Introduction

Professor Adams began by saying that he would be focusing on strategic and budget issues in his talk. He noted that he agrees with the comment by Bernard Brodie, in *Strategy in the Missile Age* (1959) that “strategy wears a dollar sign.” The starting point to remember is that it is no surprise that the defense budget is in decline and that it was clear for the past five years that the reduction would be coming especially because 1) the Republicans are split on defense issues and 2) the drawdown of military activity in Afghanistan. However, the Ryan-Murray agreement from late last year was something of a surprise, and it looks like for the short-term DoD will be getting what it requested.

The Current Situation

The most recent agreements offer what has been missing: Stability, Flexibility and Time

- Stability: DoD will have two years of spending with specifically identified amounts
- Flexibility: DoD will not have to worry about the strictures put on it by Sequestration for two years and probably not in the future either
- Time: DoD has been suffering through 6-month budgets with uncertainty about follow-on budgets for the last several years, but will not have to for the near future

Recent surprises and the circumstances behind them

- The Ryan-Murray agreement was almost as if the adults had come into the room and wrote appropriations bills that actually hit the targets
- Congress has also now voted on the debt limit in an atmosphere of “enough already”
- It helps that 2014 will be an election year
- The *cherry-on-top*: the Overseas Contingency Operations (OCO) budget was given an additional $5 billion beyond the DoD request
  - Also moved about $10B out of the base budget into the OCO budget
  - That move created room in the base budget for other things including for some “pet rocks” that the Pentagon did not ask for
- Bottom line: Such stability is unusual in a drawdown but DoD is definitely in one

**History of Drawdowns**

Drawdowns happen after each war as seen in the CSIS “peaks and valleys” chart below
- The Sequester numbers on the right do not take into account Ryan-Murray so the correct pattern would be a little bit lower than projected here

![Defense Drawdowns Compared](image)

- Comparing the Year-1 through Year-10 period of each of these declines shows that the current drawdown is not out of line with prior drawdowns
Future predictions beyond the 10-year point do not look as good as is shown below:

- The triangle in the center was created by the Ryan-Murray agreement which gives the graphic a more gentle slope.
- The dark green line shows what happens if inflation is included (constant $) while the light green line shows what happens without inflation (then year or nominal $).
- Bottom line: Because of the recent agreement, expect DoD budgets to be at, below, or slightly above inflation, but showing no significant growth.
  - “Tevye thinking” is visible in some corners of the Pentagon with talk of “If I were a rich man” type of considerations for the budget.
  - The chart above is the best that DoD can expect but it may not be this high.

Other consideration: The OCO will be going away with the White House and DoD currently having a tug of war about:
- How much and when
- How much of what is not in OCO now needs to be brought back into the base budget
- How the changes are reflected in the base budget

History of Strategy
Myths about the Nature of Strategy in a Drawdown
- Myth #1: The US has always gotten strategy wrong – US goes into a drawdown, getting it wrong, and then gets surprised
  - Maybe true of the Korean War, but not others
  - All other recent wars were choices to go or not to go to war by presidential decision
  - Vietnam was not a surprise, nor was Iraq or Afghanistan
    - The choices were: How long? With what? How much?
Many of the small wars and invasions such as Panama or Grenada were choices made by the presidents.

The overstretching of the force was discussed extensively in the 1990s but can't compare to what has been happening in the last few years.

Besides the 1970s, history shows that the loss of force readiness does not always result from a drawdown.

- Even the much discussed drawdown force of the 1990s was still capable of handling Saddam Hussein.

Bottom line: Readiness is always an issue that DoD needs to control but is not necessarily a crisis that was an inevitable result of a drawdown.

- DoD is always expected to do more with less.

- Often hear questions around the Pentagon about how to do more with less.

- But DoD actually tends to do less with less involving strategic adjustments.
  - Eisenhower went to the “New Look” with massive retaliation and covert action to adjust to a smaller ground force.
  - Nixon went to regional allies, détente, recognition of China, one and a half wars, and covert action to adjust to reduced budgets.
  - Bush 1 from the beginning of the Administration made adjustments including moving to the New World Order, 2 MRCs, covert action, etc.
  - Bottom line: These were strategic and force planning adjustments as well as tools and tool kit adjustments.

- House Armed Services Committee Ranking Member Adam Smith captured the concept in doing less with less recently saying:
  - He did not understand the argument that DoD planning is strategy-driven rather than budget-driven.
  - There is never enough money to protect against all threats.
  - So DoD always has to make adjustments to accommodate risks.
  - The choice: either run around saying “There is no hope” or make adjustments using what is available as people do in their daily lives.

Bottom line: DoD must adjust as it already has and continue to adjust its strategy recognizing the reality that “strategy wears a dollar sign.”

Why the US Must Adjust:

- External to the DoD topline there are unrelenting pressures on the national budget.
  - National debt is approaching $600B per year which could be considered awful but is much better than the $1.2 trillion that it once was.
  - Pressure is coming from Medicare/Medicaid/Social Security / other rapidly rising costs associated with the large aging population which will continue.
  - Result is a shrinking discretionary trade space.

- Internal DoD pressures are also squeezing the budget.
  - Relentless rise of personnel costs as seen in graph below.
  - Recent CBO predictions for beyond the FDIP indicate that even current DoD predictions may not be high enough.
Same problem in Operations and Maintenance (O&M) budgets which may be even more relentless given trends since 1981.
Focus should be put on O&M because so it is so hard to do anything about pay & benefits
- See the recent fight about the less than 1% reduction in COLA for younger retirees
  - Senate vote was 92 to 3 despite the small numbers involved
- People in Pentagon come up with valuable options to “do something about pay and benefits” but it nothing ever happens
- Bottom line: Best chance to make changes is in the “back office” costs found in O&M

“Back Office” Cost-cutting Options
- When looking at trade space with personnel and hardware costs, back office costs would be the place to look
- According to the Defense Business Board:
  - 42% of the DoD budget costs are in the back office
  - ~340,000 people in uniform are doing commercial or civilian tasks
- An estimated 800,000 civil servants are in DoD and 700,000 contractor services personnel work for DoD
- Many active duty personnel also work in back office positions

- Working on cutting back on this huge back office would have
  - Less lethal political implications than trying to cut pay and benefits
  - Less of a hard time dealing with Congressional approval than it would be trying to cut hardware systems
  - A much more manageable political situation overall but changes would still be very difficult as SecDef Gates discovered
  - The advantage is that this is something that DoD can work on its own
The Acquisition Issue
Dr. Adams noted that he has been studying DoD budgeting since the 1970s and has yet to see any “new” acquisition reform proposal

- Concepts keep being recycled
- Iron law remains: Hardware programs almost always cost more than expected
- CBO looks at history and comes up with realistic estimates of cost
  - Not so much what the FYDP says will happen but what likely happen
  - CBO says DoD is under budgeting for Procurement about $20-$30B per year
- This squeeze on the overall DoD budget stems from an excess of optimism despite the historic record
  - Example: CBO predictions about the cost of new-ship construction are always higher than that of the Navy - historically, CBO has not been wrong

The Coming Squeeze
Graph below shows that it is time to choose – but the US government has shown it is not good at making such choices

- ADM Mike Mullen (Chairman, JCS) in 2011: the DoD budget has basically doubled in the last decade but DoD has lost the ability to prioritize and make hard decisions
  - DoD did not do the tough analysis needed to make trades
- DoD has done a little better in the last three years as the coming downturn loomed but more hard choices must be made
- DoD is perennially optimistic as can be seen in this “pitchfork” chart below that displays the triumph of hope over experience
- Chart shows changes when the optimism of the President’s budgets met reality over the last few years when each year “something has to give” concept took effect
  - Always hope that the situation will be getting better
  - Services come in and expect something but are then told something else

Current drawdown looks like all the other previous drawdowns so far as seen in the graph below of the 1990s drawdown – the chunky peanut butter approach (a spread but lumpy)
• Procurement goes down the most
• Military personnel costs are drawn down by reducing forces, not by reforming pay and benefits
• O&M slope is relatively shallow since it has been so hard to control the back office
• RDT&E does not get hit that much because it provides the seed corn

An alternative method of making choices is the One-Third Method where each of the services gets one-third of the funding as seen in the very consistent graph below

The Liminal Moment
The US is at a *liminal moment* – when crossing the threshold as things are changing and no one knows exactly what is coming
• Much like as in the Edwardian era in England just before World War I
  o Dr. Adams lately has been researching that brief but important era in the evolution of the international system and its issues
  o Players in the international system could not then look into the future to see what was coming
    ▪ Few saw the coming of World War I or the end of some Empires
    ▪ Few understood that income disparity would become such a major political issue in so many countries
    ▪ The people in charge had no idea that big changes were coming
      • British Liberals were considered only nuisances since the Conservatives believed that they naturally should rule
      • Expected a global era of peace
  • Can see some similarities to the current situation but there are differences, too
• Like the Edwardian era the international system is rebalancing
• Some areas of strategic thinking need work and not just military work
  o **Shifts in leadership:** not just about China rising and the US slipping down
    ▪ Other players are coming in and the US can’t/won’t be involved everywhere all the time
    ▪ The US role as global protector is changing to include regional efforts
    ▪ Can see the “rise of the rest,” many of whom for various reasons are not happy with the US including:
      • Turkey, Brazil, Germany, India, South Africa
    ▪ Bottom line: US needs to think through its strategy and identify the future role of its military – a major challenge
  o **Economics** will be an important variable in strategic decision-making
    ▪ The role of the US dollar as the dominant currency is changing
      • There is a debate about the role of the dollar
      ▪ Can’t see what the change really will be, only that it is changing
      ▪ Thinking through implications of this change will be important for developing strategy
      ▪ Using the Palmer method of measuring income distribution, the US comes in 44th of the 86 countries studied in terms of income equality
        • While the US sees itself as a very equal society, that doesn’t show up in the data
        • Involves relative, not absolute relations
          o All in Nigeria are poorer than most in the US, but the distribution of wealth in Nigeria is more equal
          o Same is true about Iraq, India, Egypt, etc.
      ▪ This problem of an uneven distribution of wealth will be a problem outside the US, too, and is especially likely to be in the MidEast
  o **Governance:** the development of efficient, effective, relatively responsive governments in wide swaths of the globe is a challenge
    ▪ Not necessarily a military mission
    ▪ Already seeing in 2012 strategic documents that DoD should not be involved in long-term stabilization ops – would be a big change
      • How does that become operational?
      • What should be done about the challenge of good governance – especially given US budget battles recently?
  o **Climate change:** May be a growing strategic challenge that is coming faster than expected
    ▪ How does the US adapt to the challenge of rising sea levels and dramatic weather patterns?
    ▪ What should be done to make sure that the situation does not become catastrophic over the next 50-100 years?
    ▪ None of this is being grappled with as part of a national strategy
  o Bottom line: All of these challenges, even the stability of the international system, may require other tools beyond those of military forces
• Frustrating: The defense community alone has a fantastic capacity to think about strategy, tactics, operations, future issues, something not available elsewhere
  o Result: the sense that DoD would be the best to take on so many missions
  o Really shows the paucity of strategic thinking outside the military
    ▪ Seminars like Rethinking are not held by the State Department
    ▪ FFRDCs and similar research organizations are not available outside of DoD but should be
    ▪ The US is handicapped by seeing strategic challenges as only military challenges but most can’t be fixed by military force
  o Institutional challenge: how to fix the balance on strategic thinking and improve it

Options for Strategic Challenges
Recently, a number of major think tanks considered what the military needs to look like to face these strategic challenges and nearly all broadly agreed
• Major strategic challenge: the role of the military in the Pacific (no surprise)
• The Mid East will continue to be a demanding area of change for the US but the military would have some limited utility in trying to solve the problems there
  o Result: probably Gulf naval deployments but not much involving land forces whose actions could even be counter-productive
• Governance in the arc of instability will be another major challenge along with terrorism – neither of which would likely be solved by military forces alone

However, these two regional and one multi-regional challenges are not susceptible to military options and arguably aren’t even suited to today’s $600B defense budget
• DoD could spend that kind of money but not solve the problems
• What the military needs to do to help may not require that much money
• DoD may not have that much money available any way
  o More likely to have about $450-500B (in FY2014 constant $) available yearly for the next 10 years since budget mostly dragged down by external politics

Not About Military Presence
• Professor Adams agrees with Tom Friedman’s 01/08/14, New York Times comment “Naïve is thinking that everything is about the absence or presence of American power and that the people of the region have no agency.”
  o This is especially true in a period when rebalancing is going on and the roles of the dollar and the US military are changing
  o People of these regions are regaining their own agency while not paying attention to the US
    ▪ During the Cold War a lot of attention was paid to the system leader
    ▪ After, especially in the last decade, this attention is not as great
  o Bottom line: The US needs to develop an understanding of this reality, which will improve its strategic thinking
The Strategic Agility Report

This Stimson report was originally written 15 months ago and reissued in light of the FY2015 budget

- Several former military and statecraft officials looked at defining national interests and determining which interests are worth fighting for
  - Vital national interests:
    - Protecting US Homeland – obvious
    - Protecting US Allies from Attack – obvious
    - Ensuring Unimpeded Access to Global Commons – some disagree
      - Seems to be at times protecting scoundrels
      - Might be hard to link military ops except for protecting a small number of very important seaways
  - Conditional national interests: (conditional means “it depends”)
    - Resolving Intrastate Conflicts – military ops may not be best way to go
    - Stabilizing Governance – military may not be the right instrument
- Report also identified Key Strategic Operating Principles:
  - Focus on Defending Vital Interests
  - Ensure Globally Superior Space, Air, Naval, and Special Operations Forces
    - Not really at risk now – since the US is so far beyond others
    - But there are myths that are often discussed
  - Reform Manpower, Compensation & Procurement Systems
  - Resist Protracted Land Stability & Counterinsurgency Wars
  - Reduce Yet Maintain Highly Capable Ground Forces
- Report also documented a Summary of Suggested Changes:

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<th>Current</th>
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<td>FY15 DoD Budget (billions of constant FY13$)</td>
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*Army and Marine Corps end-strength figures do not include reductions from management reforms

- Military manpower number is close to what Army Chief of Staff. GEN Raymond T. Odierno said he could live with
- Civilian number may be on the short end
  - One recent study suggested a one-third cut – not shocking since that is about what happened in previous drawdowns
Usually accomplish drawdowns with attrition and buy-outs and occasionally the bad practice of letting people go

Good chance that DoD will use the attrition and buy-out method again

- Would be normal when cutting down on the back office
- Would be good if the cut back was well planned but it usually doesn’t happen that way

- Default method of cutting into procurement is “an unnatural act” called stretch and shrink
  - Stretch the program and shrink the buy for major programs
  - Then hammer smaller, lesser important programs for the dollars needed to reach goals
- Army combat strength will likely go lower than 450,000
- Air Force active fighters will be cut at least to the projected 950
- Navy carriers will remain at 10 despite continuing arguments about 10 versus 11
- Marine Corps Commandant wants 174,000 but he may not get that many
- DoD budget at $474B is considered acceptable but involves accommodating some risk, which is normal (Strategy wears a dollar sign!)
  - This number is not too bad and DoD currently doing a little better at about $490B in 2013 dollars – outside of OCO

- Bottom line: DoD needs to do some creative thinking with a lot of hard planning about where to get the dollars
  - All of the recent studies and the Stimson study agree that one place to find the money is in cutting back on the back office
  - Takes serious attention to the problem as Professor Adams saw in the 1990s attempts involving the default of method of attrition
    - DoD needs to develop details about what it doesn’t need to do any more / who would be doing it
  - Data to consider:
    - 800,000 civil servants & 700,000 contractor personnel in DoD
    - 350,000 military personnel in civilian or commercial functions (as defined by the military)
    - Total is 1.8 million where the active duty military is only at 1.1M (when take out the 350,000 counted above)
    - Bottom line: Huge back office even with blunt numbers

- Many people agree that DoD must find ways to work better and make the back office as lean as what the active duty forces are going to be, which will be a big challenge
  - Don’t see that DoD has stepped up to this yet
  - Have only seen that SecDef Hagel has called for a 20% headquarters cut
- Making good cuts in the back office has the advantage of being relatively less politically toxic than the other options in the defense community and in Congress
  - Still will be some politics involved (not as bad as cutting pay and benefits or procurement) so it won’t be an easy battle

**Bottom line:** Making hard choices about back office costs will be less toxic politically and reduce the pressure on the other areas
QUESTION & ANSWER SESSION

Re: Research and Development Budget Changes
Defense investment has historically had a major spin-off impact globally but in the modern era there has been more of a spin-on

- Especially true in communications, information technology, etc.
- DoD now looking to see what commercial technology is available to them
- R&D is certainly no longer a one-way street
- Overall Defense R&D investment has shriveled
  - Some areas still are very important but 80-90% of investment is now in the private sector
  - Now mostly in the biological, IT, cyber sectors (not at NSA)
  - Commercial providers have mixed feelings about NSA surveillance since they see themselves as a bigger enterprise than NSA
  - DoD’s role in R&D is declining even though that budget is doing relatively well
- Another question is whether DoD should be involved in R&D that is not focused on developing the best technology in the world
  - May have that consequence but only as a by-product of what DoD is doing to arm its forces

Re: Guard and Reserve in the Drawdown
Every time there is a drawdown, the ground forces drawdown is the deepest

- Then there is more reliance on the ability to call up the Reserves
  - That reliance is totally logical
  - Could also call up more volunteers when needed, which worked for the recent Army and Marine Corps recruiting efforts
- Huge difference is that in this drawdown the US has probably never had such a ready reserve as it does today
  - So many Guard and Reserve forces have cycled through Iraq and Afghanistan in recent years (at some points 40-50% there were Guard and Reserve)
  - Because there was so much OCO money, the Guard and Reserve received their own front line equipment rather than old trickled down equipment
- DoD needs to take a hard look at its call-up capability given its new strategic design
  - Major ground wars no longer look likely, but that prediction could be wrong
    - Those countries that might be in conflict with the US in the future (Iran, China, etc.) could not be reasonably handled by a major ground invasion
    - There may be war plans someplace, but for good strategic reasons it is highly unlikely that US forces would go to those places
  - Therefore, need a smaller active duty ground force, as happened after Korea, Vietnam, and the end of the Cold War
  - Need to make ground forces the sharp point of the spear, so must do something about the back office and maintain the call up capability
  - Such a view may not make as much sense to the active duty force
Re: Understanding the Other Side
Would be interesting to know more about the leaders of the other countries involved in this transformational era

- No matter how good leaders are, the big question would be whether everyone understands what the others are saying
  - Do we know what the Chinese really intend? What their signals really mean?
  - What are the Chinese prepared to accommodate in the South China Sea? Or in Tibet?
  - How does the Chinese leadership understand US actions?
- Try to put self in the head of the other international leaders
  - Diplomats may be accused of “going native” but that can be a good thing if they can understand the intentions and signals of others
  - Need to understand where they are coming from
- What went wrong before WWI – people didn’t understand each other during a time when everyone feared the changes that were coming but didn’t know the how/where regarding changes
  - Empires were in trouble
  - Leaders were fearful and not reading signs very well

Re: Viewing Patterns of Relationships through a Military Lens
If look at relationships only through a military lens, then will likely miss other, especially economic signals, which are now critically important

- In the 1950s and 60s we were told that one of the measures of a military power was a strong economy and the ability to accumulate natural resources
  - Some of this remains true but almost no country now has a sealed box of an economy given the nature of today’s global economy
  - So every major economic or fiscal crisis creates turbulence inside some countries and between countries
- US is not going to be a second-rate military power any time in the foreseeable future
  - No other country tries to fly everywhere, deploy everywhere, sail everywhere with a global network of comms, intelligence, logistics, etc.
    - Example: The French recently needed US help to deploy to Africa
  - Does not mean that the US won’t have challenges in specific theaters
- But defining the situation as fear of becoming second rate puts the US at risk of missing the signals
  - About collapsing relationships, failures of governments, economic challenges
  - These are the things that can and already are undermining the US position
    - To some extent this may not be restorable
- Bottom line: DoD must rethink about / adjust to living in a world of multi-player spheres of influence with players that no longer jump when the US says to