



DEFENSE SPENDING AND DEFICIT REDUCTIONS: FUNDING THE FUTURE

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It is common wisdom that the federal budget deficit is the biggest challenge facing the U.S. government today, but the debate rages over how to reduce that deficit and bring under control the growing debt burden. Two powerful commissions provided their views late last year, with both the Simpson-Bowles Commission and the Rivlin-Domenici Commission proposing ways to reduce the overall debt to 60 percent of GDP. While neither commission's approach will be adopted, they do show that such an outcome is possible, and they are shaping the consideration of options.

There is another key issue that lies within the debate over deficit reductions, and that is the role of defense spending in deficit reductions. Both Simpson-Bowles and Rivlin-Domenici argue that cuts in defense are part of the solution. Defense secretary Robert Gates argues that defense spending did not cause the deficit and should not be part of solving the debt problem. Let's look at the reality and the options.

Defense spending is 22 percent of overall federal spending and 60 percent of overall federal discretionary spending. It is nearly impossible to reduce spending significantly without defense cuts as part of that overall reduction—the arithmetic does not support exempting defense. The larger philosophical point, though, is that the nation cannot be secure unless the economy is sound, and deficit reductions are central to that economic stability. Ultimately, the nation has no choice but to include defense spending in an overall deficit reduction program.

Both commissions proposed their own specific cuts, which show that defense can be reduced, but those ideas are largely illustrative. They demonstrate the feasibility of defense spending reductions but provide no guidance. The question then is not whether but how to cut defense spending. History is very clear on this: there are only three possible paths. Let's look at each in turn.

One path is to make budget cuts one year at a time. This is the path most commonly taken, and it was used for much of the defense drawdown in the 1990s, but it causes DoD (the Department of Defense) to suffer the mismatches that inevitably result when resource decisions are disconnected from overall military needs. There have been no cases in which year-by-year budget cuts have led to an improvement of funding for core requirements.

The second path is to cut force structure, which can lead to reductions for years to come. This is the path taken at the end of the Cold War, when General Colin Powell, chairman of the Joint Chiefs of Staff, successfully proposed what he called the Base Force, reducing overall force structure by roughly 40 percent.

This path was also used under Presidents Eisenhower and Ford. It has one

advantage over the year-by-year cuts, because by tying budget cuts to force cuts, it helps maintain the balance between requirements and resources. The disadvantage of this approach is that it is largely backward looking and does not automatically reshape future forces, technologies, or investments.

The third path is the hardest one. It calls for redefining what the military needs and for supporting investments to meet those needs, while focusing cuts elsewhere. This path has been attempted several times but has never been fully followed. It makes the most sense, and the most recent QDR (the Quadrennial Defense Review) made an attempt to begin this approach, but it falls far short. If this is the best approach, why has it been so difficult? There are four key reasons this approach has not worked in the past, and these

reasons need to be addressed if defense capability is to be sustained while deep cuts are made.

First, we do not know today what we get for the defense money that we spend. Nearly \$200 billion is spent annually on contracts that provide services for DoD, from workers sitting at government desks to overhauling weapons, from cloud computing to filling potholes. Each contract may be worthwhile and defensible, but DoD in the aggregate cannot say what the overall benefits are or what would be the impact of reductions.

Second, the future threat is hard to define. DoD promotes the idea that defense funding

provides capabilities rather than specific threat responses, but no one has figured out how to

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validate the requirement for a specific capability except by comparing it to a specific threat. We know that the future has many threats, and we suspect that for many of those threats, the military is not the first solution, but we do not have a good answer to the questions of what kind of military will we need and what will we need it to be able to do. This makes it hard to prioritize defense spending.

Third, civilian control of the military has weakened. No one questions the authority of the secretary of defense or the president, but the institutions that extend their authority across DoD have not been adequately sustained. The military defines requirements, with little civilian ability to make adjustments, and the military defines acceptable risk, when

this is clearly a question for civilian leadership. The military sets budget priorities and determines which can be changed during execution.

Fourth, and most important, the past is always trying to kill the future, because that is the only way the past can stay alive. Even after the third approach is undertaken and future military needs are defined, the transition period may cost more in the short run, because until that future arrives, DoD needs to fund current capability (which represents the past investments in people and training and equipment).

How then do we define the future and fund it? The solutions to the problems of deficits and debt will be agreed to over the next two years, and that time period is the one shot we have to get DoD requirements and funding right. Leon Panetta has been named as the incoming secretary of defense. Here is what he has to do.

First, he has to resolve the near-term budgets: Fiscal Year 2012, which is being debated in Congress this year, and Fiscal Year 2013, to be submitted next February. There is not enough time for those budgets to be the result of redefined requirements, but their specifics need to be resolved in ways that

do not foreclose the best future options. This probably means using year-by-year reductions for FY12 and FY13.

Second, he has to assemble the next defense long-term program, called the FYDP, or Future Years Defense Program. That program will cover fiscal years 2014–2019, called the “out years,” and here is where the new defense secretary can make a huge difference. He can issue guidance for a review that will lay out future defense requirements, and then he can ensure adequate funding is aligned to meet those requirements. He can set targets for funding cuts in those out years, and he can make sure those cuts are planned in ways that protect the future rather than sustain the past. He can aim to implement those reductions after the 2012 elections and when substantial forces begin to return from Afghanistan, thereby sustaining full support for the men and women in combat today.

Defense spending needs to be cut as part of overall deficit reductions, and there will be just one shot at getting it right. The right approach calls for redefining future defense needs and directing future funding toward those needs. The person to do it has been nominated. The time to start is now. ■