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ANALYSIS

Defense Cuts Conundrum: Weighing the Hard Choices Ahead

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Defense strategy is ultimately about making choices, which in peacetime often manifest themselves as decisions about the defense budget. As the budget gets squeezed, these choices become more difficult, and the current strategy may have to be modified or even abandoned. Yet without resource constraints, strategy would be unnecessary -- the military could simply throw more money at all its problems. Limited resources thus create the need for strategy, and as resources become more constrained, strategy becomes more important. The key strategic choice facing the Pentagon now is one of timing: whether to prioritize today's military or tomorrow's. Given the budget drawdown currently under way, the Pentagon cannot afford to do both -- it cannot get everything it wants.

With the $37 billion in sequestration cuts that took effect in 2013 and the reduction in war-related funding already in the works, the total U.S. defense budget has declined by 21 percent, adjusting for inflation, from its peak in 2010. If the Budget Control Act of 2011 remains in effect through its final year, 2021, and supplemental war funding ends by that time, the defense budget will have fallen by 33 percent in real terms. In comparison, the drawdown following the defense buildup of the 1980s slashed the defense budget by 35 percent, and the military reductions following the Vietnam and Korean wars decreased defense spending by 25 percent and 51 percent, respectively.

This drawdown, however, will be different. In previous buildups, as the budget increased, the size of the military grew as well. But during the most recent buildup, the size of the military did not significantly expand. From 1998 to 2010, the overall defense budget grew by 108 percent in real terms (or by 58 percent excluding war-related costs). Yet over the same period, the number of active-duty military personnel remained relatively flat, fluctuating between 1.4 and 1.5 million troops. The number of aircraft in the Air Force declined from 6,228 to 5,244, and the average age of its aircraft increased from 19.6 years to 24.4 years. The Navy reduced its fleet from 344 to 288. Instead of getting larger, the military became smaller, older, and more expensive.

The rise in peacetime costs can largely be attributed to two areas of the defense budget: paying troops and keeping them ready to fight. From 2001 to 2012, annual compensation costs per active-duty service member grew 57 percent in real terms, not including war-related expenses or the cost of veterans' benefits for injured or disabled service members. This growth resulted mainly from higher than requested pay raises, new and expanded benefits, and skyrocketing health-care costs. Likewise, the investment per person for readiness -- the training, maintenance, and support that keeps the military prepared for battle even during peacetime -- grew 34 percent in real terms over the same period. Excess bases and facilities, and the Defense Department civilians needed to support them, make the cost of maintaining readiness substantially higher than it would be otherwise. By the Defense Department's own estimates, it currently operates roughly 20 percent excess capacity in bases and facilities, and the number of civilian workers has grown by more than 100,000 over the past decade.

When coupled with the prospect of a declining and uncertain budget, this internal cost growth portends a difficult set of choices for the Pentagon. It does not, however, absolve the Defense Department from thinking strategically about the challenges it faces. The Strategic Choices and Management Review (SCMR), completed in the summer of 2013, framed this question as a decision between what Pentagon planners call near-term capacity (a larger force that is fully ready if called upon) and long-term capability (a smaller force with more advanced technology and weapons). Although in reality the choice is not a strict dichotomy, this framework is useful for understanding the range of options available.

The main strategic choice the military now faces is essentially one of timing -- that is, when to take risks. Should it protect near-term capacity and accept a higher degree of long-term risk by cutting funding for future capabilities? Or should it focus on developing future capabilities and accept a higher degree of near-term risk by cutting the current capacity and readiness of the force? As budgets come down, the military cannot do both, at least not to the degree it had previously planned.

Most likely, policymakers will attempt to protect near-term capacity and readiness as much as possible and sacrifice modernization programs to meet budget targets. This approach is already beginning to play out in response to the 2013 sequester. For example, U.S. President Barack Obama exempted $150 billion in military personnel accounts from sequestration, and the Defense Department sought permission from Congress to transfer some $4.1 billion from modernization accounts to restore funding for near-term readiness activities such as flying hours and training exercises.

The near-term approach is appealing because the current security environment is unpredictable. The military does not know when or where it may be called upon next, and senior leaders, whose tenures are relatively short, are naturally reluctant to risk a readiness crisis occurring on their watch. Moreover, one could argue that in a few years the budget environment could be less constrained than currently projected.

Adopting a near-term approach, the military would focus cuts disproportionately on modernization programs, since the capabilities these investments produce will not be available for years, if not decades. Even with deep cuts in modernization programs, however, the Defense Department would still be forced to make modest reductions in the size and readiness of the current force. Given the uncertain threat environment, a likely way of doing this would be to make relatively uniform reductions across the military -- a so-called haircut approach -- to minimize the risk of being too unprepared in any one area.

MISSED OPPORTUNITY

Just as important as what the military would do with a near-term focus is what it would not do. Taking this approach, the Defense Department and Congress would not have a strong incentive to make internal reforms to how the Defense Department operates and manages its resources. Such changes typically require up-front costs, both financially and politically, in exchange for long-term savings. Closing excess bases and facilities, for example, would cost billions in the near term before it would begin to yield annual savings. Likewise, both Congress and the military would not have an incentive to pursue serious reforms in the military compensation system or alter the size and structure of the Defense Department's civilian workforce, because these efforts would carry significant political repercussions.

A likely result of the near-term approach is a military that looks and operates much as it does today. It implicitly assumes that future conflicts will require capabilities similar to those the military already possesses, many of which were designed for counterterrorism and counterinsurgency operations or for more conventional military conflicts such as the 1991 Gulf War. As threats evolve, however, and more advanced technologies proliferate, current capabilities may increasingly become less effective and less relevant. For example, the Predator and Reaper drones that the military has used extensively in Iraq, Afghanistan, and Pakistan are designed to operate in undefended airspace. These systems would not be effective against an adversary that attempts to keep U.S. aircraft out with even modest air defenses. The development of new or evolved weapons systems, such as stealth drones that can evade air defenses, requires investments of both time and funding. If such investments are not made now, these advanced capabilities may not be available to the U.S. military when needed, no matter how much funding is available in the future.

More important, the near-term approach would avoid politically difficult internal reforms. The growth in personnel and peacetime readiness costs has effectively reduced the buying power of each defense dollar. If these costs continue to grow at the rates experienced over the past decade and the military attempts to maintain a force of 1.4 million on active duty, as currently planned, they could consume the entire defense budget by 2024, leaving no money for research and development or the procurement of new equipment. Alternatively, the Defense Department could reduce the overall size of the military to compensate for internal cost growth, but it would have to continue getting smaller as costs continued to mount. Either way, rising internal costs make the near-term approach unsustainable without significant reforms.

THINKING ABOUT TOMORROW

A long-term approach, in contrast, would protect funding for future capabilities and require near-term risks in capacity and readiness to meet budget targets. For those who see the threats to U.S. interests as dangerous now and growing worse over time, it makes sense to take more risks today rather than in the future, when threats will be more challenging. Alternatively, if one views the current situation as relatively safe for the United States, then the future security environment could be worse -- meaning it would still be better to take risks sooner than later.

Taking a long-term approach, the military should first identify the capabilities the current force lacks but is likely to need in the future and plan investments accordingly. The idea is to make strategically informed bets on technologies and programs that could lead to significant improvements in future capabilities. New investments could include increasing budgets for existing programs, funding technologies the Defense Department previously abandoned, or starting new development programs. While many of these investments could fail or end up addressing the wrong threats, the ones that succeed would be prerequisites to developing advanced capabilities down the road.

To pay for these new investments, the military would need to capabilities that are likely to be less relevant in the future. While strategists and planners can disagree about what the ideal future force should look like, it will not likely look like the force of today. The nature of warfare is constantly evolving, as evidenced by advances in unmanned systems, guided munitions, and the increasing role of networks and cyber-operations in conventional conflicts. Given these technological advancements, parts of the force structure that have been important for decades may not be as important in the future. The idea is to begin divesting from lower priority capabilities to make room for higher-priority ones.

A long-term approach must also begin the process of making systemic internal reforms in the Pentagon, including slowing the growth of military compensation costs, reshaping and resizing the Defense Department's civilian workforce, and eliminating excess bases and infrastructure. Despite the upfront costs and political risks involved, the sooner such reforms are implemented, the sooner savings can begin to accrue. Savings from structural reforms, such as reducing the size of U.S. forces, will improve the effective buying power of defense dollars, enabling the United States to afford a larger and more capable military than would otherwise be possible.

The bulk of the required savings under the long-term approach would come from near-term reductions in capacity and preparedness, which, while never ideal, could be mitigated somewhat by adopting tiered readiness within the services or dissimilar readiness levels across the services. Moreover, the long-term effectiveness of U.S. forces could be enhanced by the advanced technologies and weapon systems funded by a near-term reduction in readiness.

Policymakers will understandably be reluctant to pursue the long-term approach because it requires stepping on many of the so-called third rail issues in defense. Reforming military compensation and cutting the Defense Department civilian workforce, for example, would anger the many veterans' service organizations and federal employee unions whose members could be affected. Supporting another round of base closures would require many members of Congress to vote against their own parochial political interests. Making targeted reductions in acquisition programs and force structure would upset the status quo in the defense industry. More important, the long-term approach would also require policymakers to accept a higher degree of risk that the military may not be adequately prepared for a major war in the next few years. This lack of readiness could constrain U.S. foreign policy if potential adversaries are less deterred by the threat of military force. And if military action becomes necessary in the near future, reduced preparedness could compromise the performance of U.S. forces in battle.

THE FUTURE HAS NO CONSTITUENCY

In congressional testimony following the release of the SCMR results, Admiral James Winnefeld, Jr., vice chairman of the Joint Chiefs of Staff, noted that readiness "has no constituency other than the young soldier, sailor, airman, or Marine putting his or her life on the line for our nation's security interests." Winnefeld's statement reveals that readiness does indeed have a constituency. The current force and those who lead it are strong and vocal proponents of preparedness for good reason: If readiness suffers, they are the ones who will bear the consequences. But senior leaders should instead be concerned that the future may not have a strong constituency. The next generation of service members -- our children and grandchildren -- have no say in the decisions made today, yet they are the ones who will live with the repercussions. Who will speak for their interests, and what type of military will they inherit?

The usefulness of framing the Pentagon's upcoming strategic choice as a near-term versus long-term dichotomy is that it explicitly acknowledges the trade-offs senior leaders face in the thousands of lower-level decisions they must make over the coming years. These thousands of decisions, at times going in opposite directions and made by scores of senior leaders in the executive and legislative branches, will ultimately coalesce into what in hindsight appears to be a defense strategy, however flawed, disjointed, and ugly it may be. The key question is which way that strategy will lean.

A strategy that is more inclined toward a near-term approach would leave the next generation a military with capabilities similar to those it has today, and with excellent pay and benefits. But that military would be less technologically advanced and also unsustainable due to internal cost growth. A strategy geared more toward a long-term approach would give the subsequent generation a military that is smaller but more modernized and more easily scaled in size if needed, albeit with less generous pay and benefits.

The strategic choices facing the U.S. military today are not easy, but it would be naive to blame this difficulty entirely on fiscal constraints. As the military strategist Bernard Brodie wrote in 1959, “We do not have and probably never will have enough money to buy all the things we could effectively use for our defense. The choices we have to make would be difficult and painful even if our military budget were twice what it is today.” The budget constraints the Defense Department currently faces, no matter how difficult and painful they may seem, should be viewed as more of an opportunity than a burden. The Defense Department should seize this opportunity and the compelling force it provides to reshape the military fundamentally and make internal reforms that are long overdue. Writing nearly a decade after Brodie, the Rolling Stones perhaps summed it up best: “You can't always get what you want. But if you try sometimes, you just might find, you get what you need.”