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The New US Defense Strategy and the Priorities and Changes in the FY2013 Budget

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Introduction

This report analyzes the pattern of cuts in recent, ongoing, and possible future defense and national security spending that affects the US and its ability to project power and aid its friends and allies.

- **The report uses data provided by the Department of Defense in the policy guidance document it provided on “*Sustaining US Leadership: Priorities for 21st Century Defense*” on January 5, 2012; and 2012 budget briefing and document on “*Defense Budget: Priorities and Changes*” it provided on January 26, 2012. The report quotes the original source where possible.**

These sources, however, can only tell part of the story:

- The US may not face peer threats in the near to mid term, but it faces a wide variety of lesser threats that make maintaining effective military forces, foreign aid, and other national security programs a vital national security interest.
- The US does need to reshape its national security planning and strategy to do a far better job of allocating resources to meet these threats. It needs to abandon theoretical and conceptual exercises in strategy that do not focus on detailed force plans, manpower plans, procurement plans, and budgets; and use its resources more wisely.
- The US still dominates world military spending, but it must recognize that maintaining the US economy is a vital national security interest in a world where the growth and development of other nations and regions means that the relative share the US has in the global economy will decline steadily over time, even under the best circumstances.
- At the same time, US dependence on the security and stability of the global economy will continue to grow indefinitely in the future. Talk of any form of “independence,” including freedom from energy imports, is a dangerous myth. The US cannot maintain and grow its economy without strong military forces and effective diplomatic and aid efforts.
- US military and national security spending already places a far lower burden on the US economy than during the peaceful periods of the Cold War, and existing spending plans will lower that burden in the future. National security spending is now averaging between 4% and 5% of the GDP -- in spite of the fact the US has been fighting two wars in Iraq and Afghanistan -- versus 6-7% during the Cold War.

The US Congress has passed budget legislation that threatens devastating cuts in national security funding if the Congress does not act to find meaningful solutions to the nation’s debt and deficit problems by the end of 2011.

- At 24.1 percent of gross domestic product, total federal outlays in 2010 were considerably higher than the 20.7 percent they have averaged over the past 40 years. According to CBO baseline projections, federal spending in the next decade will average almost 23 percent of GDP.

- Mandatory or “entitlement” outlays will increase by 5.1 percent in 2011 and by an average of 4.4 percent annually between 2012 and 2020, compared with an average growth rate of 6.4 percent between 1999 and 2008. They will average 12.3% to 13.3% of the GDP during FY2012 to FY2020.
- Defense spending will average only 3.3% to 4.3%, dropping from a peak war year level of 4.7% in FY2010. All other discretionary federal spending will equal 4.1% to 3.1% of the GDP.
- (CBO, <http://www.cbo.gov/ftpdocs/108xx/doc10871/Chapter3.shtml>.)
- The defense share of federal spending is so low a percentage of total federal spending, the GDP, and rising entitlements costs that no feasible amount of cuts in US national security spending can have a major impact on the US deficit and debt problems. Unaffordable rises in the burden medical care puts on the economy which cannot be dealt with by cutting back the level of government spending without addressing the entire mix of national government spending, demographic trends, and social needs.

The most serious single threat the US faces to its national security does not come from foreign threats, but from the pressures on defense spending created by these domestic social and economic trends, and the rising cost US federal entitlements spending.

- These rises in total spending are driven two critical factors that cannot be addressed simply by altering the federal budget. They are driven by the cost of mandatory retirement and medical costs that extend far beyond government spending:
 - First, an aging population that does not save or assume full responsibility for retirement.
 - In 1940, the life expectancy of a 65-year-old was almost 14 years; today it's almost 20 years. By 2036, there will be almost twice as many older Americans as today -- from 41.9 million today to 78.1 million.
 - There are currently 2.9 workers for each Social Security beneficiary. By 2036, there will be 2.1 workers for each beneficiary. At the end of 2011, roughly 50% of the present US workforce had no private pension coverage, and 31% of the workforce has no savings set aside specifically for retirement.
 - In 2011, 54% of retired married couples and 73% of unmarried persons – some 35 million Americans or 69% of those receiving benefits -- received 50% or more of their income from Social Security; and 22% of married couples About 43% of unmarried persons receiving benefits relied on Social Security for 90% or more of their income. Another 9% of Americans over 65 had no retirement savings and did not receive Social Security benefits. In addition, 8.4 million disabled Americans and 2 million of their dependents (19% of total benefits) depended on Social Security, plus 6.3 million survivors of deceased workers (12% of total benefits). (Social Security Administration)

- Second, by the rising cost of Medicare, Medicaid (and potentially national medical care under the Affordable care Act as of 2014).
 - These costs are driven massive rises in the national cost of medical care from around 6% of the GDP to well over 20% -- they rose 5.73% in 2011. Expenditures in the United States on health care surpassed \$2.3 trillion in 2008, more than three times the \$714 billion spent in 1990, and over eight times the \$253 billion spent in 1980. Without major changes in cost, they will equal some 25% of the GDP in 2025.
 - They are costs which roughly one quarter of Americans have no insurance, and many only partial insurance coverage. Even so, the average health insurance premium for family coverage has more than doubled over the past decade to \$13,770 a year.
 - Some 45.1% of the workforce from ages 18 to 64 had no coverage as of September 2011, and many retirees lacked the savings to pay for any additional payments above Medicare. These figures did not include Americans who had not worked in the last 12 months, and coverage had dropped substantially since 2008. If one includes self-financed medical insurance, some 50 million Americans or 16.% of the population had no coverage in 2010.
 - In 2010, 31% of Americans relied on the government for health insurance, up from 24.2% in 1999. a total of 9.8% of children under age 18 are uninsured despite the government programs. (US Census Bureau, Kaiser Family Foundation, CNN Money)

These pressures, however, are only part of the non-traditional threats to US security

- The steady decline in the size and military capability of our traditional allies poses another critical non-traditional threat. It is clear that no amount of US exhortation will change this situation and the US must reshape its strategy accordingly.
- The rise of threats like terrorism is only one aspect of new shifts in the threats to the US that force it to work far more closely and effectively with non-traditional allies, reshape elements of its military spending and operations to help build up their capabilities, and maintain strong embassy teams and aid efforts to help bring political and economic stability.
- The US must fundamentally rethink its approach to “optional wars.” It is far from clear that it can win the Iraq War, rather than empower Iran, without a strong military and aid presence. It will decisively lose the Afghan and Pakistan conflict if it does not quickly develop plans for a military and diplomatic presence, and help to aid Afghanistan in transitioning away from dependence on foreign military and economic spending during 2012-2020. US troop cuts are not a transition plan, and focusing on withdrawal is a recipe for defeat.
- That said, the US cannot, and should not, repeat the mistake it made in intervening in Iraq and Afghanistan. It must deal with non-traditional threats with a far better and more affordable mix of global, regional, and national strategies that can deal with issues like the turmoil in the Middle East, and South and Central Asia, and terrorism and instability on a global basis. It must rely on aiding friendly states, deterrence, containment, and far more limited and less costly forms of intervention.

- The new budget act poses a potentially crippling threat to US national security. Further major defense spending cuts pose a major additional threat under these conditions. The US has already made major cuts in its defense efforts since FY2009, and plans to implement an additional \$250 billion in cuts over the next five years. It cannot absorb major additional cuts under these conditions.

The new strategy and FY2-13 budget submission are still correct, however, in reacting to the fact Department of Defense needs to make a major new effort to deal with its own, self-inflicted non-traditional threats.

- Massive rises in the cost per soldier on active duty.
- A quarter century of posturing (?), failed efforts to develop effective procurement programs and cost controls.
- A fundamental breakdown in the ability to tie strategy to feasible, affordable programs.

As yet, however, the documents and data that the Department has provided only set general strategic priorities, total nominal budget levels, and partial insights into what the new strategy and FY2013 budget submission really mean:

- There is no force plan for any service in terms of major combat units and major combat weapons.
- There is no mid-term manpower plan, showing active and reserve military, civilians, and contractors.
- There is no RDT&E and procurement plan for the FYDP or longer term; there is no indication of what the new emphasis on technology as a means of reducing the need for force size and improving US military capability actually means.
- There are no deployment and force plans for any region, or definitions of the new goals in partnering.
- There is no breakout of current and planned forces by combatant command.
- There is no net assessment of US, allied, and threat capabilities now, or over time.
- The new emphasis on Asia and the Middle East is undefined in terms of forces, costs and costs.
- The US force posture after reductions in Europe, and concepts of partnering with NATO allies, are not defined.
- There is no explanation of what “innovative” approaches to Africa and Latin American really mean.
- Meaningful plans to deal with manpower costs are deferred until FY2015 or beyond.
- There are no clear plans for leaving Afghanistan, “transition,” or conversion to the new air-land-sea force posture, and no meaningful; OCO budget projections beyond FY2013.

- The future size and nature of the strategic nuclear triad is unclear, as is the nature of future strategic, theater, and tactical missile defense programs.
- The post reduction size and capability of Mobility Forces is not defined, nor is prepositioning
- There is no plan for the defense industrial base.
- Some \$60 billion in savings from efficiency and better management is not explained or justified in meaningful terms.
- There is no credible indication that the FY2013 budget submission, FYDP, and planned 10 year spending levels are any more affordable, or likely to be free of DoD-wide unaffordable patterns of cost escalation than every previous DoD strategy and mix of manpower and procurement plans over the last two decades.

While Secretary Panetta and Chairman Dempsey have discussed risk in broad terms, there is no detail risk or cost-benefit analysis of the new strategy.

Sequestration is addressed by denying that the option can take place.

It is a clear that far more integrated planning is needed at some point to address the proper mix of State Department, Department of Defense, various homeland defense, and Intelligence Community efforts. It is unclear that this would produce meaningful budget savings, but it is all too clear that the present compartmented and stovepiped efforts do not produce anything approaching an integrated strategy or efficient use of resources.

Setting the Stage for the FY2013 Budget Submission and 10 Years of Lower Defense spending:

*The January 2012 Policy Guidance
Document on “Sustaining US
Leadership: Priorities for 21st
Century Defense”*

Key Take-Aways

- **The Pentagon released an outline of its forward-looking defense planning in light of the roughly \$490 billion in defense spending cuts over ten years currently underway as result of prior decisions in 2009-2011.**
- **This guidance did not, however, consider the \$580-\$600 billion in additional reductions specified under the Budget Control Act, apparently assuming that Congress will intervene to prevent sequestration**
- **It featured a broad emphasis on technology, the air-land battle in Asia, maintaining a strong posture in the Middle East, relying more on partnerships with our allies, reduced but ready ground forces, and a slow-down in procurement**
- **Broad outlines, however, do not set real priorities until concrete numbers and plans for procurement, allocation, manpower, force structure, and detailed operational capabilities**
- ***The Secretary of Defense, the Chairman of the Joint Chiefs, and the Comptroller repeatedly stressed that these details will not become clear until the White House and Pentagon release their full FY13 Budget Request in late January or early February.***
- ***For all the talk of 10 years of planned spending levels and cuts, the President and Congress can only shape the actual budget and defense program one year at a time. There is a near zero real world probability that the coming plan and budget will shape the future in spite of changes in the economy, politics, entitlements, and threats to the US.***

The New Primary Strategic Priorities and Missions

- Counter Terrorism and Irregular Warfare**
- Deter and Defeat Aggression**
- Project Power Despite A2/AD Challenges**
- Counter Weapons of Mass Destruction**
- Operate Effectively in Cyberspace and Space**
- Maintain a Safe, Secure, and Effective Nuclear Deterrent**
- Defend the Homeland and Provide support to Civil Authorities**
- Provide a Stabilizing Presence**
- Conduct Stability and Counterinsurgency Operations**
- Conduct Humanitarian, Disaster Relief, and Other Operations**
- Continue to Move toward a more Collaborative in Interoperable Joint Force**

Primary Missions and Priorities- I:

“recalibrate its capabilities and make selective additional investments”

Counter Terrorism and Irregular Warfare. Acting in concert with other means of national power, U.S. military forces must continue to hold al-Qa’ida and its affiliates and adherents under constant pressure, wherever they may be. *Achieving our core goal of disrupting, dismantling, and defeating al-Qa’ida and preventing Afghanistan from ever being a safe haven again will be central to this effort.*

As U.S. forces draw down in Afghanistan, our global counter terrorism efforts will become more widely distributed and will be characterized by a mix of direct action and security force assistance. Reflecting lessons learned of the past decade, we will continue to build and sustain tailored capabilities appropriate for counter terrorism and irregular warfare. We will also remain vigilant to threats posed by other designated terrorist organizations, such as Hezbollah.

Deter and Defeat Aggression. U.S. forces will be capable of deterring and defeating aggression by any potential adversary. *Credible deterrence results from both the capabilities to deny an aggressor the prospect of achieving his objectives and from the complementary capability to impose unacceptable costs on the aggressor.*

- As a nation with important interests in multiple regions, our forces must be capable of deterring and defeating aggression by an opportunistic adversary in one region even when our forces are committed to a large-scale operation elsewhere.
- Our planning envisages forces that are able to fully deny a capable state’s aggressive objectives in one region by conducting a combined arms campaign across all domains a land, air, maritime, space, and cyberspace.
- This includes being able to *secure territory and populations and facilitate a transition to stable governance on a small scale for a limited period using standing forces and, if necessary, for an extended period with mobilized forces.* Even when U.S. forces are committed to a large-scale operation in one region, *they will be capable of denying the objectives of -- or imposing unacceptable costs on -- an opportunistic aggressor in a second region.*
- U.S. forces will plan to operate whenever possible with allied and coalition forces. Our ground forces will be responsive and capitalize on balanced lift, presence, and prepositioning to maintain the agility needed to remain prepared for the several areas in which such conflicts could occur.

Primary Missions and Priorities- II:

Project Power Despite Anti-Access/Area Denial Challenges. In order to credibly deter potential adversaries and to prevent them from achieving their objectives, the United States must maintain its ability to project power in areas in which our access and freedom to operate are challenged.

- In these areas, sophisticated adversaries will use asymmetric capabilities, to include electronic and cyber warfare, ballistic and cruise missiles,
- advanced air defenses, mining, and other methods, to complicate our operational calculus.
- States such as China and Iran will continue to pursue asymmetric means to counter our power projection capabilities, while the proliferation of sophisticated weapons and technology will extend to non-state actors as well.
- *Accordingly, the U.S. military will invest as required to ensure its ability to operate effectively in anti-access and area denial (A2/AD) environments.*
- This will include implementing the Joint Operational Access Concept, sustaining our undersea capabilities, developing a new stealth bomber, improving missile defenses, and continuing efforts to enhance the resiliency and effectiveness of critical space-based capabilities.

Operate Effectively in Cyberspace and Space. Modern armed forces cannot conduct high-tempo, effective operations without reliable information and communication networks and assured access to cyberspace and space.

- Today space systems and their supporting infrastructure face a range of threats that may degrade, disrupt, or destroy assets.
- *Accordingly, DoD will continue to work with domestic and international allies and partners and invest in advanced capabilities to defend its networks, operational capability, and resiliency in cyberspace and space.*

Primary Missions and Priorities- III:

Maintain a Safe, Secure, and Effective Nuclear Deterrent. As long as nuclear weapons remain in existence, the United States will maintain a safe, secure, and effective arsenal.

- We will field nuclear forces that can under any circumstances confront an adversary with the prospect of unacceptable damage, both to deter potential adversaries and to assure U.S. allies and other security partners that they can count on America's security commitments.
- *It is possible that our deterrence goals can be achieved with a smaller nuclear force, which would reduce the number of nuclear weapons in our inventory as well as their role in U.S. national security strategy.*

Defend the Homeland and Provide Support to Civil Authorities. U.S. forces will continue to defend U.S. territory from direct attack by state and non-state actors.

- We will also come to the assistance of domestic civil authorities in the event such defense fails or in case of natural disasters, potentially in response to a very significant or even catastrophic event.
- Homeland defense and support to civil authorities require strong, steady-state force readiness, to include a robust missile defense capability. Threats to the homeland may be highest when U.S. forces are engaged in conflict with an adversary abroad.

Provide a Stabilizing Presence. U.S. forces will conduct a sustainable pace of presence operations abroad, including rotational deployments and bilateral and multilateral training exercises.

- These activities reinforce deterrence, help to build the capacity and competence of U.S., allied, and partner forces for internal and external defense, strengthen alliance cohesion, and increase U.S. influence.
- A reduction in resources will require innovative and creative solutions to maintain our support for allied and partner interoperability and building partner capacity. *However, with reduced resources, thoughtful choices will need to be made regarding the location and frequency of these operations.*

Primary Missions and Priorities- IV:

Conduct Stability and Counterinsurgency Operations. In the aftermath of the wars in Iraq and Afghanistan, the United States will emphasize non-military means and military-to-military cooperation to address instability and reduce the demand for significant U.S. force commitments to stability operations.

- U.S. forces will nevertheless be ready to conduct limited counterinsurgency and other stability operations if required, operating alongside coalition forces wherever possible.
- Accordingly, U.S. forces will retain and continue to refine the lessons learned, expertise, and specialized capabilities that have been developed over the past ten years of counterinsurgency and stability operations in Iraq and Afghanistan.
- *However, U.S. forces will no longer be sized to conduct large-scale, prolonged stability operations.*

Conduct Humanitarian, Disaster Relief, and Other Operations. The nation has frequently called upon its Armed Forces to respond to a range of situations that threaten the safety and well-being of its citizens and those of other countries.

- U.S. forces possess rapidly deployable capabilities, including airlift and sealift, surveillance, medical evacuation and care, and communications that can be invaluable in supplementing lead relief agencies, by extending aid to victims of natural or man-made disasters, both at home and abroad.
- DoD will continue to develop joint doctrine and military response options to prevent and, if necessary, respond to mass atrocities.
- U.S. forces will also remain capable of conducting non-combatant evacuation operations for American citizens overseas on an emergency basis.

Toward the Joint Force of 2020 - I

To ensure success in these missions, several principles will guide our force and program development.

First, given that we cannot predict how the strategic environment will evolve with absolute certainty, we will maintain a broad portfolio of military capabilities that, in the aggregate, offer versatility across the range of missions described above.

- The Department will make clear distinctions both *among* the key sizing and shaping missions listed above and *between* these mission areas and all other areas of the defense program.
- Wholesale divestment of the capability to conduct any mission would be unwise, based on historical and projected uses of U.S. military forces and our inability to predict the future.
- *Likewise, DoD will manage the force in ways that protect its ability to regenerate capabilities that might be needed to meet future, unforeseen demands, maintaining intellectual capital and rank structure that could be called upon to expand key elements of the force.*

Second, we have sought to differentiate between those investments that should be made today and those that can be deferred. This includes an accounting of our ability to make a course change that could be driven by many factors, including shocks or evolutions in the strategic, operational, economic, and technological spheres.

- *Accordingly, the concept of “reversibility,” including the vectors on which we place our industrial base, our people, our active-reserve component balance, our posture, and our partnership emphasis, is a key part of our decision calculus.*

Third, we are determined to maintain a ready and capable force, even as we reduce our overall capacity. We will resist the temptation to sacrifice readiness in order to retain force structure, and will in fact rebuild readiness in areas that, by necessity, were deemphasized over the past decade.

- An ill-prepared force will be vulnerable to corrosion in its morale, recruitment, and retention. Unless we are prepared to send confident, well-trained, and properly equipped men and women into battle, the nation will risk its most important military advantage at the health and quality of the All-Volunteer Force.

Toward the Joint Force of 2020 - II

Fourth, the Department must continue to reduce the “cost of doing business.”

- *This entails reducing the rate of growth of manpower costs, finding further efficiencies in overhead and headquarters, business practices, and other support activities before taking further risk in meeting the demands of the strategy.*
- As DoD takes steps to reduce its manpower costs, to include reductions in the growth of compensation and health care costs, we will keep faith with those who serve.
- During the past decade, the men and women who comprise the All-Volunteer Force have shown versatility, adaptability, and commitment, enduring the constant stress and strain of fighting two overlapping conflicts.
- They have also endured prolonged and repeated deployments. Some a more than 46,000 men and women have been wounded, and still others a more than 6,200 members of the Armed Forces have lost their lives. As the Department reduces the size of the force, we will do so in a way that respects these sacrifices.
- This means, among other things, taking concrete steps to facilitate the transition of those who will leave the service. These include supporting programs to help veterans translate their military skills for the civilian workforce and aid their search for jobs.

Fifth, it will be necessary to examine how this strategy will influence existing campaign and contingency plans so that more limited resources may be better tuned to their requirements.

- *This will include a renewed emphasis on the need for a globally networked approach to deterrence and warfare.*

Sixth, the Department will need to examine the mix of Active Component (AC) and Reserve Component (RC) elements best suited to the strategy.

- Over the past decade, the National Guard and Reserves have consistently demonstrated their readiness and ability to make sustained contributions to national security. The challenges facing the United States today and in the future will require that we continue to employ National Guard and Reserve forces. *The expected pace of operations over the next decade will be a significant driver in determining an appropriate AC/RC mix and level of RC readiness.*

Toward the Joint Force of 2020 - III

Seventh, as we transition out of Iraq and draw down in Afghanistan, we will take extra measures to retain and build on key advancements in networked warfare in which joint forces have finally become truly interdependent.

- *This imperative will shape a number of Departmental disciplines, ranging from establishing warfighting requirements to the way our forces train together.*

Finally, in adjusting our strategy and attendant force size, the Department will make every effort to maintain an adequate industrial base and our investment in science and technology.

- *We will also encourage innovation in concepts of operation.* Over the past ten years, the United States and its coalition allies and partners have learned hard lessons and applied new operational approaches in the counter terrorism, counterinsurgency, and security force assistance arenas, most often operating in uncontested sea and air environments.
- Accordingly, similar work needs to be done to ensure the United States, its allies, and partners are capable of operating in A2/AD, cyber, and other contested operating environments.
- To that end, the Department will both *encourage a culture of change and be prudent with its “seed corn,”* balancing reductions necessitated by resource pressures with the imperative to sustain key streams of innovation that may provide significant long-term payoffs.

The United States faces profound challenges that require strong, agile, and capable military forces whose actions are harmonized with other elements of U.S. national power. Our global responsibilities are significant; we cannot afford to fail. The balance between available resources and our security needs has never been more delicate. Force and program decisions made by the Department of Defense will be made in accordance with the strategic approach described in this document, which is designed to ensure our Armed Forces can meet the demands of the *U.S. National Security Strategy* at acceptable risk.

The January 26, 2012 Budget Briefing and New Document on

*“Defense Budget: Priorities and
Changes”*

Bottom Line By the Numbers

- **\$525 topline (Baseline) billion for FY2013, rising to \$567 billion in FY217 in current dollars. Down from \$531 billion in FY2011.**
- **Wartime (OCO) account drops from \$115 billion in FY2011 to \$88.4 billion in FY2012.**
- **Conforms to 2011 Budget Control Act requirement to reduce future DoD expenditures by \$487 billion over next decade (a cut of nearly 9%), or \$259 billion over next five years.**
- **The new budget level for the Defense Department will rise from FY 2013 to FY 2017; however, total U.S. defense spending, including both base funding and war costs, will drop by about 22% from its peak in 2010, after accounting for inflation.**
- **By comparison, the 7 years following the Vietnam and Cold War peak budgets saw a similar magnitude of decline on the order of 20 to 25%.**
- **Cuts are a continuation of the effort begun in 2010, which identified more than \$150 billion in savings over five years allocated among the three military departments, the defense agencies,**
- **combatant commands, and the Secretary's staff. This left less room for additional reductions to meet the new target of \$259 billion over FY13-17.**
- **Nonetheless, DoD found about \$60 billion in new projected savings over FY13-17.**

CBO Estimate of Budget Caps Before FY2013 Submission

Limits on Discretionary Budget Authority for Fiscal Years 2013 to 2021									
(Millions of dollars)									
	2013	2014	2015	2016	2017	2018	2019	2020	2021
Caps Set in the Budget Control Act ^a									
Defense	546,000	556,000	566,000	577,000	590,000	603,000	616,000	630,000	644,000
Nondefense	501,000	510,000	520,000	530,000	541,000	553,000	566,000	578,000	590,000
Total	1,047,000	1,066,000	1,086,000	1,107,000	1,131,000	1,156,000	1,182,000	1,208,000	1,234,000
Effect of Automatic Enforcement Procedures ^b									
Defense	n.a.	-54,649	-54,649	-54,650	-54,650	-54,651	-54,651	-54,651	-54,652
Nondefense	n.a.	-37,937	-37,321	-36,568	-36,218	-35,648	-34,672	-33,301	-32,910
Total	n.a.	-92,586	-91,970	-91,218	-90,869	-90,298	-89,323	-87,952	-87,562
Revised Caps									
Defense	546,000	501,351	511,351	522,350	535,350	548,349	561,349	575,349	589,348
Nondefense	501,000	472,063	482,679	493,432	504,782	517,352	531,328	544,699	557,090
Total	1,047,000	973,414	994,030	1,015,782	1,040,131	1,065,702	1,092,677	1,120,048	1,146,438

Source: Congressional Budget Office.

Note: Numbers in the table may not add up to totals because of rounding; n.a. = not applicable.

- Section 251A of the Budget Control Act of 2011 (Public Law 112-25) specified that a different set of caps would take effect for 2013 through 2021 to cover defense (budget function 050) and nondefense budget authority if recommendations of the Joint Select Committee on Deficit Reduction that would reduce deficits by \$1.2 trillion over that period were not enacted by January 15, 2012.
- The automatic enforcement procedures delineated in the Budget Control Act would reduce the caps on discretionary budget authority for 2014 through 2021. For 2013, a sequestration of budgetary resources is scheduled to take effect, but no further reduction in the caps is specified in the law. Discretionary budget authority for 2013, CBO estimates, would be reduced by \$97,469 million through that sequestration. In addition, a sequestration of mandatory spending is scheduled each year between 2013 and 2021.

OSD Defense Spending Projections in FY2013 Submission

Budget Control Act Mandated Reductions

- \$487B over 10 years (FY 2012-2021)
- \$259B over 5 years (FY 2013-2017)

Defense Budget over Time¹

\$B	FY01	...	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Base	297		528	528	531	525	534	546	556	567
OCO ²	13		163	159	115	88				
Total	310		691	687	646	614		TBD		

Budget Reduction from Peak FY10 Funding¹

	\$B	FY10	FY17	\$ Change	% Change
Nominal	Base	528	567	39	7%
	OCO	163	44 ³	-119	-73%
	Total	691	611	-80	-12%
Real (\$FY13)	Base	557	529	-28	-5%
	OCO	172	41	-131	-76%
	Total	729	570	-159	-22%

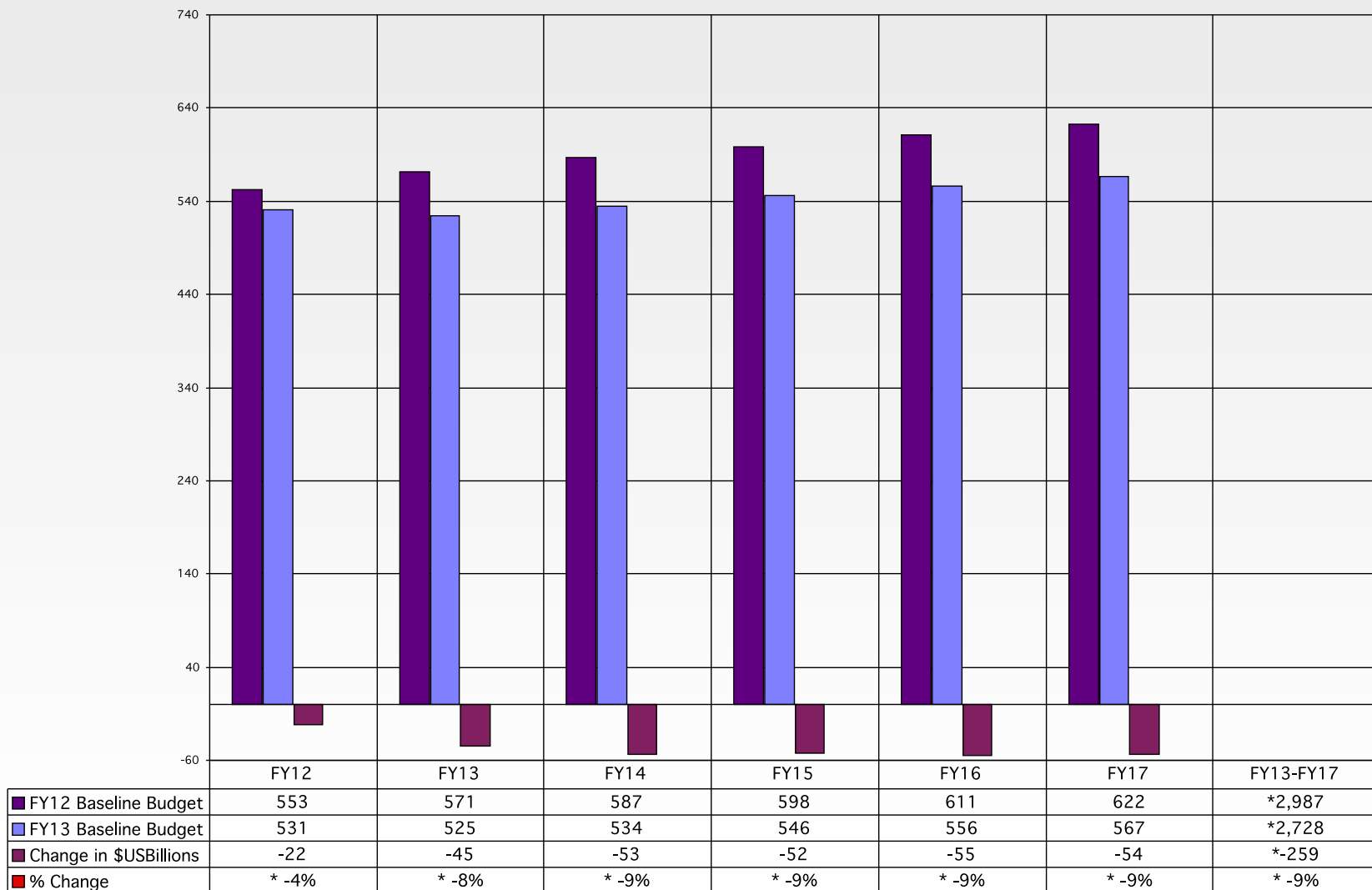
Change from the Base FY12 President's Budget¹

\$B	FY12	FY13	FY14	FY15	FY16	FY17	FY13-17
FY12 Budget	553	571	587	598	611	622	2,987
FY13 Budget	531 ⁴	525	534	546	556	567	2,728
\$ Change	-22	-45	-53	-52	-55	-54	-259
% Change	-4%	-8%	-9%	-9%	-9%	-9%	-9%

Annual Base Budget Changes¹

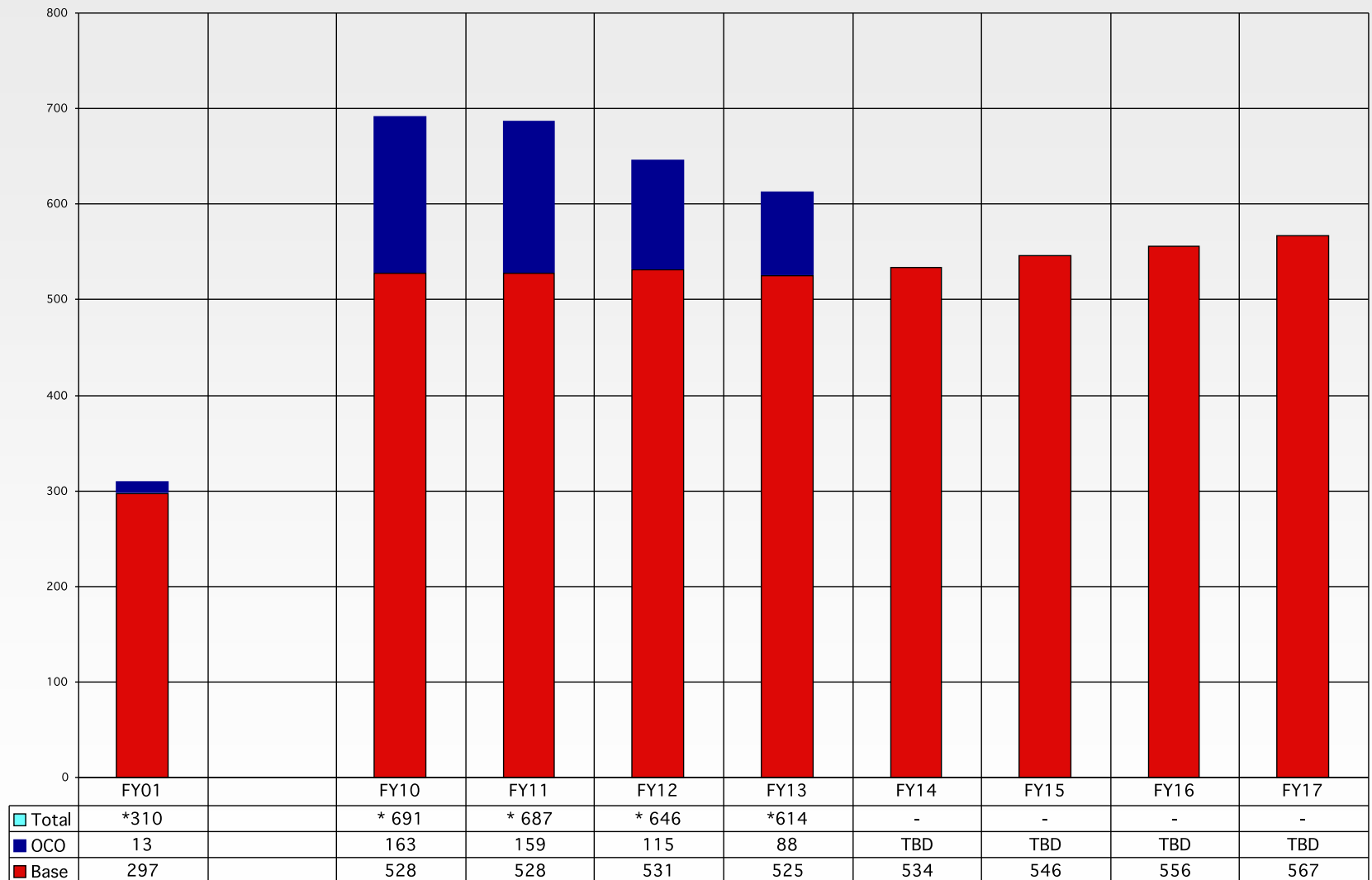
	\$B	FY12	FY13	FY14	FY15	FY16	FY17	FY13-17
Nominal	FY13 Budget	531	525	534	546	556	567	
	% Change		-1.0%	1.5%	2.3%	1.8%	2.1%	6.8%
Real (\$FY13)	FY13 Budget	538	525	527	531	530	529	
	% Change		-2.3%	0.3%	0.6%	-0.2%	-0.1%	-1.6%

Cuts from FY2012 President's Baseline Budget Request (\$US in Current Billions)



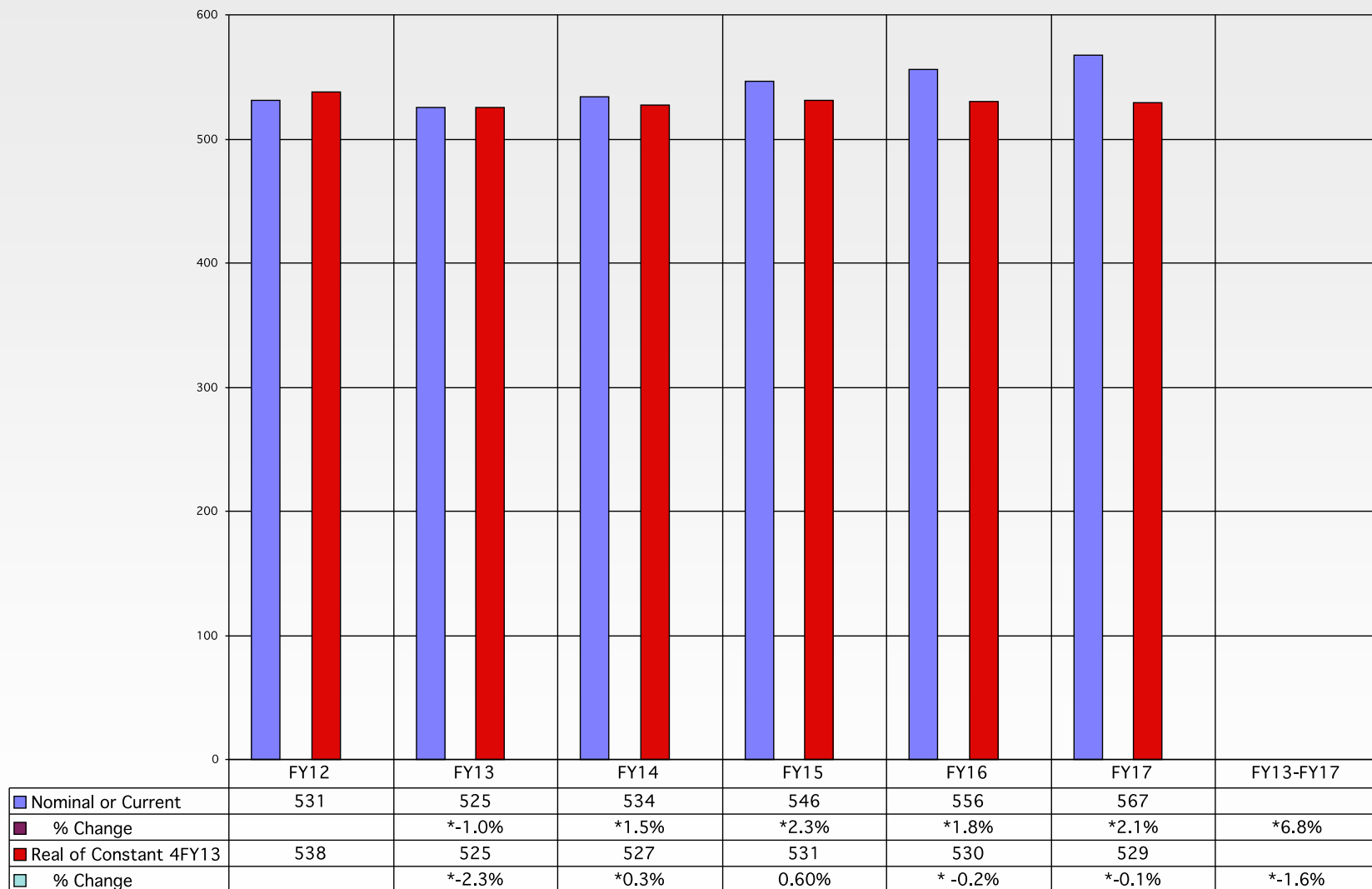
Source: Adapted from DoD Factsheet issued by OSD (PA) on 26.1.12

Trends in the FY2013-FY2017 Budget (\$US in Current or “Nominal” Billions)



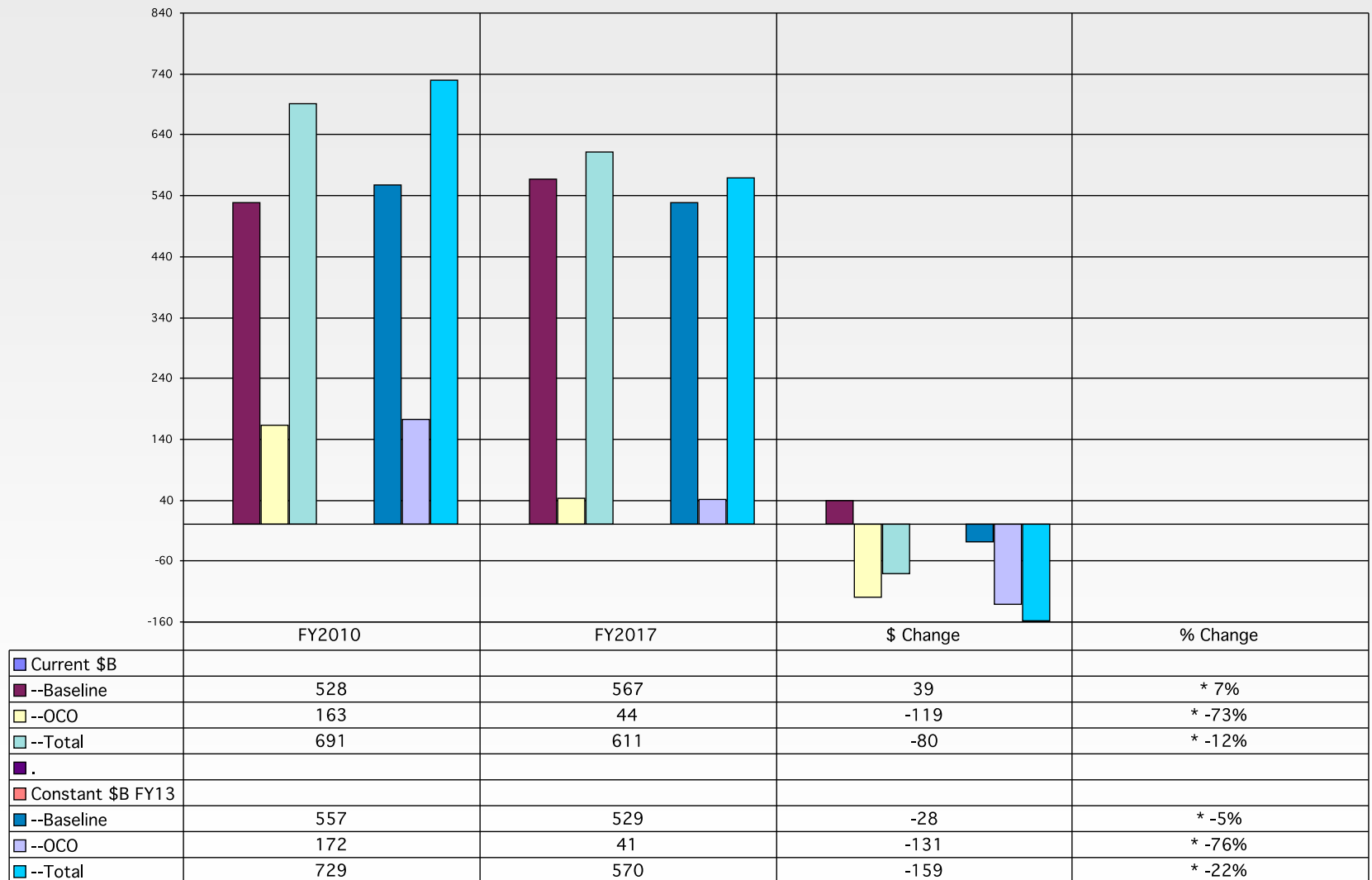
Source: Adapted from DoD Factsheet issued by OSD (PA) on 26.1.12

Real vs. Nominal FY2013-FY2017 Budget (\$US in Current vs. Constant Billions)



Source: Adapted from DoD Factsheet issued by OSD (PA) on 26.1.12

End FY2017 Reductions from Peak FY2010 Wartime Spending (\$US in Current Billions)



Source: Adapted from DoD Factsheet issued by OSD (PA) on 26.1.12

Key Force Capabilities to Meet New Strategic Priorities and Budgetary Goals

“The resulting joint force, while smaller and leaner, will remain agile, flexible, ready, innovative, and technologically advanced.” It will be a force that is:

- Adaptable and capable of deterring aggression and providing a stabilizing presence,**
- especially in the highest priority areas and missions in the Asia--Pacific region and the Middle East, while still ensuring our ability to maintain our defense commitments to**
- Europe and other allies and partners**
- Ready, rapidly deployable, and expeditionary such that it can project power on arrival**
- Capable of defending the homeland and providing support to civil authorities**
- Possessing cutting-edge capabilities that exploit our technological, joint, and networked advantage**
- Able to reconstitute quickly or grow capabilities as needed**
- Above all, manned and led by the highest quality professionals**

Five Major Strategic Tenets

The Department's leadership and subject matter experts assessed the potential strategic, military and programmatic risks associated with each budget decision in accordance with five major tenets within the President's strategic guidance:

I. Rebalance force structure and investments toward the Asia-Pacific and Middle East

regions while sustaining key alliances and partnerships in other regions

II. Plan and size forces to be able to defeat a major adversary in one theater while denying aggression elsewhere or imposing unacceptable costs

III. Protect key investments in the technologically advanced capabilities most needed for the future, including countering anti-access threats

IV. No longer size active forces to conduct large and protracted stability operations while retaining the expertise of a decade of war.

V. To the extent possible, structure major adjustments in a way that best allows for their reversal or for regeneration of capabilities in the future if circumstances change

Secretary Panetta on Risks

- **“The risks come with the fact that ... we will have a smaller force...when you have a smaller force, there are risks associated with that in terms of our capability to respond. “We think we've dealt with those risks because the combination of the forces we have in place and the ability, if we have to, to mobilize quickly will give us the capability to deal with any threat.”**
- **“We’re depending a great deal on being at the technological edge of the future...Can we develop the kind of technology we're going to need to confront the future? I’m confident we can, but there are risks associated with that.”**
- **“The reality is that as we draw down from Iraq and Afghanistan, we still face a number of very important threats in the world...Obviously we're continuing to fight a war in Afghanistan, and we continue to face the threat of terrorism.”**
- **“We see the threats coming from Iran, and a nuclear-capable Iran represents a threat to us and to the world...Weapons of mass destruction and proliferation of weapons of mass destruction are a concern. North Korea is a concern because they, too, are developing a nuclear capability.”**
- **You can see the vast array of threats that we have to confront with the force that we've designed here...So it's all of those that are my concern for the future.”**

Jim Garamone, Panetta, Dempsey Discuss Risks, Threats of the Future, American Forces Press Service, Washington, Jan. 26, 2012 –

Chairman Dempsey on Risks

- **“The greater risk would be had we decided that we would just wish away any particular capability or any particular form of conflict.. So, say, ‘no, ... we're just never going to do that.’ What you're expressing here is the recognition that we are retaining our full-spectrum capability, and that we didn't take any risk with that.”**
- **“At the same time, we put national security above parochial interest -- exactly what the American people should expect of us.”**
- **“Capability is more important than size...We get leaner. But this budget does not lead to a military in decline. It leads to a joint force that is global and networked, that is versatile and innovative, that is ably led and that is always ready.”**
- **That joint force “can win any conflict, anywhere,”**
- **There are no proposed pay freezes or reductions, and department officials will not change health care benefits for active-duty troops, those with combat injuries or service members who have medically retired, he added. “But we cannot – we cannot - ignore some hard realities...Pay and benefits are now roughly one-third of defense spending. ... pay will need to grow more slowly in the future.”**
- **“We’ll take the time to determine how to enact any retirement reforms over the next year.**
- **“It represents responsible investment in our national security...But make no mistake, the tradeoffs were tough. The choices were complex.”**
- **“The primary risks lie not in what we can do, but in how much we can do and how fast we can do it,” he said. “The risks, therefore, are in terms of time and capacity.”**
- **“I am convinced we can properly manage them by ensuring we keep the force in balance, investing in new capabilities and preserving a strong reserve component...As I’ve said before, we will face greater risks if we do not change the way we’ve been doing things.”**
- **“Much will be said and written about the individual decisions underlying this budget...Some may be tempted to view them through the prism of a zero-sum game, parsing through each cut, each change, to look for a winner and a loser. That is actually the least-productive way to assess this budget...I’m confident it meets our nation’s needs in our current fights and for our future.”**

A “Complete, Balanced Package?”

“As a result of a thorough process that was guided by the strategy and that left no part of the budget unexamined, we have developed a well rounded, balanced package.

There is no room for modification if we are to preserve the force and capabilities that are needed to protect the country and fulfill the missions of the Department of Defense.

A change in one area inevitably requires offsetting changes elsewhere, unbalancing the overall package”

This package includes reductions across the following three areas that form the outline of the budget paper:”

- **More disciplined use of defense dollars**
- **Strategically driven shifts in force structure and modernization**
- **The All Volunteer Force**

Priorities for Asia- Pacific and Middle East Regions

- **Rebalanced by.**
 - Maintained the current bomber fleet
 - Maintained the aircraft carrier fleet at 11 ships and 10 air wings
 - Maintained the big-deck amphibious fleet
 - Sustained Army and Marine Corps force structure in the Pacific, while maintaining persistent presence in the Middle East
 - Budgeted to forward station Littoral Combat Ships in Singapore and patrol craft in Bahrain
 - Funded development of a new afloat forward staging base that can be dedicated to support missions in areas where ground-based access is not available, such as counter-mine operations
- **Increased or protected investment in capabilities that preserve the US military's ability to project power in contested areas and strike quickly from over the horizon, including:**
 - Funding for the new bomber
 - Design changes to increase cruise missile capacity of future Virginia-° ©-class submarines
 - Design of a conventional prompt strike option from submarines
 - Upgraded radars for tactical aircraft and ships
 - Improved air--to--air missiles
 - New electronic warfare and communications capabilities

Cuts and Slow Downs to Support Strategic Priorities in Asia Pacific and Middle East

- **Reduce the number of ships by slowing the pace of building new ships and by accelerating the retirement of some existing ships. These include:**
 - **Retiring 7 cruisers early -- 6 did not have ballistic missile defense (BMD) capability, and the seventh with BMD capability is in need of costly hull repairs**
 - **Slipping a large deck amphibious ship (LHA) by 1 year**
 - **Slipping 1 new Virginia class submarine outside the FYDP**
 - **Slipping ocean surveillance vessel**
 - **Reducing Littoral Combat Ships by 2 ships in the FYDP**
 - **Reducing Joint High Speed Vessels by 8 in the FYDP**
 - **Retiring 2 smaller amphibious ships (LSD) early and moving their replacement outside the FYDP**
- **Concluded that DoD could, at minimal risk, disestablish six Air Force tactical-air fighter squadrons (out of 60) and one training squadron. As the reduce air force structure are protecting aircraft with multi--role capabilities versus niche capabilities.**
- **Adjust the posture of land forces in Europe in concert with overall Army transformation including eliminating two heavy brigades forward-stationed there**

Restructuring and Reducing Active Ground Forces

“Not Needed for Long-term Stability Operations”

- **In response to the demands of the Afghanistan and Iraq campaigns, active Army end-strength increased by 95,000 and Marine Corps end-strength by 30,000.**
- **The U.S. military commitment in Iraq is complete and a security transition in Afghanistan is underway.**
- ***In this budget, plan to reduce the size of the active Army from a post-9/11 peak of about 570,000 in 2010 to 490,000 and the active Marine Corps from a peak of about 202,000 to 182,000.***
- ***The Army plans to remove at least eight Brigade Combat Teams from its existing structure; however, the future organizing construct of the Army is under review.***
- **Even with these reductions, the Army and Marine Corps will be larger than they were in 2001.**
- **While the U.S. does not anticipate engaging in prolonged, large--scale stability operations - requiring a large rotation force - in the near-to mid--term, cannot rule out the possibility.**
- **If such a campaign were to occur, would respond by mobilizing the Reserve Component and, over time, regenerating Active Component end strength.**
- **Additionally, even as troop strength draws down, the Army, Marine Corps, and U.S. Special Operations Command will preserve expertise in security force assistance and counterinsurgency training.**
- ***These lessons apply to procurement as well; for example, the kind of troop transport vehicles needed to succeed and survive in an irregular warfare environment are included in the Army and Marine Corps modernization plans.***

Restructuring and Maintaining Reserve Forces

- **A smaller active force requires a capable and ready Reserve Component. Among other applications, a strong Reserve Component is a vital element of the concept of reversibility embedded in the strategic guidance.**
- **Consequently, marginal reductions are being made in the Army reserve and Army National Guard and no reductions to the Marine Corps Reserve.**
- **Furthermore, will leverage the operational experience and institute a progressive readiness model in the National Guard and Reserves in order to sustain increased readiness prior to mobilization.**
- **In particular, will maintain key combat support capabilities such as sustainment as well as combat service support capabilities such as civil affairs maintained at a high readiness level in the Reserve Component.**
- **Similarly, the Air Force is balancing the size of its reserve and active components, including aircraft and manpower reductions, and adjusting the alignment of missions and installations to sustain the operational Reserve Component for the long term.**
- **The Air Force will augment the readiness of their reserves by increasing Active-Reserve Component associations.**

Preserving the All-Volunteer Force While Cutting Costs –I

The cost of military personnel has grown at an unsustainable rate over the last decade.

- **Including wartime funding or OCO appropriations, military personnel costs have doubled since 2001, or about 40% above inflation, while the number of full-time military personnel, including activated reserves, increased by only 8% during the same time period.**
- **Basic pay has risen 62 percent, housing allowances have increased by 58 percent, and subsistence allowance is up 43 percent, compared to a 46-percent rise in private-sector salaries**
- **Within the base budget alone (i.e., excluding wartime funding or OCO) during this same time period personnel costs increased by nearly 90%, or about 30% above inflation, while the number of military personnel has increased by only about 3%.**
- **Now spend about \$181 billion a year on personnel, close to one-third of baseline budget: \$107 billion for salaries, \$50 billion for health care, and \$24 billion for retirement.**

DoD addressed the growth of personnel-related costs while keeping in mind that:

- **The core of the U.S. military is our All Volunteer Force**
- **Military life entails unique challenges and stresses**
- **War-related deployments of the past decade have put extraordinary demands on many troops and their families.**

Preserving the All-Volunteer Force While Cutting Costs –II

Budget plan sustains or enhances key support programs while reforming and re-organizing others to be more effective and responsive to the needs of troops and their families:

- **Wounded Warriors - extra funding added in the base and OCO budgets to enhance the Integrated Disability Evaluation System**
- **Transition Assistance - reform of the Transition Assistance Program and transition process for all service members through a collaborative DoD--VA initiative that improves career opportunities and readiness focusing on education, technical training, job placement, and entrepreneurship preparation**
- **Family Support - effective programs sustained, expanded, or improved, including non-clinical counselors, marriage support, new patient support, and stress-reducing recreation for returning troops**
- **Psychological Health - programs sustained and particularly effective programs, such**
- **as those addressing traumatic brain injury and post-traumatic stress disorder, were**
- **significantly expanded**
- **Reserve Component Support – DoD's Yellow Ribbon program provides services and referrals to reservists, guardsmen, their families, and their employers through each stage of the mobilization cycle**
- **DOD Schools - facilities being restored and modernized**
- **Military Commissary System - current number and distribution of stores maintained**

Preserving the All-Volunteer Force While Cutting Costs –III

- **Reductions in the rate of growth in spending on military compensation and other personnel-related costs and benefits in the budget are significantly less than their share of total defense spending.**
- **Military compensation and benefits currently account for roughly 1/3 of the defense budget; however, the changes in compensation and benefits account for about 1/9 of the total budget reductions.**
- ***Military Pay.* Instead of reducing military pay, created sufficient room to allow full pay raises in 2013 and 2014 to keep pace with increases in private sector pay.**
 - **Will achieve some cost savings by providing more limited pay raises beginning in 2015. This will give troops and their families fair notice and lead time before these proposed changes take effect. Use some savings in the later years to invest in force structure and modernization.**
 - **Despite this change, military personnel will see their pay check increase every year across the FYDP.**
- ***Health Care.* Military health care has seen rapid growth relative to the rest of the defense budget. Most of the changes made in this budget will not affect active duty personnel or their families. Also exempting medically retired and survivors of those who died on active duty from all health care changes.**

Preserving the All-Volunteer Force While Cutting Costs – IV

- Those most affected will be working-age retirees under the age of 65 still likely to be employed in the civilian sector. These proposed changes include:
 - Further increasing and adding new enrollment fees for retirees under age 65 in the TRICARE program, using a tiered approach based on retired pay that requires senior-grade retirees to pay more and junior--grade retirees less; the resulting fees remain below comparable civilian equivalents
 - Establishing a new enrollment fee for the TRICARE--for--Life program for retirees 65 and older, again using a tiered approach; the resulting fees will be well below comparable civilian equivalents
 - Implementing additional increases in pharmacy co--pays in a manner that increases incentives for use of generics and mail order.
- *Retirement.* Will ask Congress to establish a commission with BRAC--like authority to conduct a comprehensive review of military retirement in the context of total military compensation.
 - Goal is to recommend changes in order to meet the personnel needs of in a cost effective manner.
 - DoD strongly supports protecting the retirement benefits of those who currently serve by grandfathering their benefits. Any reforms should only affect future recruits

Power Projection

- **Protected important capabilities like:**
 - **the new bomber,**
 - **upgrades to the small diameter**
 - **bomb,**
 - **aircraft carriers,**
 - **surface combatant modernization,**
 - **and cyber capabilities.**
- **Also protected capabilities that allow US to project power in denied environments.**
- **In addition to funding for the new bomber and increasing the cruise missile capacity of future submarines, protected anti-submarine warfare and counter-mine capabilities.**

Cuts in Air Mobility Forces to Match Reductions in Emphasis on Land Options and “Capacity to Support Two Large, Simultaneous and Rapidly Developing Ground Campaigns”

- **Eliminate surplus without losing lift capability to move to another region**
- **130 Aircraft will be retired or divested from the airlift fleet.**
- **Retiring 27 aging C-5As, resulting in a fleet of modernized 52 C-5Ms and 222 C-17s**
- **Retiring 65 of the oldest C-130s, resulting in a fleet of 318 C-130s**
- **Divesting 38 C-27s.**
- **Canceling C-27J and C-130 upgrades**

Counterterrorism, Special Forces, and Cyberoperations

Protected key components of the force that are adept in executing Counterterrorism mission:

- **Special Operations Forces - critical to U.S. and partner counter terrorism operations -and a variety of other contemporary contingencies**
- **Unmanned Air Systems -- fund enough trained personnel, infrastructure, and platforms to sustain 65 USAF MQ-1/9 combat air patrols (CAPs) with a surge capacity of 85;**
 - **Retained Predator aircraft retained longer than previously planned, allowing DoD to slow the buy of the Reaper aircraft and gain some savings;**
 - **Funding for the Army's air system, Gray Eagle**
- **Sea-based unmanned intelligence, surveillance and reconnaissance (ISR) systems such as Fire Scout -- important ISR assets where ground basing is not available**
- **Advanced ISR --new unmanned systems with increased capabilities**
- ***Cyber operations.* The strategic guidance highlights the increasing importance of cyberoperations. As a result, cyber is one of the few areas in which actually increased investments, including in both defensive and offensive capabilities.**

Cyber Operations

Protected key components of the force that are adept in executing this mission:

- **Special Operations Forces - critical to U.S. and partner counter terrorism operations -and a variety of other contemporary contingencies**
- **Unmanned Air Systems -- fund enough trained personnel, infrastructure, and platforms to sustain 65 USAF MQ-1/9 combat air patrols (CAPs) with a surge capacity of 85;**
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- **Advanced ISR --new unmanned systems with increased capabilities**

Changes in Strategic Triad

- **Under the new strategic guidance, will maintain a safe, secure, and effective nuclear deterrent.**
- **Budget protects all three legs of the Triad - bombers that provide both conventional and nuclear deterrence, intercontinental ballistic missiles (ICBM), and ballistic missile submarines.**
- **To this end, are committed to the procurement of a new bomber.**
- **However, will delay the new Ohio submarine replacement by two years without undermining our partnership with the UK. While this delay will create challenges in maintaining current at-sea presence requirements in the 2030s, we believe this risk can be managed.**
- **An ongoing White House review of nuclear deterrence will address the potential for maintaining our deterrent with a different nuclear force.**

Missile Defense Capabilities and Space Systems

- ***Missile defense programs:*** provide the capability to defend homeland, support our allies, and protect U.S. military forces when operating in regions across the globe.
 - Despite its importance, were not able to protect all of the funding in this area.
 - Protected investments in homeland defense and,
 - Phased Adaptive Approach for missile defense in Europe aimed at protecting allies.
 - Reduced spending and accepted some risk in deployable regional missile defense and will increase reliance on allies and partners in the future.
- ***Space systems.*** Space systems are critical to our surveillance, communications, positioning and networking capabilities.
 - Protected funding for upgrades to the Global Positioning System (GPS), the Space Based Infrared System (SBIRS) and Advanced Extremely High Frequency (AEHF) satellite programs

“Reasonable Reductions, Responsible Risks”

In order to sustain the highest priority investments, we made substantial reductions to programs that:

- *Are experiencing schedule, cost, or performance issues:*
 - F-35 Joint Strike Fighter – Buy only 179 over the next five years. committed to the JSF program of record that includes all three variants, but slowed procurement to complete more testing and make developmental changes to minimize concurrency issues before buying in significant quantities
 - Army Ground Combat Vehicle - delayed by protest, thus freeing up available funding for other priorities
 - Joint Land Attack Cruise Missile Defense Elevated Netted Sensor System (JLENS) -
 - curtailed due to concerns about program cost and operational mobility.
- *Are offering or augmenting capability that already exists, but at significantly higher cost:*
 - Joint Air-to-Ground Munition (JAGM) - significantly reduced, but limited funding sustained to enable lower cost alternatives such as Hellfire.
 - Global Hawk Block 30 replacement for U-2 - terminated for cost escalation reasons. Hope lessons will will help other Global Hawk programs like the USAF Global Hawk Block 40 and Navy Broad Area Maritime Surveillance (BAMS).
- *Are entering service before they are needed:*
 - Defense Weather Satellite System (DWSS) -terminated because premature to need
 - Army aviation - delayed helicopter modernization by three to five years
- *Or are deemed excess to requirements:*
 - Commercial satellite imagery - reduced purchases for capacity excess to requirements, but will still be substantially increasing coverage beyond today’s capability
 - HMMWVs - terminated upgrades and focused modernization resources on the Joint Light Tactical Vehicle

Risks in Defense Industry and Industrial Base

- **In support of the strategic guidance's tenet of reversibility, this budget plan sustains, where possible, key skills in the design and manufacture of military systems in segments of the industrial base that cannot be duplicated elsewhere in the economy or regenerated quickly.**
- **However, the industrial base will require careful monitoring in the future.**
- **For example, adding the afloat forward staging base addresses urgent operational shortfalls and will help sustain the shipbuilding industry in the near-term and mitigate the impact of reducing ship procurement in the FYDP.**

\$60B More in Projected Savings Through Efficiency, More Disciplined Use of Dollars

- **Continuation of the effort begun in 2010, which identified more than \$150 billion in savings over five years allocated among the three military departments, the defense agencies ,combatant commands, and the Secretary's staff. This left less room for additional reductions to meet the new target of \$259 billion over FY13-17.**
- **Nonetheless, did find about \$60 billion in new projected savings over FY13-17.**
- **Examples include:**
 - **More skillful contracting practices to increase competition, reduce costs, and**
 - **increase buying power**
 - **Better use of information technology**
 - **Better use of business and enterprise systems**
 - **Streamlined staff**
 - **Limitations on official travel**
 - **Better inventory management**
 - **Reductions in contract services**
 - **Deferral of some military construction to align our facilities more closely with the**
 - **size and posture of our future force**
 - **Reductions in planned civilian pay raises.**
- **"Beyond the roughly \$60 billion in efficiencies and overhead savings, eliminated a number of poorly performing programs" described earlier.**

Critical Questions

- **If the funding picture require the Pentagon to do less with less, how will the military now serve all of its newly revised primary missions? Where will scarce resources be spent and what specific capabilities need to be purchased in order to achieve our goals?**
- **What will happen if sequestration is not averted and the Pentagon needs to cope with an additional \$600 billion in cuts over the next 10 years?**
- **Given the past systemic failure of all military services to efficiently manage their procurement and acquisition, will these dollars be allocated to maximize their strategic efficacy and in ways that preserve vital development capabilities within the US defense-industrial base?**
- **Given that this new guidance operates outside of the QDR/QDDR process, how will interagency coordination and funding over reconstruction/transition be accounted for in Afghanistan and Iraq?**
- **Exactly how does the US create smaller and cheaper forces that can be so flexible, ready, and deployable that they can fight and defeat any aggressor in any fight in every kind of war at once?**
- **Can the US really maintain an all-volunteer force - the willingness to stay in military careers for the years required to be fully effective - and cut spending? What are the details of the human factors necessary to make such a strategy workable?**