't like South Korea, but South Korea is an amazingly good ally that spends a lot on its military. Also, some of our Middle Eastern allies, they made our strategic partners. They may not be the best governments in all cases, but they tend to spend 5, 6, 8% of their GDP on their military. It's not always a good thing. Some of them spend too much, but they are burden-sharing in some sense. And that and then sometimes using those forces against their own people. So, it's a little bit of a mixed bag. On balance, I think we're always going to have to view the allies as a mixed bag in financial terms, but a huge asset in grand strategic terms.

WESSEL: And the and our autonomous vehicles question. Travis?

SHARP: Yeah, sure. So, can we produce a large number of unmanned systems that perform different missions and have modular designs? Yes, we've done it before. During Vietnam, the lightning bug was an unmanned system that was basically one of the first unmanned systems that went on to play a significant role in ISR supporting the Vietnam War. The lesson from that case is that the Air Force had to create a series of exceptions to standard acquisition policy and also had to form very close iterative relationships with the industry in order to be able to generate these types of capabilities rapidly to respond to the operational environment. Can we do the same thing today with the Collaborative Combat Aircraft program? I think senior D.O.D. leaders are saying the right things and definitely recognizing what's needed, but there's a lot left to do.

WESSEL: It seems to me the challenge of these new technologies is not only procuring them and working with a different set of suppliers and all that, but also trying to figure out how you reorganize your operations to take advantage of them. And the history of technology is that incumbents often are the ones who struggle to do this. So, how much of a threat to the way the Pentagon is organized is the growth of autonomous vehicles, A.I., and all this stuff, which really requires a different approach to using people and thinking?

SHARP: It's going to require a lot of really big changes. Redesigning the structure of squadrons, having pilots of manned aircraft comfortable operating aside autonomous vehicles. I mean, these are huge organizational and cultural changes. But as is often the case with military innovation, you need senior leaders setting the tone from the top to let the rank and file understand that if they're taking actions to achieve these goals, it will be consistent with their advancement and with the mission's organizations. And the Air Force deserves credit for having provided exactly that.

WESSEL: Interesting. All right. I think we have time for a couple more. The gentleman in the back behind you, Mallika. Is there another one? Okay.

AUDIENCE MEMBER: My name is Roger Cochetti and I'm an editorial contributor to The Hill newspaper, and I'm one of the few people in the room who claims no expertise whatsoever on the subject. It's been very informative.

WESSEL: Oh, I'm with you on that one.

AUDIENCE MEMBER: Okay. But like most laymen, if I could use the term, I tend to reduce the question to very simple propositions. And in economic terms, what you usually ask is if I'm going out to dinner, I look at the menu, if I'm looking at a house to buy, what do I pay for and what do I get? And you can slice and dice the defense budget many ways, but the average person would be most comfortable with a geographic slicing and dicing of the defense budget that never comes up in among professionals.

But if I could pose the question, I think it would be informative for those of us who have no expertise by saying, okay, if we spend a trillion dollars a year in defense, probably 250 billion is for Europe, 250 billion is for East Asia, 250 billion is for the Middle East and everything else is for the rest. If you had to address the question in the impossible way for an expert, and sort of say, okay, geographically, how much do we spend on defending our borders? How much do we spend of the

budget defending our territory? And then, pretend for a moment that you had to answer the question. Okay, now let's extend that. How much more should we spend for this, that or the other thing?

O'HANLON: I love the question. If I could start.

WESSEL: Please. Start and finish.

O'HANLON: Bill Kaufman, well, Bill Kaufman, my colleague here, when I started at Brookings 30 years ago, the late Bill Kauffman, who was a great defense planner, attempted to do what you pointed out in the last book he wrote. And it was based, it was after the Cold War had ended so we try to adapt a little bit, at least to the new world, although by that point China hadn't risen the way it has now. The problem with doing it, I was glad he did it and I've repeated his percentages in my own book "Defense 101." But then I proceed to talk about why it's so hard to actually answer the question on the terms that you just requested. Because in fact, the forces that we have abroad.

So we got that 1.3 million U.S. military active duty. Out of that 1.3 million, about 200,000 are abroad on any given day. Mostly they're in Japan and Korea, Germany, Poland, U.K., Italy, and then a few countries in the Middle East with smaller numbers, and then at sea. And then there's a few hundred here, a couple of thousand there in places like Australia, Singapore, the Netherlands, etc. So, most of those 200,000, however, don't really cost us more to have abroad than they do if we had kept them at home because the allies pay for a lot of the additional costs. The if you net out what the added cost to us, it's less than 10% of the cost of a given unit or person. So, it's not so much the bases abroad, it's the fact that we have these commitments to reinforce in the event of crisis or conflict.

So, then you can start asking, well, if we didn't have a commitment to South Korea, for example, which I know is a geographically challenging place to defend for a faraway continental power like us. And of course, we had this debate in 1950 whether we should try to defend South Korea. We decided no until the day North Korea invaded, and then we changed our mind. It was a complete swing in American strategic thinking, which should be a lesson unto itself. But the forces we have in South Korea right now are about 30,000 day-to-day, 30,000 uniformed U.S. military personnel. That's a tiny fraction of our defense capability. It's a little over 2%. So, if you want, you could say that we spend, you know, 2% of our annual budget on South Korea. But even those forces could swing elsewhere if they were needed. And Rumsfeld pulled the brigade out of South Korea to go fight the war on terror at one point. So even those forces are somewhat fungible.

But the bottom line is that Korea represents more than a \$15 billion commitment per year in our defense establishment because we would need hundreds of thousands of U.S. troops to win a war there. But going back to what I said at the beginning, we're only fighting to plan and are only planning now to fight and win one war at a time. So even if we didn't worry about Korea, we still have to worry about Iran, Russia, China, unexpected. And if you said to me, okay the Korea commitment is no longer there, the South Koreans have asked us to leave. Let's make a clean and simple departure. I would say, okay, let's debate whether that 30,000 contingent that we've got in South Korea can perhaps be demobilized. But otherwise, I do not think that the hundreds of thousands of troops we would have used to reinforce in Korea. I don't think those forces can be demobilized because they still might be needed for any of these other contingencies. And we're already doing defense planning sort of on the cheap with a one war standard.

So, it's a complicated question even to quantify the answer. But when you wind up asking how much could you save if you fundamentally eliminated this or that ally, it usually winds up being pretty small. Final point. If however, you went to a fortress America approach, and what you said at the end, defending our homeland alone, yes, we could do that on the cheap as until and unless Eurasia again decides to fight itself and then somebody wins and has the capability to fight us the way Hitler would have liked to have if he had won in World War II, for example. And so if you think we can just ignore what happens in Eurasia strategically and only protect ourselves, you can probably do that with a 25% as much money. And if I do that with 2 or 300 billion dollars a year very robustly. But the problem is then you don't know when and if something from Eurasia is going to come and strike at you. So, this is, you know, that's the question that I think is fundamental. Because if you answered that one differently than we have since World War II, you could have a much smaller defense budget. I just think you'd have a much more dangerous world.

WESSEL: On that cheery note, please join me in thanking Mike, Travis, and Mackenzie.

EAGLEN: Good Answer. That was good.

WESSEL: I think this video will be on our website, so you can watch it over and over again. I'm sure Mike would be happy to talk with anybody about the specifics in his paper, which is also on the website. And if I could ask you on your way out to take the coffee cups at your feet and put them in the receptacle at the end, our staff here would appreciate it. So thanks again.