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P A P E R

# A Strategy-Based Framework for Accommodating Reductions in the Defense Budget

Stuart E. Johnson, Irv Blickstein, David C. Gompert,  
Charles Nemfakos, Harry J. Thie,  
Michael J. McNerney, Duncan Long,  
Brian McInnis, Amy Potter

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## Summary

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### The Landscape

In January 2012, Secretary of Defense Leon Panetta issued a new strategic guidance.<sup>2</sup> It captures the results of a strategy review to accommodate \$487 billion in reductions that the Office of Management and Budget (OMB) had directed the Department of Defense (DoD) to make over the next decade. The current report addresses the question of how the department could accommodate *deeper* cuts if it should be directed to do so. The June 2011 Budget Control Act calls for sequestration of \$1.2 trillion from the discretionary accounts of the federal budget beginning in January 2013 if Congress does not agree on a plan to do so through the legislative process. As of this writing, Congress and the Obama administration are working on a plan to avoid, or delay, sequestration but no agreement has been reached. This could lead to a mandate for further cuts of some \$500 billion from the DoD budget.

The authors are not advocating further reductions. Rather, this report begins with the premise that DoD may well be directed to find reductions beyond the \$487 billion it is already programming. While these additional cuts may not add up to the full amount implied by sequestration, they could amount to several hundred billion dollars more. In that case, it will no longer be affordable for U.S. forces to maintain the suite of capabilities needed to support the strategy outlined by Secretary of Defense Panetta in the new strategic guidance. Even this new strategy will be difficult to execute as planned if further reductions to the DoD budget are mandated, even short of full sequestration. Thus, we postulate that there are considerable advantages to DoD's establishing a strategic direction in which to accommodate further sizable reductions.

Establishing a strategic direction limits the risk the cuts may impose or, at the very least, makes that risk explicit to the nation's leaders. By definition, it requires prioritization of defense challenges and of what risks to accept, with force structure and program decisions following.

In this paper, the authors offer three strategic directions that span a range of frameworks for accommodating reductions in the defense budget. The aim is to illuminate alternative paths to sizable defense reductions beyond the \$487 billion already offered and a method of making further strategy-based budget reductions. A target of roughly \$300-500 billion in savings is explored within each, beyond the \$487 billion already sought by the administration. At the upper end, this reaches the level of cuts implied by the sequestration mandate contained in the

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<sup>2</sup> U.S. Department of Defense, 2012b.

Federal Budget Act of fiscal year (FY) 2011. Force reductions and other programmatic reductions are identified in a rough form to give the reader a good sense of what it would take to achieve the reductions. The numbers are not meant to be prescriptive, but descriptive. We also make explicit the risks that would be incurred by following one or another of the alternative strategic directions in order to further illuminate the dialogue that can and should take place.

The three strategic directions are outlined in brief below. They each take as their foundation the strategy outlined by Secretary of Defense Panetta in his January 2012 strategic guidance. Key highlights of the strategic guidance are:

- Rebalance force structure and investments toward the Asia-Pacific and Middle East regions while sustaining key alliances and partnerships in other regions
- Plan and size forces to be able to defeat a major adversary in one theater while denying aggression elsewhere or imposing unacceptable costs
- Protect key investments in the technologically advanced capabilities most needed for the future, including countering antiaccess threats
- No longer size active forces to conduct large and protracted stability operations; retain the expertise of a decade of war
- 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.

Each alternative below emphasizes different aspects of the strategy and prioritizes risks differently. They form the basis for additional reductions in forces and associated programs and the attendant risks incurred *beyond* those already implied by the 2012 strategic guidance. These alternatives are not mutually exclusive and combinations of features of each are possible. Such combinations could provide a measure of hedging against the possibility of unanticipated changes in the security environment.

#### **Alternative Strategic Direction I: Prepare for Persistent Conflict**

This strategic direction assumes that violent extremism and related insurgencies will outlast efforts in Iraq and Afghanistan and remain a serious threat to the United States and its interests—first and foremost, the protection of its citizenry. Therefore, readiness to respond to that threat must remain a top U.S. defense priority, even though active-duty U.S. land forces will no longer be sized to conduct large and protracted stability operations. The ground forces are not scaled back any further than the reductions outlined in January 2012 by Secretary Panetta in the strategic guidance.

The principal risks of this strategic direction are that U.S. local partners will remain dependent on us to provide for their security, and technologies critical for future defense challenges will receive inadequate investment. Furthermore, the intent of the strategic guidance to strengthen forces earmarked for the Asia-Pacific region could not be implemented.

#### **Alternative Strategic Direction II: Cede More Responsibility to Allies and Partners**

The United States would cede more responsibility to allies to take the lead in defense of shared interests in their regions, particularly when allies' specific regional interests are greater than those of the United States. This would include ceding to NATO allies the lead responsibility for security on the Mediterranean littoral, in counterpiracy operations in the Red Sea and Gulf of Aden, and for providing the bulk of ground and tactical air forces to deter Russia from coercion

or invasion of NATO countries in Central Europe. While the United States would continue to be the key counterweight to China, our capable Asian allies would be urged to strengthen their efforts to defend themselves and the critical sea lanes in their region. This could allow the United States to scale back further on forces earmarked for Europe and surrounding waters, and to leverage allied potential in Asia. In parallel, the United States would redouble its efforts to build up the capacity of local forces in countries that are at risk of insurgency or aggression. The aim would be to reduce the likelihood that U.S. forces would have to deploy in large numbers to counter an insurgency and establish stability. In both cases, the United States would still be a strong partner that provides high-end enabling capabilities, to include intelligence, surveillance, reconnaissance (ISR) and long-range precision strike.

The risk for the United States in this strategic direction is that the allies would not pick up leadership in defense of common interests, leaving those interests more exposed. There is also the risk that building the capacity of partner security forces will not succeed due to ineffective or illegitimate governments. In the latter case, the United States might need once more to intervene to stabilize a critical situation, but with reduced ground forces it would have less capacity to do so.

### **Alternative Strategic Direction III: Shift Geostrategic Focus to the Western Pacific**

This strategic direction reflects an assessment of the emerging national security environment that is largely in line with the strategic guidance. It posits that the center of gravity of challenges the United States faces is shifting, and will continue to shift, toward the Western Pacific—i.e., relatively speaking, from the U.S. Central Command area of responsibility (CENTCOM AOR) and European Command (EUCOM) AOR to the Pacific Command (PACOM) AOR. Accordingly, this calls for a focus on the Asia-Pacific region while accepting even deeper cuts in forces focused on the EUCOM and CENTCOM regions than called for in the 2012 strategic guidance.

The principal risk of this strategic direction is that if the extremist threat to U.S. interests in the CENTCOM region does not recede, then the United States would need to regenerate a capability to respond. There is also a risk that the United States focusing its military on the Western Pacific might cause China to intensify its own military modernization efforts.

### **A Shift from Invade and Occupy to Punish and Contain**

Alternative Strategic Directions II and III include a common theme: that the goal of a major war will focus primarily on defeating aggression against an ally or partner and inflicting severe damage on the aggressor's ability to project military power. Post-major conflict operations would include minimal stabilization operations but not an extended sizable presence of U.S. occupation forces in any region. This change in war aims is largely confluent with the direction stated in the 2012 strategic guidance.

### **Savings in Health, Retirement, and Compensation Costs**

Even cutting force structure, in some cases deeply, may not suffice. DoD could face the difficult choice of further cuts in forces or seeking economies in the cost of troops. As the tenor

of debate in Congress shifts toward spending reductions, constraining the cost of personnel is becoming a more pressing option. Accordingly, proposals to rein in growth in costs of health care, retirement, and compensation have been described. We outline broad approximations of these potential savings that are plausible, both fiscally and politically—again, in a descriptive and illustrative form, rather than a prescriptive and definitive one. The savings estimates are drawn from U.S. government analyses, including the Congressional Budget Office (CBO) and DoD-sponsored study commissions.

### **Avoiding a Hollow Force**

The posited decreases reduce force structure and procurement in a roughly balanced proportion. The result avoids a hollowing-out of the force. The proposed forces are smaller and cannot do all that the current force can do, but they avoid a force structure that is underequipped, inadequately trained and supported, and cannot face future challenges.

Any reduction of the magnitude being examined will carry risk. The advantage of beginning with a strategic direction in which to identify reductions is that choices can be made that mitigate risk in one area by accepting some risk in another, less critical area. Moreover, by tying choices about reductions to a strategic direction, the risks incurred are made explicit both for policymakers, so they can adjust their decisions accordingly, and to the body politic, to create realistic national expectations.

### **Conclusion**

Under the threat of sequestration, cuts to the defense budget could be mandated that well exceed the \$487 billion in reductions over the next decade that DoD has already identified. If so, the department should modify defense strategy to fit the new resource constraints and prepare its course of action sooner rather than later. Cuts should be based on explicit strategic choices that appropriately prioritize missions and security challenges and identify what risks to take. The range of strategic directions proposed here span options that illustrate this method of accommodating a lower budget. The authors go on to describe the types of changes that would be needed to achieve budget reductions of the magnitudes predicted.