We are entering a “build-down”.
There should be very few surprises because build downs have occurred before
• There are very few senior level leaders currently in the administration or DoD who experienced the last build down after the end of the cold war
• The current leadership grew up in an era of generous resources
• This will be the fifth build down since the end of World War II

The chart below illustrates national defense outlays vs time in constant $ (inflation adjusted $) and shows the four budget declines after the conclusion of the Korean, Vietnam and Cold Wars as well as the unprecedented build up, compared to past build ups

Why are we in a build down?
• 2 Primary reasons
  o There is concern about the economy, unemployment, federal budget deficits, and rising levels of debt relative to GDP
  o The US is ending its forward combat deployments in Iraq and Afghanistan
    • These wars are coming to an end as did previous major wars
Concerning the Congressional Super Committee, its work, and the current debate among politicians, we should be prepared to watch an *Indonesian Shadow Play*

- The current super committee deliberations are the first step
- But, the only budget numbers that matter are in the Budget Control Act of 2011
  - They are the security spending caps for FY12 ($684 B) and FY13 ($686 B)
  - The Caps are dictated by Congress
- Even if there are budget recommendations by the super committee, they will likely never become reality
- If there is a “sequester” (the super committee cannot come to an agreement on cuts and revenue increases), announced this winter, it does not take effect until January 2013
  - Through 2012 there will be general elections and room for changes to any numbers dictated by a sequester or super committee agreement
  - This is all a set up for a political fight that both the Republicans and Democrats want in 2012,
  - After the elections, they will work together, but budget cuts will come
  - Nearly all proposed out year increases in budgets in the past build down were rolled back
  - This will be a BIG SHOW

Cuts are coming!

- Historical build downs demonstrate a 30% drop in budgets over 10 years
- A drop of only 8% in DoD’s budget (what is presently being discussed), is unrealistic given past history
- 25-30% would be in the middle range
- We are likely headed for a 36% drop similar to the last build down
- We will see deficit reductions substantially larger than the $1.2T - $1.5T over ten years currently being proposed and called for by the Budget Control Act
- The DoD budget is a small part of the overall problem with future deficits and debt build up and the focus will be on reducing entitlements and raising taxes
- Savings/Cuts after a decade for the last three build downs were:
  
<table>
<thead>
<tr>
<th>War Ended</th>
<th>% decline over 10 yrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea</td>
<td>31</td>
</tr>
<tr>
<td>Vietnam</td>
<td>28</td>
</tr>
<tr>
<td>Cold war</td>
<td>31</td>
</tr>
</tbody>
</table>

- The chart below illustrates the percent decline in budgets for the last three DoD budget declines over time
How will the cuts occur?

- It will require a tremendous amount of discipline
- Procurement will take the hardest hit
  - This will have real implications for the next generation of warfare
  - The US has done a good job of modernization in last 10 years
    - Army upgraded substantial portion of it hardware
    - Navy bought nearly everything on its long range plan from 2000
    - Air force bought a lot of F22s, UAVs, and C17s
- Reduction in manpower - there is already talk about reducing end strength and the size of the force
- Civilian workforce will also shrink
- Infrastructure will shrink
- Compensation and Benefits:
  - Costs are going up
  - But it is hard to make real changes to the budget through compensation and benefit cuts
    - Savings through changes to retirement are not likely as those changes kick in slowly and do not produce large savings
- The chart below illustrates the reductions in different categories of spending for the Cold War build down
The next three charts illustrate where the US is currently in terms of force structure and defense spending compared to others.
What will happen to Services Contracting?

- Some people believe a build down of the active duty force will lead to more civilian support, but it is not likely
  - The “Glory days of outsourcing are over”
- There are no inducements for the services to find efficiencies because $$ found by the services finding efficiencies will be confiscated
- Efficiencies will happen because budgets are going down

The Relationship of Strategy and Budgets

- Usually those in defense call for creating strategy first to stem budget cuts - they try to show what potential cuts could mean in terms of what the US will and will not be able to do
- But, “strategy wears a dollar sign”
  - The budget will drive strategy, not the other way around
  - Budgets will be cut and then DoD will be told do less with less not more with less
- A Strategy Review is underway
  - But hard choices will likely not be made
  - The aim is to avoid a “hollow” force which by and large we were able to in the 1990s
  - We currently have a globally dominant military capability
  - We will likely need to be more focused on fewer geographic areas and missions

Two Real Future Threats to US National Security

1. Terrorist Attack: The response would be largely Special Forces based
2. Cyber intrusion into military, government, or economic systems: does not require a large military
- Bottom line is neither major perceived threat drives one towards a large force structure

Reasons some cite for maintaining high levels of defense spending and why they do not make sense

- **Uncertainty** (usually put out there as being very scary and therefore a reason for large force structure investments): but there has always been uncertainty and it does not aid in planning force structure
- **Protection of the “Global Commons”:** not something defense can really deal with and for the most part, the major pieces (trade, commerce, aviation, banking, etc.) are regulated by international civilian agencies and not really influenced by the military
- **Future of force on force conflicts:** likely precious few incidents where we will deploy conventional forces overseas in the future.
  - We should consider maintaining a force for deterrent value
  - But it is hard to determine how much force structure is needed for deterrence
- **COIN and Nation Building Capability:** over the next 10 years, the degree to which we do this in massive numbers will likely shrink
- **Global Security Dilemma:** what difference does it make if we aren’t everywhere, all the time?
- **Counter proliferation of WMD:** this effort is primarily a civilian enterprise using diplomacy and/or sanctions
Bottom line:

- Lower level of threats in the future are likely
- We have never been as secure as we are today, as a nation
  - Speaker cited the cold war and the threat of nuclear war with the Soviets in the past as where we really did have a security dilemma

Q&A session:

Q: Will the government be able to work together to come up with solutions to the budget dilemma despite the hyper-partisanship in Washington?
A: Yes, because of the hyper-political environment.
  - Congress currently has a 9% approval rating, mostly for not getting anything done
  - There is a discipline problem, more on the republican than democrat side
  - The election results will show the wisdom (or lack of it), of the “my way or the highway” position
  - There is a 75% chance they will find a way to make those choices next November

Q: What will happen to R&D spending during the coming build down?
A: It will tend to look like the last build down.
  - R&D is an investment in next generation of weapon systems
  - It is makes sense not to bring down R&D as sharply as procurement, but procurement is political
    - It is hard to kill a project in production
  - R&D has smaller constituency
  - There will be “stealth” cuts in procurement
  - 60% of procurement is in non MDAPs (Major Defense Acquisition Programs) and can be cut without major howling and complaints from the major defense contractors

Q: Looking at the history of build downs, there is a history of differential build downs among different forces (services). Will this build down be the same?
A: Expect the same “peanut butter spread” of reductions to all of the forces (services)
  - But if there is strategy driven planning, it could change the service shares

Q: The previous build downs indicate the same level of reduction and reaching the same floor in terms of budgets. Does strategy really play a little role in a build down?
A: It is a puzzlingly common number (the trough of defense spending at approximately $350B - $400B in FY11$)
  - Does not mean there is no impact on strategy
  - WWII build down – Eisenhower was not too interested in a standing army and employed a massive nuclear deterrence / retaliation strategy to reduce force structure
  - Nixon had a shift in doctrine toward using surrogate states to fight US wars
  - FY89-93 there were huge discussions about strategy
  - This is a propitious time to discuss strategy
Q: People say when our forces are small we invite aggression and are surprised by war.
A: The last war that surprised us was Korea
   - It was a surprise regardless of hindsight
   - Others wars we have recently fought were chosen by policy makers and were not a surprise
     o The Iraq invasion of Kuwait was a surprise, but the subsequent US war against Iraq was not
     o The 9/11 attack was a surprise, but the decision to go after the Taliban or Iraq was not

Q: What do we do about China from a DoD perspective?
A: China is a rising power, investing a lot of money in trade and armed forces.
   - Their military capability does not hold a candle to our ability, even in theater
   - Their only advantage is people
   - We should keep an eye on Chinese technology but a force on force war is a “no brainer”
   - China is focused on the Taiwan relationship
   - China has a limited appetite to become a global force
   - The US/China competition will not be the same as the previous competition between the US and USSR
   - We have a different (economic) relationship with China than we did with the USSR
   - There is a high risk of “mirror phenomenon”