About This Report

The Great Recession began in 2007, when a contraction in the U.S. housing market led to widespread losses in the financial sector and, subsequently, to economic shocks around the world. By December 2007, the country was officially in recession, and it would not emerge from this contraction for 18 months. This history considers the Great Recession’s reverberations, and especially the related emergence of a national focus on deficit reduction, on the Department of Defense (DoD) as senior leaders in the Office of the Secretary of Defense (OSD) and the Joint Staff worked to shift from a decade of counterterrorism operations toward future threats amid a dynamic threat environment and budgetary uncertainty.

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Summary

From December 2007 through June 2009, the Great Recession brought the worst economic downturn in terms of overall U.S. production, consumption, and investment since the end of the Second World War. While the Great Recession was a result of a contraction in the U.S. housing market and its ripple effects through the financial sector and beyond, it produced economic contractions around the globe.

The Great Recession also affected the U.S. Department of Defense (DoD), but its impact was delayed and indirect relative to immediate changes in unemployment and gross domestic product (GDP). Between 2007 and 2009, the DoD acknowledged the ongoing recession, but focused its attention on the ongoing wars in Iraq and Afghanistan. Indeed, in 2007, during the first year of the Great Recession, large parts of the DoD were consumed instead with the “Surge” of troops in Iraq and the swirling debates surrounding it. The U.S. economy officially exited the Great Recession as GDP growth resumed in June 2009, yet political debates over federal spending as a result of the Great Recession set the stage for increasing fiscal constraint across the federal government, including the DoD, for the years to come.

The primary indirect effect of the Great Recession on the DoD was a change in the U.S. domestic political scene in the fall of 2010 that ushered in a new Congress that emphasized fiscal restraint and reigning in the ever-increasing national debt. As a result, reductions in spending across the entire government became an imperative for Congress and something that the Obama administration could not ignore. For the DoD’s senior civilian and uniformed leadership, the years ahead would prove to be a time of back-and-forth negotiations with Congress to reduce spending but at the same time still provide the needed military forces to carry out the nation’s evolving defense priorities.

The new domestic political scene and the imperative to reduce the national debt occurred at the same time as a shift in the U.S. global strategic environment and the associated threats to its security. After nearly a decade of counterterrorism and counterinsurgency operations in Iraq and Afghanistan, there was a shift in emphasis toward the greater likelihood of a future near-peer conflict with Russia or China. This shift in strategic emphasis was at least partially driven by a realization that both of those countries had significantly increased their anti-access/area denial (A2/AD) conventional and asymmetric capabilities to thwart U.S. power projection capabilities. In turn, the DoD’s ability to manage resource constraints while maintaining its ability to meet changing national security demands reflected a desire—halting at times—to rebalance its budget. This included a rebalance from counterterrorism operations toward an era of strategic competition; a rebalance from investments to operate and sustain forces in the Middle East toward development of capabilities to meet future threats; and a rebalance from a focus on warfighting in the U.S. Central Command (CENTCOM) area of responsibility toward global requirements.

This history offers a view of the deeply intertwined nature of U.S. domestic politics, U.S. national security, U.S. DoD policy, the changing nature of threats to that national security,
and the decisions and actions taken by senior policymakers and DoD leadership within this mix. Of course, this intertwining of politics and national security is nothing new in U.S. history; however, this history of the Great Recession and its impact on the DoD brings into sharp relief the nature of those interactions during a period of budget cuts, strategic prioritization, and a changing threat environment.

This history explores decisionmaking by senior defense leaders regarding manageable risk and navigating a challenging budgetary environment while advancing strategic priorities to turn the page on a decade of war in the Middle East and prevail against future threats. Several insights emerge from this history:

- Senior leaders reported that **policy decisions related to deficit reduction after the Great Recession drove resource constraints for the DoD** to a larger degree than did the direct economic consequences of the Great Recession. Indeed, the period when the national economy was in recession coincided with the largest-ever defense budgets in real terms, as senior leaders focused on supporting ongoing operations in Iraq and Afghanistan.

- Senior leaders reported that the **uncertainty about budget levels and constraints on discretion in achieving cuts presented a greater challenge than the depth of the reductions**. Uncertainty from short-term fixes such as continuing resolutions, two-year Bipartisan Budget Acts (BBAs), or “will they or won’t they” waiting spells for the sequestration trigger hampered the ability of senior leaders to plan. Congressional decisions about whether and how to provide the DoD with discretion (for example, over retirement of legacy platforms or military compensation reform) and the structure of the budget itself hampered senior defense leaders’ ability to prioritize.

- Decisionmaking by senior leaders about **how to prioritize investments was informed by the concept of “rebalance”** from current operations to emerging threats; from operations and sustainment to investment (procurement and research, development, test, and evaluation [RDT&E]); from Global War on Terror (GWOT) / countering violent extremism (CVE) operations to near-peer adversaries; and from CENTCOM to other global areas of responsibility.

- Senior leaders reported that **increasing fiscal constraints incentivized internal innovation and reforms within the DoD** as it sought to rebalance. Albeit often contentiously, stakeholders across the DoD came together during this period to develop and support efficiency initiatives such as Better Buying Power (BBP), Strategic Choices and Management Review (SCMR), elements of the Third Offset, and Global Integration.

- Various stakeholders play a critical role in informing decisions about how to align strategy to resources within acceptable risk (for this history, we have focused on the role of the Office of the Secretary of Defense (OSD) and the Joint Staff). Senior leaders reported that **agreement across stakeholders on a common analytic basis for decisionmaking became strained amid deepening budgetary challenges.**
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CHAPTER ONE

Introduction

Beginning in 2007, the U.S. economy suffered a severe shock when a contraction in the housing market led to widespread losses in the financial sector and, subsequently, to economic shocks around the world. By December 2007, the country was officially in recession, and it would not emerge from it for eighteen months. At that time, the Great Recession represented the largest decline in U.S. output, consumption, and investment as well as the largest increase in unemployment of any post–World War II recession.

The implications of the economic crisis for national defense, however, were far from linear or inevitable. Indeed, the Great Recession itself had limited immediate impacts on the U.S. defense budget or policy. To senior defense officials, the Great Recession remained secondary to ongoing operations in Iraq and Afghanistan. Peak defense spending for the Global War on Terror (GWOT)—and the highest defense budget since the establishment of the Department of Defense (DoD)—lay ahead, as can be seen in Figure 1.1.¹ Yet as the U.S. economic recovery slowly began in 2009, political concern over the long-term consequences of the Great Recession on the U.S. debt and yearly deficit spending began to grow. As a result, in the summer of 2011 Congress passed the Budget Control Act (BCA), which mandated reductions to defense and nondefense spending and constrained decisionmakers’ ability to manage budget cuts.

Defense officials pursued a variety of approaches over time to manage reductions under these constraints. First, they sought efficiencies in current operations—“doing more without more” as one senior defense official noted. Second, following the passage of the BCA in 2011 and its threat of sequestration beginning in fiscal year (FY) 2013, they developed new strategic guidance to drive transition to a future threat environment that was informed by anticipated budget austerity. Sequestration did enter into force eighteen months after passage of the BCA, and it forced the DoD to make hard, immediate choices about how to make sharp cuts. Third, in sequestration’s aftermath, senior defense officials developed innovative processes and initiatives to enable resource allocation decisions to meet future threats. However, these approaches to aligning strategy to resources proceeded fitfully amid dynamic changes to the budgetary and geopolitical threat environment. It is said that the enemy gets a vote, and indeed, the evolving threat environment constrained the DoD’s ability to make strategic

choices about how to manage budget uncertainty. At the same time, budget uncertainty also constrained the DoD’s ability to implement strategic change.

This history considers the impact of the Great Recession and subsequent policy actions related to deficit reduction on U.S. defense policy during the years 2007 to 2016. The bookend of 2016 reflects the fact that in that fiscal year, the defense budget ticked up after six years of steady decline. It tells the story of the period following the Great Recession as the United States transitioned from a decade of war through economic and budgetary turmoil—first from the economic crisis and second from policy decisions to pursue deficit reduction in a near-term and indiscriminate manner. Central to understanding this period is the concept of rebalance. This included a rebalance from counterterrorism operations toward an era of strategic competition; a rebalance from investments to operate and sustain forces in the Middle East toward development of capabilities to meet future threats; and a rebalance from a focus on the war fight in the U.S. Central Command (CENTCOM) area of responsibility toward global requirements with an emphasis on Asia-Pacific.

Efforts to rebalance investments were informed by the threat environment, strategic orientation, risk perception, and of course, resources. Therefore, another theme emerging from this story is the evolving analytic basis for decisionmaking about strategy, forces, and support capabilities in a resource constrained (or resource informed) environment. Through this period, Office of the Secretary of Defense Policy (OSD(P)), OSD Cost Assessment and Program Evaluation (CAPE), and the Joint Staff J-8 Directorate were the “Tri-Chairs” that played a critical role in conducting analysis to inform these key questions about how to bal-
ance resources and strategy. This history considers the evolution of the “Analytic Agenda” and other analytic efforts to inform decisionmaking about advancing national objectives in an environment of resource constraints. To be sure, as an effort to connect ends, ways, and means, analysis did not always determine budget levels. The March 2013 BCA Title III sequestration-enforced caps, for instance, were imposed without regard to defense strategy or plans. The dynamic threat and budgetary environments, as well as institutional tension over priorities and key analytic inputs, were critical for determining outcomes in this period. Nonetheless, understanding efforts by several stakeholders to forge an analytic basis for decisionmaking about how to prioritize investments is critical for understanding how the DoD managed the aftermath of the Great Recession.

Through this period, DoD decisionmakers emphasized that aligning strategy and resources was particularly difficult amid constraints on management “levers.” In addition to the dynamic strategic and budgetary environments, resource decisionmaking is also, of course, a responsibility shared with other key U.S. government institutions and stakeholders, including Congress. In this period, senior leaders in the DoD emphasized that the department needed more discretion if it were to make strategic decisions about how to plan and prioritize. For example, DoD senior leaders emphasized the need for more flexibility to implement decisions about changes to procurement programs, retirement of legacy platforms, active component/reserve component mix and total force management, reforming military compensation, and maintaining military installations and infrastructure. With the power of the purse, members of Congress have a significant interest in such decisions and exercised significant influence over the extent to which the DoD could employ these levers. Another lever DoD senior leaders emphasized they needed was budget stability and predictability. Yet this was a period of month-to-month continuing resolutions, budget caps, sequestration, a government shutdown in October 2013, and a series of two-year budget deals. In this environment, it was not so much the depth of the cuts that made aligning strategy and resources so difficult as it was the extent to which senior leaders faced uncertainties and constraints on how those cuts could be allocated.

This history offers a view of the deeply intertwined nature of U.S. domestic politics, U.S. national security, U.S. DoD policy, the changing nature of threats to that national security, and the decisions and actions taken by policymakers and senior DoD leadership within this mix. The intertwining of politics and national security is nothing new in U.S. history. However, this history of the Great Recession and its impact on the DoD brings into sharp relief the nature of those interactions during a period of budget cuts, strategic prioritization, and a changing threat environment.

**Notable Defense Budget Trends**

Figure 1.1 shows several notable features of the defense budget in the 2007–2016 period, which are worthy of additional discussion to appropriately set the stage for this history. First, this historical period was not one of monotonic increase or decrease. Rather, during

Note on Determinants of the U.S. Defense Budget

International comparative analyses have demonstrated the importance of a wide variety of factors in determining a country’s military spending, including international threats, arms races, alliances, economic growth, technological change, public opinion, interservice rivalry, and domestic politics. This literature has also demonstrated that these factors can influence spending asymmetrically—that is, while external threats tend to increase spending, the elimination of those threats does not necessarily lead to reductions in spending.

The U.S. defense budget, however, is a special case and has received particular scrutiny. In addition to the importance of the threat environment, historical analyses have consistently demonstrated the importance of U.S. domestic politics in determining spending, particularly given the perceived economic benefits of this spending. As a result, there is no consistent relationship between changes in the domestic economic environment and military spending, as degrading economic conditions can create both downward pressure on the U.S. defense budget (via fiscal austerity) and upward pressure given defense spending as a tool for stimulating the national or targeted local economies.

Analyses focused on U.S. defense budget cuts have similarly demonstrated the importance of political, rather than economic, realities in determining how and when these cuts occur. Changes in war policies and presidential transitions have been identified as the two key factors in determining major changes to the defense budget. And when cuts are mandated, a combination of domestic politics and the complexity of the international threat environment plays a leading role in determining whether targeted or across-the-board cuts are likely to occur.


the Great Recession and in its immediate aftermath, the defense budget increased; it began to steadily decrease only after 2010, amid the declining U.S. deployment of forces in the Middle East and an increased national focus on deficit reduction. Much of the story we tell here (Chapters Three and Four) considers how the DoD managed to advance national strategic priorities in this period of budget decline. While we provide context for the top-line changes—including strategic priorities, economic conditions, domestic politics, and legislative action—in this history of defense decisionmaking, we do not assert a causal relationship between these contextual factors and the overall top line. The “Note on Determinants of the U.S. Defense Budget” provides a quick overview of academic literature that has found that the interplay of complex factors drives the defense top line in often unpredictable ways.
However, the top line in this period should be understood in the context of several important trends. First, longer-term structural budget pressures have steadily increased unit costs for military personnel and defense procurement. This means that overall force structure trends have not tracked to the size of the budget. In short, the DoD continues to spend more money to buy and sustain less force structure. Indeed, the base budget, not including war-related expenses, also grew significantly in this period; by 2010, the base budget was comparable in real terms with the budget at the peak of the 1980s Reagan administration build-up. These structural pressures are one of the reasons why senior defense and civilian leaders repeatedly advocated for structural changes in the defense budget in this period (e.g., reduced infrastructure, acquisition reform, military personnel benefits reforms), as will be discussed in this history.

Another notable, if obvious, feature of the budget since 2001 is that it has grown to meet resource requirements to support operations in Iraq and Afghanistan and other GWOT-related activities. Figure 1.2 shows budget growth in the base and total, including OCO budgets.

**FIGURE 1.2**
**Base Budget and Total (including Overseas Contingency Operations budget), 2001–2021**


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3 By 2001, the defense budget was already several years into a period of budget growth. The post–Cold War/DESERT STORM budget drawdown rebounded in 1997.

As is discussed in more detail in the “Note on the Overseas Contingency Operations Budget,” the use of these supplemental budget requests (and what would come to be designated the OCO budget) grew and changed and became associated with reduced budget transparency and accountability, which made their use increasingly politically contentious; the instrumental usage of OCOs for non-war-related defense priorities will be discussed in Chapters Three and Four in the context of decisionmaking about how to manage under the BCA.

As is discussed in more detail in the “Note on the Overseas Contingency Operations Budget,” the use of these supplemental budget requests (and what would come to be designated the OCO budget) grew and changed and became associated with reduced budget transparency and accountability, which made their use increasingly politically contentious; the instrumental usage of OCOs for non-war-related defense priorities will be discussed in Chapters Three and Four in the context of decisionmaking about how to manage under the BCA.

For the purposes of understanding broad trends, however, it is notable that OCO spending since 2001 had implications for service shares (the Army was the largest consumer of

Note on the Overseas Contingency Operation Budget

The majority of funds for the wars in Iraq and Afghanistan have been provided outside of the normal “base” budget through a series of short-term supplemental appropriations known initially as the GWOT budget and since 2009 as the OCO budget. These mechanisms are intended to provide for defense requirements that are unanticipated or difficult to predict. As such, they provide resources more flexibly and more quickly than would be possible through the normal DoD budgeting process.

Yet the use of OCOs is exceptional relative to historical practice. In past contingencies, supplemental appropriations have been used to cover the early stages of a conflict, beyond which war costs were integrated into ordinary appropriation processes. This was true for the Korean and Vietnam Wars and humanitarian operations in the 1990s. By contrast, contingency operations since 9/11 have leveraged separate appropriations for two decades. OCOs have also grown and changed over that time. In the early 2000s, OCOs funded mostly direct war-related activities such as mobilization of troops, transportation of supplies, purchase of consumables (fuel, munitions, spare parts, and so on), and increasing the number of active duty military personnel. Beginning in 2005, the Pentagon began requesting supplementals to “reset” and “reconstitute” the forces by repairing or replacing damaged equipment, adding significant upgrades, and even purchasing new equipment. In 2006, the Pentagon instructed the services to develop supplemental budget requests that “include the Department’s efforts related to the Global War on Terror and not strictly limited to Operation Enduring Freedom [Afghanistan] (OEF) and Operation Iraqi Freedom [OIF].”

This evolving definition of OCOs reflected an increasingly sizable grey area between base and OCO requirements that was utilized by stakeholders to advance other priorities, including use of OCOs as a mechanism to avoid budget caps under the BCA.

OCO funds) and investment priorities, with war-related expenses weighted toward military personnel and operation and maintenance (O&M) investments quickly consumed by current operations, rather than advancing broader modernization priorities. The nature of this build-up had implications for the drawdown after 2010, when the budget began a period of sustained decline.

A final notable feature of the defense budget in this period is that, in real terms, the budget was very large by historical standards. The highest-ever defense budget was realized in this period (FY 2008); this budget peak was about 15 percent higher than the previous high reached in 1952 at the height of the Korean War and 25 percent higher than the budget in 1985 at the height of the Reagan-era defense build-up. Indeed, by the end of the bookend to the period considered for this history, 2016, the defense budget began to rebound from a 2015 “trough” that was still about equivalent in real terms to the peak budget under Reagan. However, this defense build-up must be considered in the context of broader budgetary trends. When the budget began a sustained decline in 2010, it did so amid long-standing structural budgetary pressures and the requirements of resourcing two long wars that had already consumed readiness and postponed many modernization priorities. This meant that dialing down operations overseas did not return defense requirements to the September 10, 2001, antebellum. In this context, drawing down the budget, even from a very high baseline, would require hard choices.

Research Approach and Organization of the Report

Methodologically, this work of recent history draws on open-source documentation, archival collections from the Historical Office of the OSD, and a substantial number of interviews with individuals who held senior positions during this period. The open-source documentation included policy analysis, media reports, public comments and memoirs from key players, DoD strategic guidance, and congressional testimony. Archival materials from the OSD Historical Office included unclassified decision memos, talking points, public remarks, and background materials in support of congressional testimony or other high-level engagements. The team conducted 20 interviews with senior leaders from the OSD (including Policy, Comptroller, CAPE, and Acquisition and Sustainment) and the Joint Staff. These interviews provided critical context and first-person insights to inform the story emerging from other sources.

OCOs also included more limited procurement and research, development, test, and evaluation (RDT&E) expenses, but often to support near-term requirements rather than developing capabilities envisioned for the longer term.

For the purposes of this report, we define “defense budget” as budget authority for the 051-budget function, including base budget and OCO budget, unless indicated otherwise. For more on the overall 050 budget function, see Brendan W. McGarry, FY 2021 Defense Budget Request: An Overview, Washington, D.C.: Congressional Research Service, IN11224, February 20, 2020.
The history is divided into three periods defined by DoD approaches to managing real or anticipated resource constraints and decisionmaking about how to prioritize investments and balance risk. Chapter Two covers 2007–2010, including initial reactions to the Great Recession within DoD as well as Secretary of Defense Robert Gates’s efficiency initiatives. Chapter Three covers 2011–2013, focusing on the BCA and DoD actions before and after sequestration-enforced budget caps. Chapter Four covers 2014–2017, discussing the DoD push to rebalance the force while facing the costs and future threat of sequestration-enforced budget caps in a rapidly changing security environment. This history offers detailed contextual explanations of the major events and actors involved with the U.S. DoD and the impact of the Great Recession on them and demonstrates the interconnected nature of U.S. politics, national security strategy, and the DoD.
Belt-Tightening During Current Operations and an Emerging Focus on Deficit Reduction, 2007–2010

We have to gird ourselves for some pretty significant challenges, given the national security challenges that we have as well as the responsibility to steward every dollar.

—Chairman of the Joint Chiefs of Staff Michael G. Mullen

Introduction

In early 2007, the U.S. economy suffered a severe shock when a contraction in the housing market led to widespread losses in the financial sector and, subsequently, to reverberating economic shocks around the world. By December, the United States was officially in recession. It would not emerge until June 2009, eighteen months later. At the time, the Great Recession represented the largest decline in output, consumption, and investment, as well as the largest increase in unemployment of any post–World War II recession. The Great Recession, itself, however, had limited direct impacts on the U.S. defense budget or policy. For senior defense officials, the Great Recession remained secondary to ongoing GWOT counter-violent extremist organization (VEO) operations—namely, supporting the wars in Iraq and

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3 In this study, we use the term “defense budget” to describe the DoD’s 051 subfunction of 050 National Defense budget function, unless otherwise noted. The 051 portion is by far the largest portion of the 050-defense function. In 2017, for instance, it comprised 96 percent of the total. Of the remaining 4 percent, 3 percent constituted the 053-atomic energy defense subfunction, and 1 percent 054, “defense related activities” (according to the Congressional Research Service) of the Department of Justice, Department of Homeland Security, Central Intelligence Agency, and various other agencies and departments. See Figure 2, “Spending by Subfunctions of National Defense” in Christopher T. Mann, Defense Primer: The National Defense Budget (050), Washington, D.C.: Congressional Research Service, IF10618, March 17, 2017, p. 2.
Afghanistan—and rebuilding readiness worn down from these long conflicts. Thus, in 2007, The Great Recession and its potential impact on defense spending did not significantly influence the thinking of senior defense officials. One senior Joint Staff member recalled that no external pressure was placed on the DoD to adjust its budget during 2007.\(^4\) Another senior OSD official agreed, arguing that the DoD’s “resources weren’t that constrained; it was] not the foremost issue.”\(^5\) In January 2008, Chairman of the Joint Chiefs of Staff (CJCS) Michael G. Mullen articulated in his 2008–2009 Guidance to Joint Staff that the DoD’s priorities remained to succeed in Iraq and gradually shift resources to Afghanistan,\(^6\) rebuild readiness, and restore and further warfighters’ and veterans’ health care access and quality.\(^7\)

In January 2009, Secretary of Defense Gates wrote in Joint Forces Quarterly, “The defining principle driving our strategy is balance. . . . We cannot expect to eliminate risk through higher defense budgets—in effect, ‘to do everything, buy everything.’ Resources are scarce, yet we must still set priorities and consider inescapable tradeoffs and opportunities.” The Secretary of Defense made it clear that while preparing and planning for future conflicts must continue, his first priority in the current, fiscally restrained environment was to prioritize “capabilities needed to win the wars we are in, and of the kinds of missions we are most likely to undertake in the future.”\(^8\)

The FY 2010 National Defense Authorization Act (NDAA) largely reflected Gates’s and Mullen’s intention to face national security realities in the era of the Great Recession. It served their objectives of rebalancing defense efforts toward ending U.S. involvement in Iraq, shifting materiel and manpower to Afghanistan, prioritizing procurement programs with immediate applicability to those wars and other forms of irregular conflict (e.g., Mine-Resistant Ambush Protected [MRAP] vehicles, unmanned aerial vehicles [UAVs]), and increasing support to wounded servicemembers, veterans, and their families. During this period, the so-called Analytic Agenda—the function that provided rigorous analytic support to planners and programmers, also reached its zenith. It would gradually atrophy from 2011 onward as the DoD shifted away from a two-war planning construct, conventional near-peer threats were deprioritized, and some Pentagon officials became frustrated at status quo concepts of operations (CONOPS).

\(^4\) RAND interview, JS121220.

\(^5\) RAND interview, SD010521a; RAND interview, SD010521b.

\(^6\) In April 2008, Mullen would comment that Afghanistan had experienced a 27 percent increase in violence between 2006 and 2007. RAND’s Seth Jones countered that much of this violence had occurred in Afghanistan’s Helmand Province, primarily under British, Canadian, and Dutch forces’ jurisdiction, not that of the United States. Jones argued that in areas primarily under U.S. forces’ control, there had been a 40 percent decline in violence over the same period. See Seth G. Jones, “America Is Making a Difference in Eastern Afghanistan,” The RAND Blog, April 1, 2008.

\(^7\) For excerpts, see Michael G. Mullen, “Priorities and Strategic Objectives of the Chairman of the Joint Chiefs of Staff,” Joint Forces Quarterly, No. 48, 2008c, p. 4.

Meanwhile, the U.S. economic recovery slowly began in 2009. In February, Congress passed the American Recovery and Reinvestment Act (ARRA), a stimulus package that included roughly $503 billion in spending and $288 billion in personal and corporate tax cuts. This package, however, fueled political concerns over the Great Recession’s long-term consequences on the national debt and yearly deficit spending. At the same time, the new Obama administration’s efforts to draw large-scale Middle Eastern military commitments to a close led to new strategic thinking about how to appropriately rebalance the DoD’s investments to support current operations while also anticipating future threats.

In an attempt to assure Congress and the American public of its fiscal responsibility, the DoD also undertook a wide range of department-wide efficiency initiatives. As one former senior defense official recalled, by 2010 “identify[ing] and taking from excess efforts really were DoD-driven, not presidential or congressional.”9 On May 8, 2010, Gates directed the services and Pentagon components to identify $100 billion in additional savings that could be achieved between FY 2012 and FY 2016.10 This involved a three- (later expanded to four-) track approach intended to permit the services to reinvest any savings they could identify in current “warfighting and modernization needs.”

This also included reforming major defense acquisition programs and processes. As Mullen argued, streamlining organizations to resource this rebalance amid increasing budget austerity was the DoD’s commitment to responsible stewardship of national resources. The DoD also undertook its first “Better Buying Power” (BBP) initiative, intended to “do more without more.” This ultimately would be the first of three generally successful BBP initiatives during the Obama administration.

By the end of 2010, however, the deepening national deficit reduction debate led to a growing sense that the DoD’s efficiency initiatives might not be sufficient to prevent deeper budgetary cuts.

The 2007–2010 National Security Context

Senior defense and political officials generally considered terrorism against the United States, its allies, and partners as the nation’s most important national security threat during this period. The 2006 Quadrennial Defense Review (QDR) explicitly identified the GWOT as the DoD’s first priority. Dismantling terrorist organizations and networks in Pakistan, East Africa, Southeast Asia, and the Sahara and ensuring that terrorists could never again attack the U.S. homeland, were related concerns. The 2006 QDR also referred to countering

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9 RAND interview, JS121220.

these global terrorist threats as “Fighting the Long War.” National security officials, such as Director of National Intelligence (DNI) John Negroponte, were particularly concerned about these organizations’ efforts to obtain and use weapons of mass destruction (WMD). The U.S. government also remained concerned about instability and drug cartels in Latin America.

The 2006 QDR’s description of GWOT as “Fighting the Long War” summarized both the terrorist threat and U.S.-led efforts to mitigate this threat. Despite repeated promises in the 2007–2010 period from the administrations of George W. Bush (in office 2001–2009) and Barack H. Obama (in office 2009–2016) that the wars in Iraq and Afghanistan would soon end, for most Americans these two conflicts came to represent wars with no ends in sight and few tangible metrics for success. A 2007 Pew Research Center poll revealed that 52 percent of Americans wanted U.S. troops to return home from Iraq “as soon as possible.” A March 2008 Pew poll determined that 54 percent of Americans believed that the United States should not have invaded Iraq, and 48 percent argued that the Iraq war was not going well.

The Great Recession did not diminish terrorist efforts to attack targets in the West or in pro-Western countries. In May 2007, the Fatah al-Islam group launched an attack on Lebanon’s Nahr al-Bared refugee camp, killing at least 150. In June, British authorities thwarted an attack on Glasgow International Airport. In September, German and Danish authorities arrested potential terrorists planning attacks against U.S. and European targets. In December, Al-Qaeda killed 60, including ten United Nations officials, with two car bombs in Algiers, Algeria. In March 2008, Tamil Tigers killed 26 on a commuter bus in Sri Lanka. Two months later, the Indian Mujahadin killed 60 in seven bomb attacks in Jaipur, India. In February 2009, the Tamil Tigers launched an attack in Vishvamadu, Sri Lanka, killing 28 and wounding 90. Closer to the United States, Columbia’s Fuerzas Armadas Revolucionarias de Colombia killed 17. In July 2009, the Al-Qaeda-affiliated Jemaah Islamiyah killed nine and wounded over 50 in an attack on Western luxury hotels in Jakarta as part of broader efforts to destabilize the Indonesian government and establish an Islamic state. Even U.S. efforts to protect the homeland occasionally failed. On November 5, 2009, for instance, Nidal Malik Hassan killed 13 soldiers and wounded another 29 at Fort Hood, Texas.

This is not to say that U.S. national security interests were focused exclusively on counterterrorism. American military and civilian leadership remained deeply concerned about North Korea’s nuclear weapon capabilities and efforts to assist Iran in developing its own capabilities, as well as those states’ efforts to obtain other forms of asymmetric weaponry. By 2008, senior defense and intelligence officials had also begun to seriously examine “vulnerabilities of the U.S. information infrastructure to increasing cyber-attacks by foreign governments, nonstate actors and criminal elements.”

These concerns were increasingly described using two terms that have since become popularized throughout national security literature: anti-access and/or area denial (A2/AD) and command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR). An emerging focus on adversaries’ A2/AD capabilities and the need for the United States to counter them dates to at least the 2001 QDR. A2/AD constitute capabilities that enable an adversary’s full-spectrum, multidomain efforts to deter U.S. forces from accessing their increasingly complex territorial spaces, ranging from land and sea to space, cyberspace—then an emerging threat space—and the electromagnetic spectrum. Given the comprehensive capabilities of U.S. military forces, aggressors require a multidomain range of assets to fulfill a complete A2/AD strategy, from WMD and “long-range precision-strike systems,” “littoral anti-ship capabilities,” and “high-quality air defenses,” to “long-range artillery and rocket systems,” and advanced asymmetric cyberspace, electromagnetic, and space technologies. As a result of these significant requirements, only relatively few, primarily near-peer state actors can fully develop holistic A2/AD capabilities.

Rapid technological advances, especially in the satellite, internet, and mobile sectors, motivated the United States and its allies to develop their C4ISR capabilities and more seriously identify weaknesses in defense and civilian infrastructure an adversary could exploit. This would prove to be of particular concern to Mullen, who articulated his C4ISR and broader asymmetric A2/AD concerns and priorities in multiple Joint Forces Quarterly editorials.

Traditional, conventional near-peer adversaries remained a threat to the United States. Major national security assessments and documents in this period did not ignore Russia and China. But Secretary of Defense Gates and many senior defense officials did not consider them to be as much of an immediate threat to national security as terrorism and increasingly asymmetric attacks from smaller state and nonstate actors.


There are several reasons why many senior defense leaders—and Congress and the public—prioritized GWOT and WMD over Russia and China in the 2007–2010 period. First and foremost, Americans were fighting and dying daily in Iraq, Afghanistan, and elsewhere as part of GWOT operations. Second, Russia no longer appeared to be as significant a near-term threat to the North Atlantic Treaty Organization (NATO) or U.S. national security. In 2007 and 2008, Russia expressed its opposition to U.S. plans for a missile defense shield in Poland. The United States ultimately cancelled the project in 2009. The United States staunchly opposed the August 2008 Russo-Georgian War but made no overt effort to actively support Georgia in fighting Russia. By 2009, both President Obama and his Russian counterpart, Dmitry Medvedev (supported by Prime Minister Vladimir Putin, who was nominally former President), had publicly signaled that they were cautiously open to a potential thaw in U.S.-Russian relations. In April 2009 Obama and Medvedev agreed to begin negotiations on a new Strategic Arms Reduction Treaty, which ultimately they signed the following April.

Third, some national security experts in this period generally envisioned China as a rising adversarial power in the longer term, as demonstrated for instance by its successful January 2007 destruction of one of its own satellites with an antisatellite ballistic missile. This, however, did not constitute a significant immediate or very near-term threat to many observers at the times. Several key national security documents, such as the 2010 QDR, evoked this perspective. This assessment was by no means universally accepted by experts. For instance, in the winter of 2008, the Center for a New American Security’s (CNAS) Shawn Brimley, later one of the principal architects of the “Third Offset” under Deputy Secretary of Defense Robert O. Work (see Chapter Four for further details), explicitly identified China as an emerging near-term threat. Its development of “robust” C4ISR and other A2/AD capabilities, as well as more conventional blue water navy assets, signaled its increasing capabilities. These views would begin to change after 2010, as the U.S.-Russian thaw evaporated and China became increasingly assertive in the South China Sea.

Economic Concerns Take a Backseat to Current Operations

The Iraq Surge and Gates’s Appointment
By 2006, U.S. forces had been fighting in Afghanistan for five years and Iraq for three.\textsuperscript{25} By December 2006, in Iraq alone, nearly 2,900 U.S. servicemembers had been killed, some 21,000 had been wounded, and the United States had spent an estimated $400 billion.\textsuperscript{26}

The February 22, 2006, bombing of the Shi’a al-Askari Shrine within the Golden Mosque of Samarra spurred a sectarian Shi’a-Sunni civil war that overwhelmed Iraq’s fragile, still-coalescing, but democratically elected coalition government.\textsuperscript{27} Daily attacks against U.S. forces increased roughly 157 percent between April and October. In Baghdad alone, up to 150 civilian bodies were being found every day.\textsuperscript{28} At home, war “dissatisfaction” had begun to set in,\textsuperscript{29} and concerns were rising regarding readiness as units’ operational tempo increased,\textsuperscript{30} especially in the U.S. Army Reserve.

On March 15, 2006, Congress established the bipartisan Iraq Study Group,\textsuperscript{31} which included former Central Intelligence Agency Director Gates\textsuperscript{32} and former Office of Management and Budget (OMB) Director Leon E. Panetta, to determine the best path forward.\textsuperscript{33}

\textsuperscript{25} The Bush administration described both the Iraq and the Afghanistan Wars as GWOT operations, and its emergency supplemental budget appropriations requests were classified as GWOT requests. The Obama administration changed this budgetary request classification from its FY 2010 defense request onward to OCOs. In 2010, it changed the GWOT term to “countering violent extremism” (CVE) to better incorporate nonviolent nation-building and partnering missions and differentiate CVE from other types of conflict. See Marc Ambinder, “The New Term for the War on Terror,” The Atlantic, May 20, 2010; and David C. Gompert, Paul K. Davis, Stuart Johnson, and Duncan Long, Analysis of Strategy and Strategies of Analysis, Santa Monica, Calif.: RAND Corporation, MG-718-JS, 2008, p. 5.


\textsuperscript{28} Linda Robinson, Tell Me How This Ends: General David Petraeus and the Search for a Way Out of Iraq, New York: PublicAffairs, 2008, p. 17.

\textsuperscript{29} Baker III et al., 2006, p. 4.

\textsuperscript{30} See, for instance, Commission on the National Guard and Reserves, Transforming the National Guard and Reserves into a 21st-Century Operational Force, Arlington, Va.: Commission on the National Guard and Reserves, January 31, 2008, p. 6.

\textsuperscript{31} According to Gates, by the summer of 2006 at least three internal reviews of the Iraq War were underway. See Robert M. Gates, Duty: Memoirs of a Secretary at War, New York: Alfred A. Knopf, 2014, p. 37.

\textsuperscript{32} Gates resigned from the Iraq Study Group on November 8, 2006, when he was nominated to become the Secretary of Defense. See Gates, 2014, pp. 45–46.

\textsuperscript{33} On the Iraq Study Group, see Brennan Jr. et al., 2013, p. 53.
Their December report concluded that “the situation in Iraq is grave and deteriorating.” It warned that a failure to reverse this situation and bring stability to Iraq could destroy the country’s nascent democracy and “diminish” the United States’ “global standing.” The Iraq Study Group proposed a new strategy focused on helping the Iraqi government meet “national reconciliation, security, and governance” milestones. To accomplish this goal, one of their recommendations was a short-term “significant increase” in U.S. forces, especially to secure Baghdad, followed by a withdrawal as the Iraqi government “take[s] real responsibility for governance.” The group called for the withdrawal of all combat brigades “not essential for force protection” by the end of March 2008.

In November, as part of his Iraq strategy shift, President Bush nominated Gates, who had helped develop the recommendation for the short-term increase in U.S. forces, to replace Donald H. Rumsfeld as Secretary of Defense. In his interview with Bush for the position, Gates outlined his priorities: succeed in the wars in Iraq and Afghanistan; rebuild readiness; increase the Army and Marine Corps’ end strengths; and reform defense procurement programs and processes, many of which were then geared not to current operations but instead to near-peer adversarial threats. Gates would attempt to maintain these priorities throughout his tenure, which would ultimately last until June 2011, two years into Obama’s administration.

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34 Baker III et al., 2006, p. 6.
35 This included, in the Iraq Study Group’s estimate, “10,000 to 20,000 American troops instead of the 3,000 to 4,000 now” in embedded Iraqi Army support roles, as well as additional special operations (SOF), intelligence, and support forces. See Baker III et al., 2006, pp. 48–49.
36 David E. Johnson, Agnes Gereben Schaefer, Brenna Allen, Raphael S. Cohen, Gian Gentile, James Hoobler, Michael Schwille, Jerry M. Sollinger, and Sean M. Zeigler, The U.S. Army and the Battle for Baghdad: Lessons Learned—And Still to Be Learned, Santa Monica, Calif.: RAND Corporation, RR-3076-A, 2019, p. 124. Johnson et al. made the important argument that many of the Iraq Study Group’s recommendations ultimately were at odds with Bush’s Surge strategy, notably the April 2007 decision to extend Iraqi tours from 12 to 15 months “to boost troop strength.”
37 Gates, 2014, p. 37. Specifically, in an October 15, 2007 email, six days before Bush’s invitation to Gates to interview for the Secretary of Defense position, Gates argued to Baker and Hamilton that “there should be a significant augmentation of U.S. troops levels (from outside Iraq) for a specific period of time to clear and hold [provide a sustained security environment in] Baghdad and give the Iraqi army time to establish itself in these areas. Probably 25,000–40,000 troops would be needed for up to six months. . . . It should be made quite clear to the Iraqi government that the augmentation period is of specific length and that success in meeting the benchmarks will determine the timetable for withdrawal of the base force subsequent to the temporary augmentation.”
38 Gates, 2014, p. 7. Senior defense officials interviewed by RAND generally agreed that these concerns, with an emphasis on current GWOT/CVE conflicts and reforming defense procurement programs, not preparing for future, high-end near-peer conflict, were Gates’s priorities. See RAND interview, JS011321; and RAND interview, SD010721.
On January 10, 2007, Bush formally announced a five-brigade, 30,000-personnel “Surge” to support the existing 141,000 U.S. forces operating in Iraq, including at least 21,500 combat troops and 8,500 intelligence, transport, and other support personnel. The Surge force was intended to stabilize Baghdad, secure the population, and pressure the Iraqi government to end sectarian Shi’a-Sunni violence and further develop its own security and governance mechanisms so that U.S. forces could withdraw.

The Surge constituted part of the Bush administration’s broader new strategy to ensure U.S. forces could “complete their mission” to establish a “democratic Iraq that upholds the rule of law, respects the rights of its people, provides them security, and is an ally in the war on terror.” This included a whole-of-government approach and more restrained, embedded use of counterinsurgency (COIN) and regular U.S. forces to protect and build trust with the Iraqi population and military. Bush removed Multinational Force-Iraq’s (MNF-I) long-standing commander, General George W. Casey Jr., who had protested the Surge concept. In his place, Bush appointed General David Petraeus, described by Gates as “the Army’s most senior expert on counterinsurgency.”

In February, Gates submitted the DoD’s FY 2008 budget request. In congressional testimony, CJCS Peter Pace explained its key goals: to support the Surge and current GWOT operations in Iraq and Afghanistan as well as elsewhere; to increase interagency cooperation; to maintain deterrence against ongoing Venezuelan, Cuban, Iranian, and North Korean threats; to increase the Army’s brigade combat teams (BCTs) from 42 to 48 and the Marine Corps’ regimental combat teams by one; and to provide $51.5 billion to rebuild readiness. Pace stressed that although the FY 2008 budget request was a “significant investment,” it

40 Baker III et al., 2006, p. 6.
44 Brennan Jr. et al., 2013, pp. 44–45.

nonetheless represented only an estimated 3.9 percent of the U.S. gross domestic product (GDP), which was “relatively modest in historic terms.”

Bush’s foreign policy plans were intimately entwined with domestic politics at home. Congressional Democrats and some Republicans protested the Surge. Senate Majority Leader Harry Reid (D-NV) and Speaker Nancy Pelosi (D-CA) urged President Bush to reject the Surge plan. In a January 5 letter they claimed that the U.S. military was already overstretched and exhausted. Warning that a troop increase that placed personnel in the middle of an escalating civil war was likely to fail, the two Democrats argued that the “troops and the American people have already sacrificed a great deal for the future of Iraq. After nearly four years of combat, tens of thousands of U.S. casualties, and over $300 billion dollars, it is time to bring the war to a close.”

Proposing various alternative binding and nonbinding benchmark and timeline bills to withdraw U.S. forces by specific dates, the Democrats vied for management of the war. The President consolidated congressional Republican support and aggressively asserted that efforts to end the Surge put the United States in danger. He contended that failing to send additional troops to Iraq would open it up to attacks from Islamic extremists. Withdrawal from Iraq at the time risked “mass killings on a horrific scale.”

A unified front from Gates, Pace, and other senior defense officials also appealed for patience to await the Surge’s results and advised that withdrawal of U.S. forces should be tied to Iraqi officials demonstrating tangible progress in bringing stability to their country. Any preemptive official timeline, they argued, would both compromise the Surge’s purpose—to simultaneously aid Iraqi efforts to rebuild reconciliation, security, and governance, and pressure them to assume real responsibility over these areas—and suggest that the United States and its MNF-I partners had failed. None of Congress’s 2007 efforts to end the Surge or set withdrawal dates passed into law. In September, initial assessments suggested that Iraq’s security situation had begun to improve.

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Pace himself would lose his CJCS position as part of this new strategy. In his 2014 memoir, Gates recalled that congressional Democrats and Republicans alike felt that Pace, while “highly regarded personally . . . was considered too closely tied to past decisions” on Iraq, and they informed Gates and Bush that his renomination could prove acrimonious.\(^52\) In June 2007, Bush instead nominated Mullen, then Chief of Naval Operations (CNO), to be the next CJCS. He assumed the role on October 1.

The Surge debate caused what Gates later described as “huge budgetary disruptions in the Pentagon as Congress dribbled out war funding to us a few months at a time throughout the year.”\(^53\) In its original FY 2008 budget request submitted in February 2007, the DoD had asked for $141.7 billion in emergency supplemental funding for Iraq and Afghanistan. This request, however, did not include emergency supplemental FY 2007 Surge-associated costs.\(^54\) On March 9, the DoD submitted a revised FY 2007 supplemental request to cover the Surge.\(^55\) On April 26, after nearly two months of debate, during which the first Surge forces arrived in Iraq,\(^56\) Congress approved the FY 2007 supplemental request on the condition that U.S. forces begin withdrawing from Iraq on October 1, 2007, and completely withdraw 180 days later.\(^57\) Bush vetoed this bill and returned it to Congress.\(^58\) After Congress removed the condition, Bush signed the compromise bill into law on May 25. Public Law (P.L.) 110-28 belatedly provided an additional $94.7 billion for the DoD’s emergency supplemental budget but set 18 benchmarks for evaluating the Iraqi government’s progress.\(^59\)

In the interim, the DoD had been forced to fund the Surge through any other available means. As early as February, senior defense officials had warned Congress that the existing supplemental emergency O&M war allocation of the budget (P.L. 109-289, enacted Sep-

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\(^{52}\) Gates, 2014, pp. 64–66.


\(^{55}\) Daggett et al., 2008, p. 3.


\(^{58}\) Daggett et al., 2008, p. 3. This bill was H.R. 1591, *U.S. Troop Readiness, Veterans’ Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007*, April 24, 2007.


tember 29, 2006) for the Army, which was responsible for the majority of Iraq operations, would be exhausted by April. With little progress achieved in the dispute between Congress and the Bush administration, in April the DoD requested and received approval to reallocate $1.6 billion from existing, non-war Army O&M personnel funds. It also slowed down non-war-related spending, primarily in nonessential travel, shipments, procurement contracts, and non-war-critical parts, to sustain its warfighting operations through June. Congress ultimately authorized $7.5 billion in transfer authority before passing P.L. 110-28. The Congressional Research Service (CRS) concluded that this initial chastening experience, while not affecting readiness, “began what may be only the first round in [a] series of constitutional battles about the authority of the President to wage war and Congress’s ability to limit it” through the DoD’s budget.

The Emerging Great Recession
Throughout the 2007 Iraq Surge debate, the nation’s—and indeed the world’s—emerging financial crisis was of secondary concern. Few defense or congressional officials then realized how prescient the CRS’s observation would become. Beginning in late 1999, relatively low mortgage interest rates and lowered credit standards had created increased demand, causing home prices to rise sharply. Depending on the particular market, this bubble burst some-

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61 Daggett et al., 2007, p. 18.
62 Daggett et al., 2007, pp. 18–19.
63 Title 10 U.S.C. Section 2214, Transfer of Funds: Procedures and Limitations, October 1, 1991, permits the DoD to transfer (or reprogram) a limited level of funds annually from its original congressionally assigned purpose to another purpose. At time of writing, the DoD is permitted to transfer up to $4 billion “for military functions (except military construction)” in the baseline budget (General Transfer Authority) and up to $2 billion in the OCO (Special Transfer Authority) budget. Four types of transfer authority currently exist: prior approval, where congressional committees must approve a transfer, including for many procurement programs or establishing or canceling an existing procurement program; internal programming, where no congressional approval is required, including reprogramming funds that, according to the CRS, does not “change[s] the substance of the program”; below threshold reprogramming, or transfer authority below a specific financial limit; and letter transfer, which, according to the CRS, is “used to process congressionally directed transfers, such as transfers from the Defense Health Program to the Department of Veterans Affairs.” See Brendan W. McGarry, Defense Primer: DOD Transfer and Reprogramming Authorities, Washington, D.C.: Congressional Research Service, IF11243, January 22, 2021, pp. 1–2.
64 Daggett et al., 2007, p. 19.
time between late 2005 and early 2007. In Boston, for example, prices peaked in September 2005. Those in the San Francisco area began falling in May 2006, while those in Milwaukee and Orange County, California, continued to increase until September 2006. The real estate collapse soon triggered a multinational subprime financial crisis. In February 2007, the same month Gates and Bush submitted the DoD’s FY 2008 budget request, the Hong Kong and Shanghai Banking Corporation, one of the world’s largest banks, announced significant financial losses in the U.S. subprime mortgage market. In April, as Congress and the Bush administration wrangled over FY 2007 emergency supplemental funding for the Surge, New Century Financial, one of the United States’ largest subprime mortgage lenders, filed for Chapter 11 bankruptcy protection.

By the fall of 2007, as the first evidence emerged of a decline in Iraqi violence, the worsening financial situation had spread globally. In September, the United Kingdom witnessed its largest bank run since 1866. Depositors raced to withdraw more than £1 billion from Northern Rock, a bank that had heavily supported itself through short-term capital market borrowing. On September 18, the U.S. Federal Reserve reduced its interest rate by 0.5 percent. In Switzerland, UBS announced $3.4 billion in losses, soon followed by a similar announcement from U.S.-based Citigroup. On October 9, in a coordinated effort, the Federal Reserve, the European Central Bank, Bank of England, Bank of Canada, and Sveriges Riksbank (Bank of Sweden) all lowered their benchmark interest rates. The New York Times, however, noted that the decision had “failed to calm gyrating markets” in ongoing turmoil “that threatens to set off the first global recession since the early 1970s.” At the end of the month, Merrill Lynch’s Chief Executive Officer (CEO) Stan O’Neal resigned following the firm’s announcement of $2.3 billion in losses and $8.4 billion in associated charges. By December, nearly a million Americans faced foreclosure on their homes. On December 6, Bush announced an agreement with the mortgage industry and the Treasury Department to freeze homeowners’ interest rates for five years in an effort to help protect some of the most vulnerable who had been enticed to

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69 Guillén, 2016, p. 2.


71 Guillén, 2016, p. 2.


74 Guillén, 2016, p. 2.
obtain mortgages with low introductory rates. Although the National Bureau of Economic Research, described by Reuters as "the nation’s business cycle arbiter," did not declare it until December 2008, the United States officially entered a recession in December 2007.

In this context, neither the House nor the Senate Armed Services Committee’s (S.A.S.C.’s) FY 2008 NDAA reports, released in May and June 2007, respectively, noted the nation’s declining financial situation in its defense budgetary motivations. Instead, they prioritized the ongoing Iraq and Afghanistan Wars, highlighted the need to rebuild readiness, and called attention to the limited Army and Marine Corps end strength growth. The reports also recognized problems in servicemembers’ and veterans’ health care, most notably underscored by the *Washington Post*’s February disclosure of dire conditions within Walter Reed Medical Center. They also focused on Gates’s subsequent firing of Secretary of the Army Fran Harvey and enumerated ongoing procurement process concerns, especially with long-running major weapons development programs. The FY 2008 NDAA, belatedly passed into law on January 28, 2008, reflected these motivations, not the deepening financial crisis.

Ultimately, in 2007, the emerging Great Recession and its potential impact on defense spending was not at the forefront of senior leaders’ minds. Rather, the Department was more focused on ongoing military operations and supporting the health of the force.

### The Department of Defense Acknowledges the Nation’s Worsening Financial Situation

On February 1, 2008, several days before the Bush administration submitted the DoD’s FY 2009 budget request to Congress, Mullen held a press conference. Reporters’ questions reflected both the DoD’s complex responsibilities and the external pressures being placed on it. The previous day, the Commission on the National Guard and Reserves had released its long-awaited report calling for sweeping reserve component reforms and the need to rebuild their readiness. Although the level of violence in Iraq had gradually fallen since Septem-
ber, two Baghdad bombings only hours before Mullen’s press conference had killed up to 98, underscoring how precarious the country’s security situation remained.81 Key NATO partners involved in Afghanistan, notably Germany and Canada, had vocalized their reticence to both enhance their support and lift restrictions on how and where their forces could be deployed. Reporters were similarly eager to hear of any progress on a U.S.-Iraqi bilateral security agreement that would permit the gradual withdrawal of U.S. forces.

On November 26, 2007, Bush and his Iraqi counterpart, Prime Minister Nouri Kamel Al-Maliki, had signed the Declaration of Principles for a Long-Term Relationship of Cooperation and Friendship Between the Republic of Iraq and the United States of America, which required the two countries to develop a strategic framework agreement and a status of forces agreement (SOFA) by July 2008.82 By February, however, little progress had been made on negotiations. On January 29, Gates and Bush discussed a potential pause in the Surge withdrawal process to both evaluate the Surge’s impact and pressure the Iraqi government to move forward.83 The following week, Gates and Secretary of State Condoleezza Rice would coauthor a Washington Post editorial publicly presenting U.S. objectives to deliberately increase diplomatic pressure on Iraq’s government.84

Halfway through Mullen’s press conference, a reporter asked Mullen how the DoD would respond to the nation’s worsening financial situation. “This year defense spending, adjusted for inflation, will be at its highest level since the Second World War,” the reporter reminded the CJCS. “Given that we’re probably about to enter an economic recession, how do you make the case that—to the American public—that three-quarters of a trillion dollars ought to be spent on defense for the long haul?”85 The reporter’s question was one many Americans were also asking. Two weeks later, a Pew Research Center poll concluded that nearly half (45 percent) of Americans rated the national economy as “poor,” while a majority (53 percent) rated their household finances as fair or poor. Both numbers represented dramatic falls from polls conducted only a month previously.86

Mullen’s response constituted one of the DoD’s first public acknowledgments that it would need to partake in the national economic debate. It also broadly outlined Gates’s and Mul-

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84 Brennan Jr. et al., 2013, p. 61.


len’s initial position on how senior defense officials might respond. The FY 2009 DoD budget debate, Mullen argued, “needs to be informed by the environment, [the] security risks that are out there, and what it’s going to take to meet those security risks, which includes [the] full spectrum from the kind of irregular warfare and terrorist threats that we have right now to the other end of the spectrum in terms of the conventional threats that are potentially emerging in the longer run.”87 He warned reporters, “Investment is a strategy, and we get the budget and the military that the American people want.”88


In the midst of both ongoing congressional debates over the FY 2009 defense budget request and the deepening Great Recession, the OSD and Joint Staff negotiated with each other over two key strategy documents: the Secretary of Defense’s National Defense Strategy (NDS), and the CJCS’s National Military Strategy (NMS). These negotiations represented one of only a few known occasions when Gates and Mullen substantively disagreed over defense strategy.89 Their disagreement did not concern the need to succeed in the ongoing Iraq and Afghanistan conflicts nor over internal process reform. Rather, their disagreement hinged on the relative level of risk senior defense officials were willing to accept in the medium-term future against multiple conventional threats.

As stipulated in the 1986 Goldwater-Nichols Act, which reorganized the DoD, the President must annually release a National Security Strategy (NSS) broadly outlining the United States’ national security objectives.90 Every four years, the Secretary of Defense issues an NDS explaining how the DoD will support the NSS.91 From 1997,92 the NDSs also “buil[t] upon the concepts articulated in the QDRs.”93 Until their elimination in 2018, the DoD produced

87 Mullen, 2008a.
88 Mullen, 2008a.
89 Indeed, Gates argued that “with the exception of [the 2008 NDS] and one or two other issues [including the proposed October 2008 National Military Strategy], Mike Mullen was a steadfast ally.” See Gates, 2014, p. 145.
QDRs roughly near the start of every presidential administration, examining long-term national security issues, requirements, and strategies. In turn, Title 10 U.S. Code (U.S.C.) Section 153, defining the CJCS’s responsibilities, requires the CJCS to determine by February 15 of each even-numbered year whether to issue a more public NMS or internal Joint Staff guidance, which provides “near-term” guidance, “joint operating concepts,” and risk assessments to the service and combatant command (COCOM) authority chiefs.

The June 2008 NDS did not explicitly reflect the Great Recession. Instead, it was heavily influenced by the 2006 QDR’s emphasis “on non-traditional or irregular challenges” as exemplified by the ongoing Iraq and Afghanistan Wars. It underscored Gates’s prioritization of current nonconventional operations over longer-term potential conventional threats, including with near-peer competitors such as Russia or China. It only obliquely acknowledged the nation’s financial situation: The DoD, it stated, would need to develop strategy and mitigate risk “with limited resources,” defining risk primarily within the “indirect approach[es] that are fundamental to the Long War.”

In his memoir, Gates recalled that the NDS’s original draft argued that “U.S. predominance in traditional warfare is not unchallenged, but is sustainable in the medium term given current trends.” The 2006 QDR focused on nontraditional or irregular challenges. “We will continue to focus our investments on building capabilities to address those other challenges,” which were prevalent in the ongoing Iraq and Afghanistan Wars. “This,” Gates argued, “will require assuming some measure of additional, but acceptable risk in the traditional sphere.”

According to Gates’s memoir, Mullen, Navy Secretary Donald Winter, Air Force Secretary Michael Wynne, and Army Chief of Staff George Casey countered that there “was ‘no margin to accept additional risk in traditional capabilities to invest in other capability areas.’” The secretaries were at least partially motivated by protecting their respective flagship major procurement programs—those primarily designed to counter future traditional near-peer adversaries, or at least two smaller, but still conventional threats simultaneously. Mullen’s motivations may have been more complex, given his shared priorities in succeeding in the current GWOT wars and reforming procurement programs. Title 10 U.S.C. Sections 153(b)(1)(D)(i)

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94 Cohen, 2018a, pp. 1, 14.
99 Gates, 2014, p. 144. In his memoir, Gates replaced the sentence “The 2006 QDR focused on nontraditional or irregular challenges” with an ellipsis as this statement was not contentious. We have replaced it here to accurately reproduce the point of disagreement and the amended change.
and (v), defining the NMS’s requirements, stipulated that the CJCS had to broadly “assess the strategic environment, threats, opportunities, and challenges that affect the national security of the United States” and “assess joint force capabilities, capacities, and resources.” Further, Section 153(b)(2)(B)(vi), requiring the CJCS to submit an annual “Risk Assessment of the Chairman of the Joint Chiefs of Staff,” stipulated that Mullen “identify and assess critical deficiencies and strengths in force capabilities (including manpower, logistics, intelligence, and mobility support)” for each COCOM and “identify and assess the effect of such deficiencies and strengths for the National Military Strategy (or update).” In sum, Mullen’s CJCS position required him to balance his consideration of immediate requirements with longer-term risks and evolving strategic environments.

Gates subsequently “water[ed] down [his] language” somewhat after negotiations with Mullen, Winter, Wynne, and Casey. In the final version of the 2008 NDS, Gates amended his paragraph’s final sentence to state, “We will continue to focus our investments on building capabilities to address these other challenges, while examining areas where we can assume greater risk.”

Nevertheless, their disagreement soon resurfaced. In September, Mullen submitted his draft NMS to Gates for review with an intent to release it in October, ahead of the November 2008 presidential election. Gates rejected the draft, arguing that Mullen had apparently completely excluded Gates’s and the Bush administration’s language, as outlined in the NSS and NDS, to “winning the Long War.” Instead, he contended that the draft NMS “impl[ied] that our forces were unable to respond to multiple military contingencies, just the opposite of what I had been telling Congress.” In his response, Gates additionally suggested that the CJCS’s release of an NMS with language that diverged from the NSS and NDS immediately prior to the presidential election—especially when election polls suggested that Obama and Senator John McCain (R-AZ) were effectively tied—could draw allegations of political interference or an intent to pressure the new administration. This latter concern, Gates suggested, was encapsulated by Bush’s July 2008 comment that Mullen had increasingly “looked like [he] was auditioning for a job with the next commander in chief while he still works for this one!”

102 Title 10 U.S.C. Sec. 153(b)(2)(vi).
104 Gates, 2008, pp. 21–22; italics added to show amended text.
Mullen decided to issue a new NMS once he had conferred with the new administration (ultimately, a new NMS would not be released until 2011). Meanwhile, on November 17—13 days after the 2008 presidential election—the CJCS released internal guidance to the 1,500-strong Joint Staff that echoed much of the NSS’s and NDS’s language: succeed in the Middle East; enhance agency interoperability, especially with the Department of State; cooperate with key allies and partners; and rebuild readiness and reset the force. Like Gates, he reinforced his desire to increase defense efficiencies, in this case within the Joint Staff. “No process is sacrosanct,” Mullen stated. “[The CJCS] shall break and redesign as needed—outcomes are what counts.” The Joint Staff “must be capable of responding at the speed my job requires, not the speed a particular process currently allows.” Mullen would execute this pledge in December, only weeks after President-elect Obama asked Gates to stay on as Defense Secretary and Mullen as CJCS.

The Fiscal Year 2009 Defense Budget: Concern Grows Over Troubled Procurement Programs

Bush’s FY 2009 defense budget, submitted on February 4, 2008, requested $611.1 billion. This included a baseline DoD request of $515.4 billion, $2.9 billion in mandatory spending, $22.8 billion in Department of Energy and other agencies’ 050-defense budget functions, and a $70 billion emergency GWOT supplemental request to cover the ongoing Iraq and Afghanistan Wars through the first half of FY 2009. The GWOT request was intended to


112 This was the first time an OCO was used to describe an emergency supplemental defense budget request to fund counter-VEO operations. See Brendan W. McCarty and Emily M. Morgenstern, Overseas Contingency Operations Funding: Background and Status, Washington, D.C.: Congressional Research Service, R44519, September 6, 2019, p. 5.

augment the then–still partially unfulfilled $189.3 billion FY 2008 emergency supplemental requests.\textsuperscript{114}

The DoD’s budgetary priorities, in line with Gates’s and Mullen’s priorities, ranged from “prevail[ing]” in Iraq and Afghanistan, including fulfilling promises to increase “ground combat capability” and rebuild readiness, and to “develop[ing] future combat capabilities” through “strategic modernization” in such emerging competitive areas as cyberspace.\textsuperscript{115} Pre-empting expected congressional resistance to the DoD’s $35.9 billion baseline request increase over FY 2008 appropriations (or 5.4 percent real growth), the OSD argued that its combined FY 2009 baseline and OCO request—including the outstanding $102.5 billion (of the original $189.3 billion) FY 2008 emergency supplemental request—was only roughly 4 percent of GDP. By comparison, the OSD noted, during the Korean War (1950–1953) defense outlays had constituted 11.7 percent, during Vietnam (1963–1973) 8.9 percent, and during the First Gulf War (1990–1991) 4.4 percent.\textsuperscript{116} Senior defense officials, including Gates and Mullen, argued that annual defense spending would need to be maintained at a minimum of 4 percent of GDP to pay for major weapon acquisitions, repair or upgrade equipment worn down in the Iraq or Afghanistan Wars, and build new ships.\textsuperscript{117}

Bush’s FY 2009 defense budget request acknowledged the “challenging economic environment.”\textsuperscript{118} However, it did not connect the obstacles to the deepening recession or the national deficit, which had risen to $459 billion.\textsuperscript{119} Rather, it tied them to longer-term issues, including inflation, fuel cost increases, currency fluctuations, and military health care costs.\textsuperscript{120} In the face of a growing deficit and economic problems, the budget put in doubt the continued U.S. commitment in Iraq and Afghanistan. Rather than include a full year’s funding for the wars, it provided only partial funding. The Bush administration was purposefully transferring responsibility for major questions of cost to Congress and whoever would become the next president, offering a budgetary “bridge” from October 2008 to the spring of 2009. Preemptively countering the Democrats potentially making war funding contingent on a withdrawal timeline, the administration was also insistent that such decisions be based on the recommendations of General Petraeus. A White House official asserted that “a budget

\textsuperscript{114} Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, \textit{U.S. Department of Defense Fiscal Year 2009 Budget Request: Summary Justification}, Washington, D.C.: U.S. Department of Defense, February 4, 2008, p. 6. According to this report, by February 2008 Congress had “appropriated $86.8 billion or 46 percent of the President’s $189.3 billion request for GWOT. Congress has not yet appropriated the remaining balance—$102.5 billion—requested for U.S. forces in combat.”

\textsuperscript{115} Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, 2008, pp. 4–5.

\textsuperscript{116} Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, 2008, p. 6.

\textsuperscript{117} Towell, Daggett, and Belasco, 2009, p. 8.

\textsuperscript{118} Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, 2008, p. 7.


\textsuperscript{120} Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, 2008, p. 7.
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is a reflection of military strategy, and we don’t want to prejudge the recommendations of commanders.”

Within the budget were continued procurement funding requests for programs that were in many cases already under congressional, public, and even DoD scrutiny. In the Air Force, this included the F-22 Raptor, F-35 Joint Strike Fighter (also for the Navy), KC-X refueling tanker to replace the elderly Boeing 707–based KC-135, and A-10 Thunderbolt. In the Army, this included further developing the Future Combat System (FCS) and upgrades for the M1A2 Abrams tank, Stryker weapon system, and armored high mobility multipurpose wheeled vehicles (HMMWVs). In the Navy, this included continuing the administration’s goal of a 313-ship fleet by FY 2020. For FY 2009, this specifically included eight ships: two joint high-speed Vessels; one DDG-1000 Zumwalt-class destroyer, two littoral combat ships (LCSs); one Virginia-class nuclear-powered cruise missile submarine (SSN); and construction of the first Ford-class nuclear-powered aircraft carrier (CVN-21). It also included the EA-18G Growler and modernized versions of the F/A-18E/F Super Hornet. In the Marine Corps, this included the VH-71 Presidential Helicopter. In space, this included the Space Based Infrared System for early warning and the Advanced Extremely High Frequency, Wideband Global Satellite and Transformational Communication Satellite systems. Notably, the FY 2009 budget request explicitly did “not propose any major program terminations.” Instead, it sought to trim costs by retiring 357 aircraft across the services and adopting the 2007 Task Force on the Future of Military Health Care’s recommendations to increase co-pays, enrollment fees, and deductibles.

Both the House and the Senate pushed back on the Bush administration’s FY 2009 defense budget request. Neither chamber’s concerns were primarily motivated by the worsening fiscal crisis, however. Rather, Congressional decisionmaking focused on ongoing U.S. operational requirements in Iraq and Afghanistan and longstanding concerns over many procurement programs, some of which had been begun at least two decades previously during the Cold War. One former senior OSD official described these programs as “tech heavy and often over time and budget.”

The CRS noted that the Bush administration’s FY 2009 weapons acquisition request (including procurement and research, development, test, and evaluation, or RDT&E) was

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126 RAND interview, SD012021.
$45 billion, one-third higher than the DoD’s annual estimated average Cold War request. Nevertheless, as a March 2008 Government Accountability Office (GAO) report concluded, programs were delivered to the DoD on average 21 months late, and none of 72 procurement programs it had examined had “satisfied its standards for a successful, efficient program.”

In the FY 2007 NDAA, Congress updated the 1983 Nunn-McCurdy Amendment to close a longstanding loophole the DoD had exploited to avoid critical breaches and procurement program terminations. Specifically, the DoD had historically updated the original baseline estimate to avoid the 15 percent “breach” or 25 percent increase “critical breach.” The FY 2007 NDAA revision explicitly mandated that, in most circumstances, the original baseline estimate must be used in determining whether a procurement program unit cost has breached or critically breached increase thresholds. The FY2007 revision notwithstanding, many procurement programs that had previously or now breached or critically breached the Nunn-McCurdy Amendment were permitted to continue, only to be terminated or reformed under the more comprehensive Weapon Systems Acquisition Reform Act (WSARA) passed in 2009.


had or would soon “critically breach” the 1983 Nunn-McCurdy Amendment designed to check spiraling procurement programs expenditures (see note).129

The 2008 Presidential Election: Increasing Focus on the Great Recession’s Immediate Impact

Politicians struggled in late in the summer of 2008 to find a unified response to the economic crisis. As Republican leader in the House of Representatives, John Boehner (R-OH) received regular updates directly from Treasury Secretary Hank Paulson and Chairman of the Federal Reserve Ben Bernanke. From these briefings, he came to learn of the dangerous precipice upon which the nation stood. While Speaker of the House Pelosi could “get her people in line, as usual,” and Senators Reid and Mitch McConnell (R-KY) “always seemed to have the numbers they needed,” Boehner claimed he faced an obstinate wall in the Republican-controlled House.130 His fiscally conservative colleagues, however, showed little will to support a president who “had pretty much lost all credibility with conservatives.”131

Bush’s support of Paulson’s proposed bailout of banks, a plan that would cost $700 billion, was beyond the pale for many Republican lawmakers in the House.132 Although he shared their hesitancy, Boehner believed the country faced “a full-blown crisis, and it was only going to get worse if we didn’t act.”133 Bush viewed things similarly as those in his party. He was “furious the situation had reached this point. A relatively small group of people—many on Wall Street, some not—had gambled that the housing market would keep booming forever. It didn’t.” The free market might have normally allowed those entities to fail, and Bush “would have been happy to let them do so.” He recognized, however, that “this was not a normal environment. The market had ceased to function.” In retrospect, Bush argued that using the American people’s money to prevent a collapse was “unfair,” but it would have been more irresponsible “to do nothing and leave them to suffer the consequences.”134

From the highs of the mid-2000s, house price indexes soon fell between 20 and 31 percent. By the fall of 2008, some 7.5 million home mortgage holders, or 18 percent of all home mortgage holders nationwide, found themselves with negative equity: they were “underwater,” meaning they owed more on their homes than they were worth.135 Still another 2.1 million


133 Boehner, 2021, p. 151.


were on the verge of facing that reality, as their homes were worth less than 5 percent more than the mortgages they were paying. Nevada residents were reportedly hardest hit, as home values plunged more than 30 percent, and nearly 50 percent of homeowners there found themselves underwater. Constituents from across the country frantically contacted their members of Congress and demanded action, panicked by the prospect of losing their property and savings. By the summer of 2010, 11.1 million home mortgage holders, or 22.8 percent of all home mortgage holders nationwide, would find themselves in negative equity.

Partisan tensions in Washington stemming from the Iraq War and a myriad of other issues made dealing with this pressing task difficult. The imperative was to pass a bailout no one liked but that most agreed was necessary to avoid a global calamity. The result was the Emergency Economic Stabilization Act, the so-called bank bailout of 2008. P. L. 110-343, signed into law by President Bush on October 3, 2008, provided $700 billion in the form of the Troubled Asset Relief Program (TARP). The funds were to be used for the purchase of “toxic assets” from banks, thereby promoting stability in financial markets.

The Great Recession’s immediate impact on the nation’s economy had already taken a grim toll, however. Some observers described the economic free fall as the “worst” since the Great Depression. In 2008, 43,500 businesses filed for bankruptcy, 53 percent more than in 2007 and nearly 121 percent more than in 2006. Only 21 businesses listed initial public offerings (IPOs), a nearly seven-fold drop from the 2003–2007 yearly average of 163 IPOs. By November, total unemployment had risen to 6.8 percent from 4.6 percent the previous year and a low of 4.3 percent in May 2007. Unemployment, foreclosures, and other financial hardships disproportionately affected African Americans, Latino/as, and minorities.

While all income levels were hit to some extent, the bottom 50 percent of earners were hit hardest. Their total net worth plummeted by up to 40 percent by late 2008. Ultimately, their

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total net worth would drop by 80 percent before only very slowly recovering in the years following the Great Recession."144 An October 2008 Pew survey concluded that only 9 percent of Americans described the economy in positive terms.145

Evidence of the Great Recession’s immediate impact on military personnel and especially their families was also becoming clear. Despite competitive compensation packages, military households were already struggling with their loved ones’ long deployments.146 An October 2008 Wall Street Journal editorial argued that military families “were feeling the effects of rising prices, mortgage trouble and debt,” especially in situations where the servicemember was the sole income earner.147 Even more senior noncommissioned officers were feeling the effects of rising prices and mortgage rates as the middle class was increasingly hit.148

Both Democratic presidential candidate Senator Barack Obama (D-IL) and his Republican counterpart, Senator John McCain (R-AZ), ran campaigns that simultaneously focused on pulling the United States out of the Great Recession, successfully ending the Iraq War, and shifting forces to Afghanistan.149 But after consumer confidence was shaken by the Great Recession, domestic issues were the major focus for voters in the 2008 presidential election, Lehman Brothers went bankrupt during the week of September 15–21, marking the peak of the subprime mortgage crisis. Congress also began its first skirmishes over the terms and scope of the coming bailout. The financial crisis immediately became the top campaign storyline, making up 43 percent of campaign coverage according to the Pew Research Center. From this week until election day, the financial crisis remained the top story covered in the presidential race.150

While gas prices, health care, terrorism, and Iraq remained important, the economic crisis emerged as the single biggest concern for voters. Gallup found that by late October 2008 55 percent of respondents identified the economy as “extremely important” to their vote for president, the highest that Gallup had found for any issue in the previous four presidential elections. A further 40 percent saw it as “very important.” The federal budget deficit ranked second in importance, with 44 percent reporting it as “extremely important” and 38 percent


147 Stoddard, 2008.


as “very important.” These overtook energy and Iraq as the chief concerns from earlier in the year, which fell to fourth and fifth respectively behind terrorism.\textsuperscript{151} Both presidential candidates also had to contend with what one Stanford University study described as increasing public dissatisfaction “about fairness and opportunity” and a sharp decline in trust in any financial institution.\textsuperscript{152}

From a defense standpoint, this issue presented an increasingly difficult—and public—balancing act for presidential candidates and senior defense officials alike. Both presidential candidates promised, as the \textit{New York Times} described, to “cut fat without carving into the muscle of national security,” or to trim the defense budget without inhibiting the nation’s ability to succeed in Iraq and Afghanistan. But both also promised to add at least 92,000 troops to expedite this success and, both candidates hoped, the withdrawal of U.S. forces.\textsuperscript{153} This apparent contradiction led one “Pentagon budget official” to anonymously assert to the \textit{New York Times} that “if that’s what they want, they have to know that we simply cannot do everything we are doing now, but for less money. . . . So if there’s going to be less, it’s up to the president, Congress and the public to tell us what part of our national security mission we should stop carrying out.”\textsuperscript{154}

In addition, Obama campaigned to end the Bush-era practice of requesting emergency supplemental appropriation requests every few months to fund the Iraq and Afghanistan Wars. Instead, Obama promised to integrate the GWOT (renamed OCO from FY 2010) funding process into the annual defense budget appropriations process in order to increase transparency and, according to the CRS, “impl[ly] predictable ongoing activities rather than unanticipated needs.”\textsuperscript{155} Both presidential candidates recognized that any proposals to cut personnel costs—the largest portion of the DoD budget—would be deeply unpopular with the electorate while the United States continued to fight two major wars. Instead, they zeroed in on issues relating to the DoD’s longstanding procurement programs. Major defense contractors acknowledged the increasing pressure. Boeing CEO W. James McNerney Jr. admitted to employees in an October 2 email that “no one really knows yet when or to what extent


\textsuperscript{153} Shanker and Drew, 2008.

\textsuperscript{154} Shanker and Drew, 2008.

\textsuperscript{155} McGarry and Morgenstern, 2019, pp. 4–5. This did not mean, however, that the supplements were integrated into the baseline defense budget request. Instead, from FY 2010 Obama submitted annual OCO requests alongside the baseline 051 defense budget, a practice his successor, Donald J. Trump, continued. See Erin K. Fitzgerald and Anthony H. Cordesman, \textit{Resourcing for Defeat: Critical Failures in Planning, Programming, Budgeting and Resourcing the Afghan and Iraq Wars}, Washington, D.C.: Center for Strategic and International Studies, August 28, 2009, p. 20.
defense spending could be affected. But it’s unrealistic to think there won’t be some measure of impact.'''156

Publicly, Gates and Mullen defended the DoD’s spending levels. Mullen reiterated his desire for Congress to maintain a minimum 4 percent of GDP defense budget. Gates similarly repeated his warning that the incoming administration—whether Democratic or Republican—and Congress should resist the historical urge to drastically cut defense spending immediately following the withdrawal of U.S. forces from Iraq.

Less publicly, however, both Gates and Mullen shared the presidential candidates’ concerns over problematic procurement programs. Many of these were designed to tackle potentially abstract future threats that did not fit with their current priorities as outlined in Mullen’s January 2008 Guidance and Gates’ July 2008 NDS—namely, succeed in immediate conflicts, rebuild readiness, and enhance interoperability with partners. As CNO, Mullen had publicly defended the Navy’s plan for a 313-ship fleet, submitted in March 2006.157 Then–Secretary of the Navy Donald Winter argued that “we’re going to have to, in many cases, achieve efficiencies elsewhere so that we can allocate the funds that are required into the shipbuilding account.” Mullen responded with his intent to “stabilize” the procurement process to save costs and prioritize programs with realistic next-generation designs and a track record of generally being already under construction, on time, and on budget at the expense of costly future, abstract development programs such as the Virginia-class SSN: “I can’t do much about the Virginia-class design right now because it’s out—I can do a lot about the design for ships that don’t exist yet.”158 In 2004, Mullen, then–Vice-CNO for Resources, Requirements, and Assessments, had argued in favor of the Navy’s “Sea Enterprise” initiative to “fundamentally alter the business of putting combat power to sea” by cutting overhead, reforming processes, and reinvesting savings in higher-priority programs (see note).159 In July 2005 Mullen, as CNO, had reestablished the defunct Ship Configuration Improvement Panel, which, during


158 Chris Johnson, “Stability, Funding Efficiencies Emphasized: Winter, Mullen Discuss Way to Achieve Long-Term Shipbuilding Plan,” Inside the Navy, Vol. 19, No. 24, June 19, 2006, p. 2; emphasis added. The Virginia-class SSN program had been approved in August 1994 following a two-year requirements and systems review. The lead ship, the USS Virginia, was assigned a baseline delivery schedule for 2004, which it achieved. The program did not report any cost breaches, only a schedule breach in December 2006. See “History of Significant Developments Since Program Initiation,” in DoD, SSN 774 Virginia Class Submarine (SSN 774): As of FY 2021 President’s Budget, DD-A&T(Q&A)823-516, Washington, D.C., December 2019.


Note on the “Sea Enterprise Initiative”

In response to the 2001 QDR, Secretary of the Navy Gordon R. England and CNO Admiral Vern Clark led the creation of the “Naval Power 21” strategy, focused on reorienting the U.S. Navy away from a Cold War posture and toward a more cost-effective, technologically advanced service capable of countering both conventional and asymmetric threats around the world. Naval Power 21 incorporated three programs: “Sea Warrior,” focused on developing service men and women for twenty-first century operations; “Sea Trial,” focused on more rapidly and cost-effectively conceptualizing, developing, and distributing critical technologies as well as better “integration of headquarters and fleet leadership”; and “Sea Enterprise,” led by Clark.

Sea Enterprise sought to make the Navy more cost-efficient by adopting “proven commercial business practices” and “shift[ing] the resulting savings into meeting direct operational needs”—or, in other words, reinvesting savings to better meet immediate and near-term challenges. To accomplish this goal, in 2003 the Navy and Marine Corps each established an oversight board to identify best business practices from the commercial sector and determine how to integrate them into naval operations, procurement, and joint relations with other services. In 2004, then–Secretary of Defense Rumsfeld noted to Congress that Sea Enterprise was beginning to establish a culture of cost consideration across Navy leadership, a culture Mullen continued to develop when he became CNO in 2005.


the Cold War, had helped review the balance between ship requirements, designs, and costs, before its influence had declined in the 1990s.160

As early as February 2008, Gates had argued to the S.A.S.C. that the F-22 was not central to current or near-term needs, despite its inclusion in the FY 2009 defense budget request. “[I]t has not performed a single mission in either” Iraq or Afghanistan. “And look[ing] at what I regard as the level of risk of conflict with one of those near peers [Russia or China] until the Joint Strike Fighter comes along, I think that something along the lines of 183 is a reasonable buy.” The Defense Secretary’s comparison of the F-22 with the F-35 was deliberate: He argued that each Joint Strike Fighter was roughly half the cost of an F-22 ($77 million versus

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$140 million in 2008 dollars).\textsuperscript{161} He kept the F-22 in the FY 2009 defense budget request, he noted, only “to give the next administration an option.”\textsuperscript{162} Gates’s more pressing concern, he told the H.A.S.C. the following day, was an immediate need for 14 additional lift and six additional attack helicopters outfitted for Afghanistan’s extreme climate.\textsuperscript{163}

Obama won the November 4, 2008, election, leading a Democratic “sweep” of both the House and the Senate. In announcing his victory, the New York Times reminded readers of the immediate tasks that lay before him: “the likelihood of a deep and prolonged recession,” “get[ting] out of Iraq in a fast and orderly fashion, and . . . expand[ing] health care.”\textsuperscript{164} Implicit in those reminders was Obama’s intention to rebalance resources to Afghanistan. In July, he had promised to begin withdrawing U.S. forces from Iraq and add an additional 10,000 troops to the 33,000 U.S. forces already operating in Afghanistan if elected.\textsuperscript{165}

Negotiations to withdraw from Iraq had been continuing throughout the presidential campaign. Thirteen days after Obama’s election—the same day Mullen issued his 2008–2009 Joint Staff Guidance—U.S. Ambassador to Iraq Ryan Crocker and Iraq’s Foreign Minister Hoshyar Zebari signed the SOFA and the Security Agreement.\textsuperscript{166} These documents collectively recognized Iraqi sovereignty and mandated that U.S. forces would withdraw from cities by June 30, 2009, and from Iraq entirely by December 31, 2011.\textsuperscript{167} The SOFA and Security Agreement officially entered into effect on January 1, 2009.\textsuperscript{168}

Even before the presidential election and the U.S.-Iraq agreements, Mullen had turned his attention to Afghanistan.\textsuperscript{169} In October, concurring with a draft intelligence assessment that described Afghanistan as being on a “downward spiral,” Mullen had informed reporters that “the trends across the board are not going in the right direction. . . . I would anticipate next year would be a tougher year.” Afghanistan, he argued, would require both more troops and resources, and greater agency, ally, and partner cooperation.\textsuperscript{170}

At home, meanwhile, President-elect Obama asked Gates to stay on as Secretary of Defense. Mullen remained as well; although he was only halfway through his statutorily


\textsuperscript{162} Sharon Weinberger, “Gates: F-22 Has No Role in War on Terror,” Wired, February 7, 2008.


\textsuperscript{166} Brennan Jr. et al., 2013, p. 62.

\textsuperscript{167} See Figure 2.1 in Brennan Jr. et al., 2013, p. 64.

\textsuperscript{168} Brennan Jr. et al., 2013, p. 66.

\textsuperscript{169} See, for instance, Mullen’s archived biography in Joint Chiefs of Staff,

authorized two-year term,\textsuperscript{171} the CJCS nonetheless ultimately served at the president’s pleasure.\textsuperscript{172} Obama’s decision was motivated by wartime continuity\textsuperscript{173} as well as Gates’s and Mullen’s shared vision to withdraw from Iraq in an orderly manner and rebalance U.S. forces to Afghanistan.\textsuperscript{174}

The Great Recession’s immediate impacts were also clearly on Obama’s mind. National GDP\textsuperscript{175} and “output [were] collaps[ing]” in the last three months of the year, driven by the collapse of Lehman Brothers and additional reverberations through the economy.\textsuperscript{176} In the same period, U.S. consumers reduced their spending by at least $200 billion, or 2.2 percent, from the last quarter of 2007.\textsuperscript{177} Monthly job losses had “reached their highest levels since” the Great Depression.\textsuperscript{178} Gates recalled that in his interview with the president-elect, Obama argued that he needed “stability in defense matters” so that he could focus on fulfilling Democrat promises to rebuild the economy.\textsuperscript{179} Gates asked Obama if he “fores[aw] any major change in the level of the defense budget for the first year of your administration.” Obama’s reply included a clear mandate: “I can’t make tough decisions on domestic agencies—antagonizing my supporters—and leave Defense untouched,” he argued. According to Gates, the President added that while “there would be no deep cuts. . . . Defense had to demonstrate discipline and make tough decisions.”\textsuperscript{180} This mandate would drive Gates’s and Mullen’s collaborative efforts to demonstrate the Pentagon’s discipline to the White House, Congress, and the American people. But Obama’s promise to avoid deep defense cuts, at least for the first year, would return to haunt the Defense Secretary and the CJCS.


\textsuperscript{172} “Chairman: Appointment; Rank,” in Sec. 152, 100 Stat. 1006 in P.L. 99-433.


\textsuperscript{179} Gates, 2014, p. 270.

\textsuperscript{180} Gates, 2014, pp. 271–272. This latter quotation is Gates’s summarization of Obama’s argument.
Emerging Focus on Balance Between Current Operations, Future Threats, and Fiscal Considerations

The “Experimental” First Fiscal Year 2010 Budget and the American Recovery and Reinvestment Act

Planning for the FY 2010 defense budget request began in earnest in the fall of 2008. In response to bipartisan concerns over the continued use of emergency supplemental budget requests to fund the Iraq and Afghanistan Wars, Gates decided to shift $25 billion from the next OCO request to the FY 2010 baseline budget request in an effort to reduce reliance on OCOs and increase transparency.\(^{181}\) According to Gates, Bush had additionally recommended that the Joint Chiefs prepare a “forward-leaning” FY 2010 defense budget request focused on both modernization and rebuilding readiness. By the winter of 2008–2009, the draft FY 2010 defense budget request totaled $581 billion, or $57 billion higher than published FY 2010 projections.\(^{182}\)

This “forward-leaning” defense budget request appeared increasingly out of step with other agencies’ deepening concerns over the Great Recession and its longer-term impacts at home and around the world. Gates later acknowledged that it was aspirational, made by an administration in the final months of governance and faced with an incoming opposition that would control both the Congress and the presidency.\(^{183}\) On February 12, 2009, DNI Dennis C. Blair announced in the intelligence community’s (IC’s) Annual Threat Assessment that the primary near-term security concern of the United States is the global economic crisis and its geopolitical implications. The crisis has been ongoing for over a year. . . . Time is probably our greatest threat. The longer it takes for the recovery to begin, the greater the likelihood of serious damage to U.S. strategic interests. . . . Besides increased economic nationalism, the most likely political fallout for U.S. interests will involve allies and friends not being able to fully meet their defense and humanitarian obligations.\(^{184}\)

The DNI’s assessment would have likely come as no surprise to either Gates or Mullen. The Great Recession’s worsening impacts in the winter of 2008–2009 had made it increasingly clear to the Secretary of Defense and CJCS that they needed to rebalance U.S. defense strategy to better align with complex national strategic interests and sobering fiscal realities. By January 2009, a national poll suggested that only 13 percent of Americans believed that the economy would recover by the end of the year. A majority anticipated the Great Recession


lasting at least another two years. Perhaps more importantly, according to the same poll, Iraq was no longer a priority concern for Americans. Only 8 percent now considered succeeding there as the “most important issue” for the United States. Instead, carrying over from the 2008 election, 74 percent argued that the economy remained the nation’s most pressing issue. The same poll, however, articulated that Americans were primarily concerned about unemployment, not the burgeoning national deficit.185

In January 2009, Gates wrote in *Joint Forces Quarterly*:

> The defining principle driving our strategy is balance. . . . We cannot expect to eliminate risk through higher defense budgets—in effect, ‘to do everything, buy everything.’ Resources are scarce, yet we must still set priorities and consider inescapable tradeoffs and opportunities.

The Secretary of Defense made it clear that while preparing and planning for future conflicts must continue, his first priority in the current, fiscally restrained environment was to address “capabilities needed to win the wars we are in, and . . . the kinds of missions we are most likely to undertake in the future.” The latter was likely a combination of GWOT and other irregular conflicts.186 Mullen generally agreed, while still at least nodding to minimizing medium-term conventional risks.187 Writing in the same issue, he argued that while the DoD “must restore some of the more conventional and expeditionary expertise that we will require in the years ahead,” major reforms nonetheless were needed: “Our peacetime processes are not adapted to a wartime reality.” The U.S. Army, in particular, needed immediate support. While it had “become a world-class counterinsurgency force” under Gates, Mullen argued, more resources needed to be redirected into supporting their ongoing operations, wounded care, and support for veterans.188 *Joint Forces Quarterly*’s projected subject focus outline for 2009–2010 already reflected this conceptual rebalance at the Joint Staff level. Its planned next issue themes included “military force and ethics: legal challenges in limited war” (July 2009); “force modernization, technology, and innovation (October 2009); “irregular warfare: U.S. Special Operations Command” (January 2010); and “the expeditionary interagency” (April 2010).

For some months, Gates and Mullen had also likely been aware that the DoD would need to further rein in its spending in light of the planned economic stimulus package.189 On Sep-

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187 For a similar perspective, see Cohen, 2018a, p. 32.
189 Gates, for instance, evidenced this in a *New York Times* article published the same day Obama signed ARRA into law: “One thing we have known for many months is that the spigot of defense spending opened
Belt-Tightening During Current Operations and an Emerging Focus on Deficit Reduction

tember 26, 2008, the Democratic-controlled House had passed a limited $60 billion stimulus package, only to be rejected in the Republican-controlled Senate. Soon after Obama’s election, Senate Majority Leader Reid and Chairman of the Senate Appropriations Committee Robert C. Byrd (D-WV) introduced the $100.3 billion Economic Recovery Act of 2008 (S. 3689). While no action was taken on S. 3689 because of the Hill’s “lame duck” status between the 110th and 111th Congresses, it effectively outlined the incoming administration’s stimulus plans. The new administration was therefore able to rapidly introduce ARRA in the House as House of Representatives bill (H.R.) 1 on January 26, 2009—only a week into the 111th Congress. ARRA moved quickly through Congress owing to Democratic control of both chambers; the House passed ARRA on January 28 and the Senate began considering H.R. 1 on February 2.

That same day, Secretary of Defense Gates and Obama agreed to scrap the “experimental” FY 2010 budget drafted in the fall of 2008 in favor of a new one more reflective of both the nation’s current economic situation and its national security priorities. Within the week, they had agreed on a nominal $533 billion base budget and $130 billion supplemental, an estimate Gates admitted was “lower than I wanted but higher than what [OMB] wanted.” On February 11, the day before Blair released the IC’s Annual Threat Assessment and only a day after an amended version of H.R. 1 passed the Senate, Gates informed Obama that he would embark on a preemptive effort to cut or reform procurement programs to rebalance “between current and future needs.” In a departure from tradition, after reviewing the draft budget with the President and OMB Director Peter Orzag, Gates would provide the press with a “holistic, coherent reform package” that he and Mullen could further shape before the formal defense budget’s submission to Congress in April. In so doing, the Secretary of Defense hoped that the DoD could “boldly demonstrate a willingness to reduce bureaucratic overhead and waste while enhancing military capabilities.”


194 [Names redacted], 2009, pp. 4–5.


Obama signed ARRA into law on February 17, 2009, injecting roughly $787 billion into the national economy. Specifically, ARRA provided $275 billion in state and local grants-in-aid, $288 billion in individual and corporate tax cuts, and $228 billion in mixed spending in health care, technology, clean energy development, and federal infrastructure. Public commentators’ attention almost immediately turned to how the government would pay for ARRA. On the day of ARRA’s signing into law, the New York Times suggested that “the Pentagon may be particularly vulnerable” to “at least some budget cuts.” Quoting Gates’s congressional testimony, the Times noted that the Secretary of Defense was likely to cut or drastically reform those programs “with serious execution issues.”

Focus on Inefficiencies in Defense Procurement Processes

The “Strategy-Driven” Fiscal Year 2010 Budget Request

Gates determined that the “new” FY 2010 defense budget request should both be “strategy-driven, not accountant-driven,” and demonstrate that the DoD could “hold down costs” even during wartime. Gates and Mullen sought to reallocate major defense program cuts to other areas they deemed of higher, more immediate priority. They convened a “small group” within the DoD to determine which programs to cut, reform, or maintain to reduce the DoD’s budget request while rebalancing U.S. national security strategy. This small group was comprised primarily of officials from the Obama administration and a few former Bush administration officials, each with diverse backgrounds in defense and civilian budget and project management.

Apart from Vice CJCS (VCJCS) James Cartwright, among the group was Bush’s Director of Program Analysis and Evaluation (PA&E), Bradley Berkson, who stayed on until April to assist in developing the revised FY 2010 budget. His deputy, Lieutenant General Emerson Gardner, had been the Marine Corps’ Deputy Commandant for Programs and Resources. Acting Comptroller Michael McCord had been at one time responsible for defense budget

199 Gates, 2014, p. 314; and RAND interview, SD010721.
oversight on the S.A.S.C.. Comptroller Robert Hale had been the Air Force’s Assistant Secretary for Financial Management and Comptroller following a career as head of the Congressional Budget Office’s (CBO) national security division. John Young Jr. had served as Bush’s Under Secretary of Defense for Acquisition, Technology, and Logistics (USD[AT&L]), as well as Assistant Secretary of the Navy for Research, Development, and Acquisitions where he oversaw the successful Virginia-class SSN program. Michèle Flournoy was a principal author of President Bill Clinton’s 1993 Bottom-Up Review–influenced 1997 QDR. Robert Rangel had been Gates’s chief of staff and an H.A.S.C. NDAA veteran and would become chair of Gates’s Efficiency Task Force in 2010. Ryan McCarthy was previously Gates’s special assistant to the White House and USD(AT&L), with responsibility to liaise with the Joint Staff.

While this group sought combatant command (CCMD) commanders and other key senior defense officials’ input, one former senior Joint Staff official later described the process as extremely top-down. “It was not collaborative,” they recalled. “It was Gates delivering the bad news. Suck it up and do your part. Not so much [on the] specifics. But stand by. [The cuts] are coming.”

In March, likely to prepare the Joint Staff and the DoD more broadly for the looming proposed cuts, Mullen returned to his longstanding argument: the need for the government to redirect critical nation-building resources. These would come from the DoD and go to the Department of State and the U.S. Agency for International Development (USAID), among other government agencies, to achieve a more efficient, potentially cost-effective “whole-of-government” approach. “As an equal partner in government,” Mullen wrote in Joint Forces Quarterly, “I want to be able to transfer resources to my other partners when they need them. In fact, I think those partners should have those resources they need to begin with.”

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207 “About John Young Jr.,” JY Strategies, webpage, undated.
208 Cohen, 2018a, pp. 15–16.
212 RAND interview, JS011321.
213 On the Department of State’s ongoing budgetary issues in Iraq, for instance, see Brennan Jr. et al., 2013, pp. 113–114, 219.
As agreed in February, in the first week of April Gates briefed Congress and the press before Obama officially submitted the budget request. He defined the FY 2010 budget request in terms of three priorities: caring for the All-Volunteer Force (AVF); “rebalance[ing] [DoD’s] programs in order to institutionalize and enhance our capabilities to fight the wars we are in today and the scenarios we are most likely to face in the years ahead, while at the same time providing a hedge against other risks and contingencies”; and “fundamental[ly] overhaul[ing]” the DoD’s weapon program procurement process.215

The DoD would seek to request $11 billion above its FY 2009 level to grow Army and Marine Corps end strengths, while maintaining total BCTs at 45 instead of 48, and halt Navy and Air Force reductions. Gates also announced a nearly $1 billion increase to support and centralize AVF health. This included a $400 million increase in medical research for veterans’ and wounded servicemember care, a $200 million increase for familial support, and $300 million to treat posttraumatic stress disorder and traumatic brain injuries.216

To succeed in the ongoing Iraq and Afghanistan Wars—and to better support expected future conflict, which was anticipated to be primarily irregular—Gates announced a $2 billion increase in C4ISR technologies.217 Specifically, this included significantly increasing investment in such UAVs as the MQ-1 Predator and RQ-4 Global Hawk, which had already demonstrated their value in the Iraq and Afghanistan conflicts, and increased funding for manned C4ISR capabilities and, more generally, C4ISR research “optimized for today’s battlefield.”218 Gates also requested a 2,800-soldier increase in SOF and an associated increase in SOF equipment.219

It is notable that Gates recommended an increase in FY 2010 LCS procurement from two to three ships with an end goal of purchasing 55.220 The LCS’s riverine/green water–focused, modular capabilities reflected Gates’s and Mullen’s preference for weapon systems optimized for irregular conflicts, as well as what had been referred to as GWOT but in 2010 was for-


216 Gates, 2009b.


218 Gates, 2009b.


220 Gates, 2009b.
Note on Littoral Combat Ships

The LCS was intended to be a small, agile, and modular 3,000-displaced-ton class able to respond to an evolving range of primarily riverine/green-water scenarios expected to be fought as part of continued GWOT operations. In May 2004, the Navy awarded contracts to Lockheed Martin and General Dynamics to develop two examples each of competing LCS classes. On January 12, 2007, Secretary of the Navy Winter ordered both defense contractors to stop work due to, as Representative Gene Taylor (R-MI) argued, “escalating costs” and the need “to verify that the correct oversight systems are in place.”

The Navy restructured the LCS program in March 2007. It tried but failed to reach fixed-price incentive (FPI) contracts with both Lockheed Martin and General Dynamics. Nevertheless, it permitted the program to continue.

The Navy accepted Lockheed Martin’s first LCS in September 2008, but soon identified several issues, notably a potential inability to maintain its stability to Navy standards when severely damaged. In its FY 2009 NDAA, Congress deferred the Navy’s FPI-driven procurement cost cap request until the service could renegotiate with both defense contractors.

In December 2010, the Navy decided to proceed with both classes after Lockheed Martin and General Dynamics agreed to meet FPI unit cost caps. Since 2010, the number of LCSs to be procured has been decreased from an initial 52 to 35. Production continued at the time of writing. But the first two LCSs, General Dynamic’s USS Independence and Lockheed Martin’s USS Freedom, were both decommissioned in 2021, after only 10 and just under 13 years in service, respectively.


mally reclassified by the Obama administration as CVE conflicts. However, neither Gates, nor Mullen, nor Winter had yet made a decision as to whether the Navy would keep both LCS types or “down-select” to a single type (see note). Gates reminded congressional leaders and the press that the 2008 NDS had determined that “although U.S. predominance in conventional warfare is not unchallenged, it is sustainable for the medium term given current trends.” To offset these proposed increases, the DoD proposed cutting or drastically reforming a number of major weapon procurement programs already well known for problems. It

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221 Ambinder, 2010a; and Gompert et al., 2008, p. 5.
recommended ending F-22 production at 187 in favor of increasing its procurement of the more economical F-35. It would also procure 31 additional F/A-18s to help cover immediate naval aviation shortfalls.\textsuperscript{222} The DoD would restart its KC-X procurement process and indefinitely postpone the development of a next-generation Air Force bomber and Navy cruiser. Gates and his team proposed to slow down the Ford-class CVN aircraft carrier procurement rate to one every five years from 4.5 (instead of reducing the total number of carriers from 11 to ten).\textsuperscript{223} They additionally proposed to terminate the DDG-1000 program at the completion and procurement of three ships and instead restart production of the battle-proven and more cost-effective DDG-51 Arleigh Burke class. While originally designed in the 1980s to counter the Soviet Navy, the DDG-51 had proven itself to be a multi-mission-capable, updatable, yet cost-effective design with a vertical launch system that possessed some missile adaptability.\textsuperscript{224} Gates also proposed terminating the bulk of FCS, citing its lack of tangible results, and transferring the few existing mature and near-mature FCS technologies into different programs. He also argued that Congress should continue funding MRAP vehicles that were already successfully demonstrating their ability to provide significantly greater protection for U.S. forces against improvised explosive devices (IEDs) than existing modified HMMWVs.\textsuperscript{225} In addition, he proposed eliminating the Transformational Satellite Communications System (TSAT), intended to enhance the government’s C4ISR capabilities. TSAT was ultimately canceled in May 2009 owing to “affordability, program duration, and vulnerability concerns.”\textsuperscript{226}

Further, Gates recommended reducing the DoD’s reliance on service support contractors (SSCs) from 39 percent back down to its pre-9/11 level of 26 percent over a three-year period.\textsuperscript{227} Instead, DoD would insource many SSC services, hiring up to 30,000 over five years

\textsuperscript{222} Towell, 2009, p. 50.
\textsuperscript{223} Towell, 2009, p. 32.
\textsuperscript{225} Gates, 2009b.
\textsuperscript{227} Gates, 2009b.
in like-for-like replacements. Gates also proposed eliminating the VH-71 program as well as Boeing’s Chinook-based combat search and rescue helicopter (CSAR-X). Like the KC-X, the CSAR-X program was an Air Force effort to modify an existing platform to replace its HH-60 fleet. Also like the KC-X, the CSAR-X program had already suffered a 2007 GAO adjudication in favor of Boeing’s rival bidders, Sikorsky and Lockheed Martin.

Gates’s team moved $13 billion in non-war related expenses previously funded through OCOs into the base budget in an effort to increase the DoD’s budgetary transparency. They additionally provided a multiyear estimate of Iraq and Afghanistan war costs, proposing to decrease their annual OCO request from $130 billion for FY 2010 to $50 billion from FY 2011 onward. The Center for Strategic and Budgetary Assessments’ (CSBA) Todd Harrison, however, warned that any deterioration in Iraq or Afghanistan could force the DoD to return to Congress to request additional OCO funding. His warning, unfortunately, would be proven correct in November 2009.

On April 13, Air Force Secretary Michael Donley and Chief of Staff Norton Schwartz agreed to Gates’s and Mullen’s proposal to end F-22 production. While declaring that the F-22 was “unquestionably, the most capable fighter in our military inventory,” they nonetheless admitted that it was “time . . . to move on.” Recognizing the increasingly austere fiscal reality, Air Force leaders concluded that “buying more F-22s means doing less of something else.” The “something else,” they explained, constituted an ever-expanding array of Air Force service- and joint-level responsibilities across the air, space, and C4ISR domains. Some Air Force and DoD officials, nonetheless, continued to grumble over the F-22’s termination in subsequent months and years.


233 Donley and Schwartz, 2009.
Obama formally submitted the FY 2010 defense budget request on May 7, 2009. The submitted base budget request, according to Harrison, still constituted an $18 billion increase over the FY 2009 request. The CRS’s Pat Towell, however, argued that an “apples-to-apples comparison” was difficult in part because ARRA had actually already allocated $7.4 billion to the DoD’s FY 2009 budget. Therefore, Towell concluded, “The FY 2009 appropriation and the FY 2010 request are roughly the same.” Regardless, Obama’s FY 2010 defense budget request remained one of the largest since the Reagan administration.

The Weapon Systems Acquisition Reform Act of 2009
Gates’s and Mullen’s efforts to reform the defense budget by cutting and restructuring weapon procurement programs was not an isolated exercise. Indeed, their collective efforts informed congressional and White House discussions over how to reform the weapon procurement program process, reduce costs, and increase efficiencies. This multi-track process, however informal, resulted in a consensus between the DoD, the White House, and Congress over weapon procurement program reforms and the rebalancing proposed in the FY 2010 defense budget request.

Just over a month after Gates informed Obama that he intended to embark on a preemptive program reform drive to demonstrate the DoD’s ability to manage its resources more responsibly, Senators Carl Levin (D-MI) and McCain introduced the bipartisan WSARA. Levin argued that they were motivated by the DoD continuing to “rely on unreasonable cost and schedule acquisition schedule estimates, establish unrealistic performance expectations, insist on the use of immature technologies, and adopt costly changes to performance requirements, production quantities and funding levels in the middle of ongoing programs.”

WSARA itself was a partial outgrowth of Young’s December 2008 issuance of DoD Instruction (DoDI) 5000.02, developed as it had become increasingly clear to the Secretary of Defense and CJCS that a new, reform-focused FY 2010 defense budget request would be required.

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234 Harrison, 2009, p. v.
235 Towell, 2009, p. 5.
236 Harrison, 2009, p. v.
Revising the Defense Acquisition Management System, DoDI 5000.02 constituted the first major DoD update to its acquisition policies in at least five years.\textsuperscript{239}

Congress unanimously passed WSARA. Obama signed it into law as P.L. 111-23 on May 22, 2009, only 15 days after he had submitted the FY 2010 defense budget request. Apart from acknowledging the DoDI 5000 revisions, WSARA established four new oversight positions to provide critical checks and balances throughout the weapon procurement program process. Specifically, it reorganized the PA&E and the Cost Analysis Improvement Group (CAIG) into the CAPE Office. P.L. 111-23 authorized the CAPE director with wide budgetary advisory authority as “the principal advisor to the Secretary of Defense and other senior officials of [DoD]” and stipulated that CAPE “shall provide independent analysis” on weapon procurement program “cost estimation and cost analysis,” “matters relating to the planning and programming phases of the Planning, Programming, Budgeting and Execution system,” analytical advice for the Joint Requirements Oversight Council (JROC), analysis of alternatives (AoA) development and advice, program review, “assess[ments of] the effect of spending by [DoD] on the United States economy,” and provision of alternative acquisition plans and proposals. CAPE was also authorized to lead “development of improved analytical skills and competencies” in the DoD’s cost assessment and acquisition communities. Congress directed that CAPE’s director should be permitted to advise the Secretary of Defense, the CJCS, deputies, and other defense officials without hindrance or prior permission from DoD officials.\textsuperscript{240}

WSARA mandated both independent CAPE cost estimates and that the USD(AT&L) respect CAPE’s input, a departure from the DoD’s historical lack of “requirement to honor the CAIG’s estimates.”\textsuperscript{241} It imposed continuous weapon procurement program cost, schedule, and performance reviews from the AoA point onward (see note). WSARA sought to end DoD’s tendency to waive competition requirements to expedite weapon procurement programs—despite its high cost and schedule overrun risks—by imposing mandatory competition conditions throughout the weapon procurement program life cycle.\textsuperscript{242} It affirmed DoDI 5000.02’s initial competitive prototyping requirement in statutory authority and strengthened milestone A and B threshold requirements.\textsuperscript{243}


\textsuperscript{243} Lymon, McWhorter, and Violette, 2011, pp. 2–3.
Gates moved quickly to implement WSARA. By year’s end, he had filled the four new oversight directorships. Notably, he appointed Christine Fox as CAPE’s inaugural director. At the time Fox was the Center for Naval Analyses’ (CNA) president and was highly respected for her defense program strategic and budget expertise. On December 4, Ash Carter, Young’s USD(AT&L) successor, institutionalized many of WSARA’s weapon procurement program process reforms in Directive-Type Memorandum (DTM) 09-027, including CAPE oversight of more rigorous cost, schedule, and performance reviews from the AoA onward; competitive prototyping and consideration through the procurement program life cycle; CAPE-led periodic independent cost and performance reviews; and confirming senior leadership established by WSARA.244

Later observers generally assessed the DoD’s efforts to implement WSARA favorably. A May 2009 Center for Strategic and International Studies (CSIS) progress report praised the DoD’s initial implementation efforts, while noting delays in submitting congressionally mandated reports and potentially inadequate response to some requirements.245 In December 2012, as uncertainty loomed over whether the federal government would permit sequestration-enforced budgetary caps with its disproportionate focus on the discretionary 050-defense function to enter into force, the GAO determined that the DoD had generally

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successfully adopted WSARA to better manage its Ohio-class nuclear-powered ballistic missile submarine (SSBN) replacement, Ground Combat Vehicle, Joint Light Tactical Vehicle, Ship to Shore Connector, and KC-46 Tanker programs, although some implementation problems remained. Speaking before the H.A.S.C. in February 2016, Fox herself argued that WSARA, and especially CAPE’s creation and the authority with which Congress empowered it, “helped the Services push costs down” and pressured them to adopt CAPE cost-estimating methodologies. She believed the effect was a reduction in both the risk of cost overruns and disparities between CAPE and service weapon procurement program cost estimates. “It required,” Fox summarized, the DoD “to become realistic in its cost estimating processes.”

The Fiscal Year 2010 Defense Budget Debate

As discussed earlier, the informal and formal cooperation between the DoD’s senior leadership, the Obama administration, and the Democratic-controlled Congress resulted in relatively little disagreement over most of the Pentagon’s proposed procurement program cuts and restructuring plans. For instance, the Navy’s September 16 decision to undertake a second restructuring of its LCS program—including plans to down-select to a single vessel type, which ultimately never took place—evidenced this general trend. Congress substantively disagreed with Obama and senior defense officials on only two key procurement program-related issues: F-22 procurement and the development of an alternative F-35 engine.

On April 13, Air Force leadership had accepted Gates’s decision to terminate F-22 production at 187 operational aircraft. Due to an array of concerns, however, such as potential constituency job losses, future near-peer threats, Air Force unease, and diverse ongoing issues in F-35 development, the House and Senate initially sought to provide $1.75 billion to procure an additional 12 F-22s in FY 2010. A threat from Obama to veto the NDAA, a letter jointly signed by Gates and Mullen, and supporting testimony from VCJCS Cartwright (a self-described former F-22 supporter) led both chambers to rescind their proposed F-22 budget. In their final reports, the H.A.S.C. and S.A.S.C. instead supported the DoD shifting $300 million left over from the FY 2009 NDAA F-22 authorization to fund F-22 modifications.

247 Fox, 2016, pp. 1–2.
248 Towell, 2009, p. i.
The F-35 alternative engine program constituted a more complex issue. In its FY 1996 NDAA deliberations, the H.A.S.C. had noted its concerns that the F-35 Pratt & Whitney F135 engine selection, built into the winning Lockheed Martin-led bid, had not been subject to an independent competition. It therefore required the DoD to reserve F-35 funding to develop an alternative engine. The DoD ultimately selected General Electric and Rolls-Royce’s joint bid to develop the F136 alternative engine.252

For FY 2006, the Bush administration requested termination of the F136’s development, citing that “development of the main [Pratt & Whitney F135] engine was progressing well and analysis indicated that savings from competition would not be offset by high upfront costs.”253 Claiming the need for interchangeability in the event of F135 operational issues, industry competition’s theoretical ability to reduce costs and promote reliability, and the potential for export orders, Congress not only rejected the Bush administration’s FY 2006 request, but also scrapped similar White House proposals in FY 2008 and FY 2009.254 Obama, Gates, and Mullen reiterated the General Electric/Rolls-Royce F136 termination request in their FY 2010 defense budget proposal, but Congress again disagreed.255 The FY 2010 NDAA, published on October 28, 2009, authorized $213 million for continued F136 RDT&E.256 The House and Senate reports additionally reminded the DoD to comply with the FY 2008 NDAA Section 213 authorizing F136 development.257 Confirming Obama’s, Gates’s, Mullen’s, OMB’s, and senior defense officials’ concerns, however, General Electric and Rolls-Royce announced a costly delay in F136 development barely two weeks after Congress passed the FY 2010 NDAA.258

Congress ultimately authorized a $680.2 billion total defense budget for FY 2010—$14.9 billion higher than the Obama administration’s request—including $550.2 billion base and $130 OCO budgets.259 The slight increase resulted from congressional additions to the Obama administration’s base budget’s RDT&E, “Other Authorizations,” military construction, and family housing requests as well as to the OCO budget’s military personnel request.260

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257 Gertler, 2012, p. 35.


259 Towell, 2009, p. 35.

The FY 2010 NDAA largely reflected Gates's and Mullen’s intention to face national security realities in the era of the Great Recession. It served their objectives of rebalancing defense efforts toward ending U.S. involvement in Iraq, shifting materiel and manpower to Afghanistan, prioritizing procurement programs with immediate applicability to those wars and other forms of irregular conflict (e.g., MRAP vehicles, UAVs), and increasing support to wounded servicemembers, veterans, and their families. At the FY 2010 NDAA signing ceremony, Obama declared that P.L. 111-84 “eliminates some of the waste and inefficiency in our defense process—reforms that will better protect our nation, better protect our troops, and save taxpayers tens of billions of dollars.” He credited Gates for taking “that fight to Congress [and] challeng[ing] conventional thinking” and Mullen for his “wise counsel” and for “st[anding] with us in our efforts to initiate reform, even though it probably occasionally caused some heartburn inside the Pentagon.”

For the moment, Gates’s gamble had paid off. During the FY 2010 NDAA debate, ARRA, combined with other factors, had begun to pull the United States out of the Great Recession. U.S. economic growth shrinkage slowed to 1 percent in the second quarter of 2009, dramatically down from the 6.4 percent contraction in the previous quarter before ARRA. The United States officially emerged from recession in June 2009. That month, Representative Barney Frank (D-MA) and Senator Chris Todd (D-HI) jointly introduced the Wall Street Reform and Consumer Protection Act. Like ARRA and WSARA, the so-called Dodd-Frank Act moved quickly through the Democratic-controlled Congress. Obama signed it into law as P.L. 111-203 on July 21, 2009. It established the Consumer Financial Protection Agency and the Financial Services Oversight Council; the latter enhanced regulatory oversight over financial markets and was empowered to identify emerging risks.

The Great Recession’s longer-term consequences for defense and the U.S. economy remained poorly understood in late 2009, however. In late September 2009, the Economic Policy Institute’s John Irons suggested that these longer-term consequences could be “scarring,” which he defined as “long-lasting damage to individuals’ economic situations and the economy more broadly.” Specifically, he identified potential scarring to secondary and higher education, job opportunities, poverty rates and upward mobility, private investments and research and development, and business development. He concluded that “since the recovery


package is funded through deficit spending . . . the true cost is spread out over a long period of time as well.”266

This unknown true cost would soon return to haunt senior defense officials and the White House. The funding level authorized in the FY 2010 NDAA still constituted one of the largest in U.S. history. Adjusting for 2010 dollars, the FY 2010 NDAA baseline authorization was about $50 billion more than the Reagan administration’s FY 1985 NDAA.267 This level did not include the $130 billion approved OCO budget.

One of the first warnings came on November 6, when the Treasury reported that the national debt had risen from $440 billion in FY 2008 to $1.4 trillion in FY 2009. The CBO, in its monthly budget review, added that the deficit as a percentage of national GDP had risen from 3.1 to 9.9, the highest percentage since the end of the Second World War (Figure 2.1).268

Yet only two days later, Mullen and Hale acknowledged to the New York Times that they expected to make a roughly $50 billion additional OCO request.269 This was largely to help

FIGURE 2.1


266 Irons, 2009, pp. 1–14 passim.


cover the request of General Stanley McCrystal, appointed NATO’s Afghanistan commander in June, to provide up to 40,000 additional U.S. forces. At the end of the month, Obama formally announced a major escalation in the war effort. Authorizing deployment of 30,000 additional troops by the summer of 2010, the President promised to begin withdrawing them from mid-2011. In response to growing concerns from fellow Democrats over how to both succeed in Afghanistan and pay for the increase, Obama “offered no details.” He simply stated that “he was committed to addressing these costs openly and honestly.” Some of these particulars would soon emerge strategically in the 2010 QDR and financially in the FY 2011 defense budget request.

The 2010 “Wartime” Quadrennial Defense Review and the “Analytic Agenda”

On February 1, 2010, Gates submitted the 2010 QDR to Congress and the White House. As explained earlier, until its dissolution in 2018, the QDR helped inform the NSS, NDS, and NMS and therefore ultimately the defense planning and budget process, even if only indirectly. In his accompanying letter, the Secretary of Defense did not mince words: “This is truly a wartime QDR. For the first time, it places current conflicts at the top of our budgeting, policy, and programming priorities.” To achieve this end in a period of national economic instability, the DoD “must continue to reform the way it does business—from developing and buying major weapons systems to managing our workforce.”

In his congressionally mandated, nominally independent accompanying assessment, Mullen generally agreed: “The QDR takes positive steps to support [the DoD’s] efforts to rebalance the force and reform processes.” The United States, the CJCS argued, needed to

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273 Robert M. Gates, letter, enclosed in DoD, 2010, p. i. The 2010 QDR explicated that “early in the QDR and as part of the process of completing DoD’s budget submission for FY 2010, the Secretary took action to direct resources away from lower-priority programs and activities so that more pressing needs could be addressed, both within that budget and in the years that follow it. Those decisions included ending production of the F-22 fighter, restructuring the procurement of the DDG-1000 destroyer and the Future Combat Systems programs, deferring production of new maritime prepositioning ships, and stretching out procurement of a new class of aircraft carrier. The Air Force is substantially reducing its fleet of fourth-generation fighter aircraft” (p. xi).

274 In his history of defense reviews, Raphael Cohen argued that “in theory, [the CJCS’s] assessment served as an independent and impartial look at DoD’s strategy process and findings. In practice, however, these assessments usually endorsed the strategy at hand” (Cohen, 2018a, p. 16).
“win today’s fight” and specifically, to complete a “responsible drawdown in Iraq and implement the new strategy in Afghanistan.” He also supported increased funding in C4ISR capabilities and interagency cooperation—two of Mullen’s consistent priorities—and rebuilding and ensuring the armed forces’ health.275 In a subtle deviation from Gates’s assessment, however, Mullen diplomatically echoed some of his 2008 NDS concerns over increasing conventional risk. “The [QDR] focus is on building joint force capability and capacity for irregular warfare without compromising our conventional and nuclear superiority.”276

The next day, Mullen affirmed his support for the QDR’s priorities in S.A.S.C. testimony, reminding senators that his priorities—winning current CVE wars in the Middle East and South Asia, rebuilding force readiness and health, and balancing global strategic risk—had remained the same since the last year.277 “In this post–Cold War era,” Mullen argued, “one without a military near-peer competitor—we should not be surprised that adversaries will choose asymmetric means to confront us.”278 Concurring with Gates’s QDR-enclosed letter, Mullen added that the DoD must continue to be proactive in reforming its procurement program process and identifying new efficiencies. Going further, however, Mullen implicitly warned that any congressional effort to substantively cut into the DoD’s budget could have significant reverberations. “As fiscal pressures increase,” the CJCS argued, “we may face an eroding ability to produce and support advanced technology systems. Left unchecked, this trend would impact war readiness. The [DoD], our industry leaders, and the Congress need to begin considering how to equip and sustain the military after our contemporary wars come to an end.”279

The 2010 QDR broke new ground in two important respects. Both intended to provide greater transparency as well as possibly lead to bureaucratic, if not fiscal, efficiencies. First, unlike previous QDRs, the 2010 QDR primarily focused on immediate and near-term requirements and programs, not long-term visions.280 Second, it was the first—and ultimately the only—QDR to fully leverage the DoD’s then-in-house support for a strategic analysis (SSA) initiative known as the “Analytic Agenda.”

In 2003, then–Deputy Secretary of Defense Paul Wolfowitz had established the Analytic Agenda through DoDI 8260.1 to promote closer, more efficient, and transparent strategic analytical cooperation between OSD(P), the Joint Staff, PA&E (reconstituted in 2009 as


276 Mullen, 2010b, pp. 102–103.


278 Mullen, 2021, p. 15.


280 Larson et al., 2018, p. 149.
TABLE 2.1
General Motivations Behind the “Analytic Agenda” Strategic Analysis

<table>
<thead>
<tr>
<th>Problem</th>
<th>Intended Analytic Agenda Solution</th>
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<tr>
<td>“In developing and justifying capability requirements, each military Service and other Department component generally used its own scenarios, assumptions, threat assessments, CONOPS, data, and analytic models.”</td>
<td>“Centralize development of scenarios, assumptions, threat assessments, CONOPS, and data so that force planning analyses can be based on a common, joint framework.”</td>
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<tr>
<td>“Strategic planning did not adequately account for uncertainty, either in the types of scenarios the Joint Force might face or in various parameters within scenarios. Capability requirements were based predominantly on a single two major theater war scenario planning (Iraq and North Korea).”</td>
<td>“Build a wider range of scenarios that covers the full spectrum of important military missions and depicts alternative assumptions about key variables.”</td>
</tr>
<tr>
<td>“DoD senior leadership had limited involvement in or awareness of development of scenarios used for strategy and force planning analysis.”</td>
<td>“Base joint scenario products on scenarios and assumptions selected and approved by leaders.”</td>
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</table>

SOURCE: From Michael Fitzsimmons, Scenario Planning and Strategy in the Pentagon, Carlisle, Pa.: Strategic Studies Institute, U.S. Army War College, 2019, p. 7, Table 1.


CAPE through WSARA), and the service chiefs (see Table 2.1). Wolfowitz intended for the Analytic Agenda to develop common analytical baselines, including “a scenario, CONOPS, and integrated data.” These would be employed across departments and services to more accurately “generate, collect, develop, and disseminate data on current and future U.S. and non-U.S. Forces in support of strategic analyses conducted by” DoD.

Each of the so-called Tri-Chairs—OSD(P), the Joint Staff, and PA&E—was assigned distinct responsibilities to support the Analytic Agenda. OSD(P) was required to develop future scenarios, prioritize them, and create their narratives, including the factors that led to conflict and “assumed postures of engagement.” The Joint Staff, in consultation with the service chiefs, was required to “develop baselines for use of current forces” and “realistic and responsive CONOPS.” PA&E and its successor, CAPE, also in consultation with the service departments and services, developed baselines for future forces, including a wide range of scenarios that covered the full spectrum of important military missions and depicted alternative assumptions about key variables.


284 One senior defense official recalled that a degree of tension was built into the Analytic Agenda process to foster critical thinking. See RAND interview, SD010521a.
chiefs, was required to “develop baselines of future forces, threats, and scenarios,” as well as “establish a management structure and data repository.” The IC and CCMDs were to provide advice and support as required.

In practice, however, the Analytic Agenda struggled to operate as efficiently or jointly in the 2002–2008 period as Wolfowitz and senior defense officials had originally intended. It proved to be of only limited use in the 2006 QDR, as the DoD’s “efforts to standardize analytical baselines, scenarios, and other analysis elements . . . [had not yet] come to their full fruition.” A 2016 RAND Corporation study of joint analytical capabilities determined that DoDI 8260.1 and its revisions (e.g., DoDI 8260.2) in this period had failed to define or otherwise assign responsibility for developing common baselines for risk, “uncertainty,” or “extensive excursions” from specific versions of conflict scenarios. As a result, for instance, the Joint Staff would develop detailed CONOPS and an assumptions list for “a single version” of OSD(P)-developed future-oriented scenarios, instead of considering the “infinite variety” of scenarios “for a given type of conflict (e.g., a major theater war with a regional power).”

A 2005 OSD(P)-PA&E joint presentation at the U.S. Military Academy at West Point enumerated additional problems with data traceability, structure, and definitions, as well as production speed of Analytic Agenda products for defense leadership. In June 2008, Eric Coulter, PA&E’s Deputy Director for Strategic Assessments and Irregular Warfare, acknowledged two further Analytic Agenda constraints: (1) Despite the concept’s intention for closer and more transparent collaboration, in practice the Joint Staff and CCMDs focused on creating current products while OSD(P) and PA&E worked on “mid- and far-term horizons” with relatively poor interoffice communication; and (2) it needed to better encompass COIN and irregular operations, which would “involve developing new analytic methods, tools, and data.”

The Analytic Agenda nonetheless continued to evolve, driven by increasingly detailed and rigorous standardized analytic baselines. Gates and Mullen evidently determined that the Analytic Agenda had sufficiently matured to be fully integrated into the 2010 QDR.

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287 DoD Instruction 8260.01, Support for Strategic Analysis, provided for the Analytic Agenda’s basis. DoD Instruction 8260.1 provided more detailed instructions and implementation guidance and was updated with DoD Instruction 8260.2. See Eric J. Coulter, “Analytic Agenda Update,” Phalanx, Vol. 41, No. 1, June 2008, p. 1.
Belt-Tightening During Current Operations and an Emerging Focus on Deficit Reduction

Belt-Tightening During Current Operations and an Emerging Focus on Deficit Reduction

Concerned in May that the 11 existing scenarios the Analytic Agenda had developed were too rigid, Gates directed long-serving Office of Net Assessment (ONA) director Andrew Marshall and Commander of Joint Forces Command (JFCOM) James Mattis294 to independently develop an alternative set of scenarios. This was an apparent effort to mitigate uncertainty over the increasing varieties, categories, and contingencies of contemporary and near-term conflicts the United States currently faced or could face.295 These alternative scenarios were mixed with the Analytic Agenda’s existing scenarios to create integrated security constructs (ISCs), or combined scenarios.296 The ISCs were then tested with senior DoD and service officials. Two conclusions emerged: First, the military required “additional and better enabling capabilities” “to successfully execute its missions”; second, “U.S. forces needed to be flexible and adaptable so that they could successfully engage the full range of challenges that can emerge from a complex and dynamic security environment.”297 These combined scenarios and their findings subsequently informed the 2010 QDR, especially shaping how the DoD should continue to rebalance the military to succeed in ongoing and expected near-future CVE and national-building operations and asymmetric threats, especially in emerging areas such as cyberspace.298

Senior defense officials and independent observers generally praised the Analytic Agenda’s central role in shaping the 2010 QDR, noting in particular its collaborative effort to link resources, analysis, and strategy.299 At least three issues, however, emerged from the process. First, some participants interviewed in RAND’s 2016 force planning scenarios study observed

292 Larson et al., 2018, p. 151.
294 They and their staffs assigned to developing these alternative scenarios were known as the “Red Team.” See Larson, 2019, p. xix.
299 On the Analytic Agenda’s collaborative spirit during this period, see RAND interview, SD010521a.
a gradual shift away from the DoD’s longstanding two major war planning construct with the Army at its center. Instead, they suggested, the Tri-Chairs were beginning to consider that one of the two wars would be primarily air and naval in nature, not ground-based. China’s recent activities in the East and South China Seas and the fact that the Analytic Agenda had not developed a new Middle East–Europe theater scenario while the U.S. withdrawal from Iraq was still pending could potentially explain this sense.300 Second, they suggested that while the ISCs had helped to add needed scenario complexity, they still did not sufficiently address risk and uncertainty and continued to excessively rely on “status quo” CONOPS.301 Third, some senior defense officials interviewed for this report argued that opinions that favored maintaining specific forward-leaning procurement program investments as a hedge against longer-term conventional near-peer threats were deprioritized. This was owing to the leadership’s focus on ongoing and presumed near-term CVE and nation-building operations, as well as the need to develop counter-asymmetric technologies.302 These latter two concerns, in particular, would impact the DoD’s SSA and modernization efforts as the Great Recession’s true costs became apparent from late 2010 onward.

The Fiscal Year 2011 Defense Budget Debate

For the moment, the 2010 QDR’s primary focus on succeeding in current operations and rebalancing resources from Iraq to Afghanistan and research and development (R&D) into countering asymmetric threats was immediately reflected in Obama’s FY 2011 budget request, submitted to Congress on February 2, 2010.303 Among other items, it included increased funding to train and equip allies and partners’ forces, ships, the F-35, and ground force systems, countering WMD, increased care for wounded veterans, $9.6 billion for new helicopters, “two Combat Aviation Brigades (CAB[s])” resulting in a total of 13 CABs, an additional $2.6 billion to develop DoD’s C4ISR capabilities, “double the procurement of MQ-9 Reapers,” and fully establish U.S. Cyber Command (CYBERCOM).304 In an effort to realize Mullen’s “whole-of-government” interagency vision, Obama moved several key 050-funded programs, including Section 1207 rapid reaction funding for nation-building activities and the Pakistan Counterinsurgency Capability Fund, to the Department of State’s budget request.305

300 Larson, 2019, p. 241. Also, RAND interview, SD121120.
301 Davis, 2016, pp. xiii, 3–5; and RAND interview, JS011321.
302 RAND interview, SD121120.
305 Towell, 2011, p. 31.
The FY 2011 request totaled $738.7 billion for the 050-defense function, including $552.8 billion baseline DoD budget, $159.3 OCOs, and $26.6 billion for other 050 activities.\(^{306}\) As they had in FY 2010, Obama and Gates sought to request as much of the OCO funding with the baseline request in order to have both funded at the same time. The baseline request represented a 1.8 percent increase in real purchasing power, continuing the upward trend of post-9/11 defense budgets.\(^{307}\)

As in FY 2010, the H.A.S.C. and S.A.S.C. “generally supported” Obama’s FY 2011 request.\(^{308}\) Nevertheless, the FY 2011 NDAA process was slowed down by two issues. First, Congress sought to continue funding the F136 alternative F-35 engine development and C-17 procurement initiatives against the Obama administration’s wishes. Backed by Gates and Mullen, the President finally forced Congress to remove the proposed funding under a veto threat in late March.

The second issue foreshadowed looming troubles for senior defense officials. The FY 2011 budget request proposed a freeze in nondefense discretionary spending, which then constituted under one-sixth of Obama’s total national budget request. While this freeze would result in $15 billion in savings, it would be more than consumed by the proposed $45 billion increase in 050-defense funding.\(^{309}\) Combined with growing Republican and some Democratic public and congressional concerns over the administration’s broader deficit-driven spending, this portended calls for greater fiscal restraint.\(^{310}\)

In an effort to stem these concerns, Obama established the bipartisan National Commission on Fiscal Responsibility and Reform (NCFRR) on February 18. He tasked NCFRR with delivering its recommendations by December 1, 2010.\(^{311}\) But the NCFRR’s establishment did little to calm the concerns of some congressional members and their constituents, especially as expectations grew that its final report would call for major tax increases and spending cuts.\(^{312}\)

In June, the bipartisan Sustainable Defense Task Force (SDTF), established by Representative Barney Frank (D-MA), Representative Walter B. Jones (R-NC), Representative Ron Paul (R-TX), and Senator Ron Wyden (D-OR), submitted an alternative proposal calling for over $1 trillion in 050-defense function-related cuts over 10 years to be accomplished by “roll[ing] back” U.S. global force posture, limiting R&D and modernization in such areas as nuclear weapons, “cancel[ing]” the F-35, and overhauling military compensation and its TRICARE

\(^{306}\) Towell, 2011, p. 4.


\(^{308}\) Towell, 2011, p. 2.


health care system.\(^{313}\) SDTF was reflective of growing concerns among Republicans and some Democrats that discretionary spending, including in defense, had spiraled.


In the spring of 2010, the Great Recession’s global long-term consequences became increasingly visible. Most notably, they were seen in burgeoning national debts resulting from the deficit-driven spending that the Obama administration and other governments had employed to reverse the global recession. An October 2009 NATO research study warned that member states’ efforts to pay down these debts “may lead to serious cuts in future government spending, including defense.”\(^{314}\) These measures, the study concluded, could additionally result in significant reverberations throughout the defense industrial base. Apart from emerging areas such as cyberspace and UAVs, “Obama’s defence budget emphasis on current missions and personnel may seem bleak for [their] future revenues.”\(^{315}\)

In 2009, Mullen had directed his Chairman’s Action Group—a small, independent analytical group embedded within the Joint Staff—and its director, James Baker, to better understand how “our financial health is directly related to our national security.”\(^{316}\) In January 2010, Mullen met New York City Mayor Michael Bloomberg and some of the city’s most influential CEOs to seek additional perspectives on this question, as well as gain a sense of how other countries saw U.S. economic management. Mullen told a *Fast Company* reporter in May that he was jarred by their responses. “What I took away from the dinner was the sense of our fiscal irresponsibility, the system emulated by so many people is now being questioned.”\(^{317}\)

Nevertheless, according to one former senior defense official, by early 2010 Gates’s and Mullen’s efforts to cut or reform procurement programs and demonstrate that the DoD was doing its part to help the United States recover from the Great Recession was inculcating itself within Pentagon culture. As one former senior defense official recalled, by 2010 “identify[ing] and taking from excess efforts really were DoD-driven, not presidential or congressional.”\(^{318}\) Gates himself recalled that “as we began to prepare the FY 2012 defense budget in spring 2010, my sense of foreboding about [DoD’s] budgetary future turned to alarm as I listened

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\(^{315}\) Hartley and Solomon, 2009, p. 7.


\(^{318}\) RAND interview, JS121220.
to the debates in Congress, followed the media, and listened to Obama.”319 A former senior defense official independently agreed with Gates’s assessment:

When it was clear that Gates was going to stay past 2010, it was also clear that there was going to be [a long-term] economic impact on the defense budget. Gates was concerned [that] budget constraints would hit while we were still fighting wars in the Middle East. He wanted to get a head start and show that the DoD was actively managing its money. [So] Gates started [the] efficiency initiatives.320

Gates Announces the Department of Defense Efficiency Review

On May 8, 2010, Gates formally announced his DoD-wide efficiency review at the 65th Anniversary celebration of Victory in Europe held at the Dwight D. Eisenhower Presidential Library in Abilene, Kansas.321 Gates directed the services and Pentagon components to identify $100 billion in additional savings that could be achieved between FY 2012 and FY 2016.322 Two days later, OSD(P) Under Secretary Flournoy explained that the efficiency review’s purpose was not about cutting into the “muscle” of national security: “It’s not [about] defense cuts. . . . We have to become more efficient and make better use of taxpayer dollars in how we operate.” Savings garnered from acquisition reform, energy, and efficiencies would be “reinvested” in current national security priorities.323 Deputy Secretary of Defense William J. Lynn III later added that the DoD needed to undertake the efficiencies review to maintain its current force structure, an effort that required 2–3 percent annual real budget growth. “The overall defense budget, however, is projected to rise in real terms by about 1 percent, and [DoD] cannot and should not ask Congress or the American taxpayers for more increases unless and until we have done everything possible to make the dollars we already have count for more.”324 Gates’s efficiency review initially involved three “tracks,” later increased to a fourth in August 2010, to enact immediate changes (see Table 2.2).

Concerns about the deficit heightened in the interim, as President Obama signed into law the Affordable Care Act (ACA) on March 23, 2010, and ARRA-related deficit spending continued. By May, the national deficit had reached $1.6 trillion, or 11 percent of national GDP. Late that month, the National War College hosted a summit of leading national security officials as well as budget researchers and policymakers in an effort to determine how the DoD and the government should balance national security priorities, risks, and long-term fiscal

320 RAND interview, SD012021.
TABLE 2.2
2010 Four-Track Department of Defense Efficiencies Review

<table>
<thead>
<tr>
<th>Track</th>
<th>Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Track 1</td>
<td>The U.S. military is to find roughly “$100 billion in overhead savings” over the next five fiscal years. “The services, however, will be able to keep any of the savings they generate to invest in higher-priority warfighting and modernization needs.”</td>
</tr>
<tr>
<td>Track 2</td>
<td>DoD “is seeking ideas, suggestions, and proposals regarding efficiencies outside normal channels. We have solicited input from experts, from think tanks, from industry, and from [DoD’s] external boards. We have also established a DoD suggestion program to solicit our employees’ ideas. [DoD] is willing to consider any reasonable suggestion to reduce our overhead.”</td>
</tr>
<tr>
<td>Track 3</td>
<td>DoD “is conducting a broad review of how it is organized and operated in order to inform the President’s 2012 budget submission. This Track 3 review focuses on affective long-term systemic improvements in several key areas of DoD operations.”</td>
</tr>
<tr>
<td>Track 4</td>
<td>“This address[es] several specific areas where [DoD] can take action now to reduce inefficiencies and overhead. These steps are intended to jump-start the reform process ahead of and separate from the normal budgeting cycle.”</td>
</tr>
</tbody>
</table>


uncertainties. The summit produced a variety of ominous assessments. CNAS’s Patrick M. Cronin argued that the 2010 QDR was an inadequate “solution to the pressing trade-offs that must continue to be made every year.” CSBA’s Harrison warned that the DoD likely would need to make deeper cuts in subsequent fiscal years. Other participants warned of China’s rising influence and the DoD’s continued concerns about insufficient ally and partner support in Afghanistan. Many of their projections, including those of Cronin and Harrison, ultimately portended deeper post-2010 budgetary and strategic trade-offs.


On June 21, Deputy Secretary of Defense Lynn introduced his initial directive to all DoD offices to significantly enhance defense industrial base communication transparency, frequency, and inclusivity. It deliberately presaged OSD(AT&L) Director Ashton Carter and his deputy Frank Kendall’s June 28 announcement of DoD’s the BBP initiative.

Belt-Tightening During Current Operations and an Emerging Focus on Deficit Reduction

BBP 1.0, as it came to be known, would result in two subsequent BBPs under Carter and Kendall’s stewardship through 2016. Acknowledging that the DoD needed to go further than procurement program reforms and WSARA, Carter argued that the DoD needed to “do more without more.” BBP 1.0 was intended to target the roughly 57 percent—or $400 billion of the 050-defense function’s roughly $700 billion annual budget—spent on products and services. Specifically, BBP 1.0 sought to overhaul the initial contracting process for these products and services. The goal was to provide the two-thirds of the non–procurement program efficiencies required to help the DoD achieve Lynn’s estimated 2–3 percent annual growth to maintain the military’s existing force structure “without incurring a commensurate budget increase.” To smooth this process, Carter and Kendall implicitly recalled Lynn’s June 21 memorandum to actively and frequently include the defense industrial base’s involvement. “Increased productivity,” they concluded, “is good for both industry and government.”

In a September 14 memorandum, Gates and Kendall elaborated on BBP’s goals with specific guidance developed in concert with senior OSD and program and acquisition officials and industry input. BBP 1.0 mandated 23 actions under five collective efficiency areas (see Table 2.3). Emphasis was on initial contract structuring, duplication, and redundancy reduction, process transparency, as well as rewarding industrial partners who produced on time and on budget through incentivization and “preferred supplier” programs.

The Efficiency Review’s Results and Next Steps

On August 9, Secretary of Defense Gates announced the efficiency review’s initial results and planned initiatives. This included introducing track 4, the immediate next steps to achieve his $100 billion goal. First, SSC funding levels would be reduced by 10 percent annually for the next three fiscal years. The OSD, CCMD, and defense agency staff sizes were to be frozen at FY 2010 levels for the next three fiscal years. A similar freeze for civilian senior officials, general and flag officers, and presidentially appointed, Senate-confirmed positions was also included. The DoD’s information technology (IT) services would be consolidated. There was to be a freeze on the number of, and a 25 percent budgetary reduction for, DoD-required oversight and advisory studies. Track 4 also proposed a review to cut or reform OSD’s 65

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332 Carter [and Kendall], 2010a, pp. 1–2, 4; emphasis added.

333 Carter [and Kendall], 2010a, p. 2.

334 Carter [and Kendall], 2010b, p. 111.


### TABLE 2.3
**Better Buying Power 1.0 Guidelines**

<table>
<thead>
<tr>
<th>Collective Efficiency Area</th>
<th>Action</th>
</tr>
</thead>
</table>
| “Target affordability and control cost growth” | • “Mandate affordability as a requirement”  
| | • “Eliminate redundancy within warfighter portfolios”  
| | • “Make production rates economical and hold them stable”  
| | • “Set short program timelines and manage to them” |
| “Incentivize productivity and innovation in industry” | • “Reward contractors for successful supply chain and indirect expense management”  
| | • “Increase the use of Fixed-Price Incentive Firm Target contract type where appropriate using a 50/50 share line and 120 percent ceiling as a point of departure”  
| | • “Adjust progress payments to incentivize performance”  
| | • “Extend the Navy’s Preferred Supplier Program to a DoD-wide pilot”  
| | • “Reinvigorate industry’s independent research and development and protect the defense technology base” |
| “Promote real competition” | • “Present a competitive strategy at each program Milestone”  
| | • “Remove obstacles to competition” specifically including “requiring open systems architectures and set rules for acquisition of technical data rights at Milestone B”  
| | • “Increase dynamic small business role in defense marketplace competition” |
| “Improve tradecraft in services acquisition” | • Create a senior manager for acquisition of services in each component, following the Air Force’s example”  
| | • “Adopt uniform taxonomy for different types of services”  
| | • “Address causes of poor tradecraft in services acquisition”  
| | • “Increase small business participation in providing services” |
| “Reduce nonproductive processes and bureaucracy” | • “Reduce the number of OSD-level reviews to those necessary to support major investment decisions or to uncover and respond to significant program execution issues”  
| | • “Eliminate low-value-added statutory processes”  
| | • “Reduce by half, the volume and cost of internal and congressional reports”  
| | • “Reduce non-value-added overhead imposed on industry”  
| | • “Align Defense Contract Management Agency and Defense Contract Audit Agency processes to ensure work is complementary”  
| | • “Increase use of Forward Pricing Rate Recommendations to reduce administrative costs” |


a Carter and Kendall cited the Virginia-class SSN program as a successful example of this approach. As discussed earlier in this chapter, Mullen and other defense officials had previously promoted the Virginia-class program as a relatively model procurement program.

b Lynn had initially outlined the need to include small businesses in his June 21, 2010, industry communications memorandum submitted to all DoD departments.

c Specifically, Carter argued that DoD “lacks a standard taxonomy for service contract spend that can be used among the components to understand [DoD’s] aggregate spending and value of specific services contracting. Without a standard approach, [DoD] has no way of measuring productivity in more than 50 percent of its contracting investment.” Carter may have been motivated by the recent successful use of the Analytic Agenda’s standardized analytic baselines in developing the 2010 QDR, although no independent source currently verifies this claim.
boards and commissions. A similar review was to be conducted to cut or reform the DoD’s varied and likely duplicative intelligence-gathering offices. The Office of the Assistant Secretary of Defense Networks Integration and Information and the Joint Staff’s similarly IT-focused J-6 would be eliminated and their nonduplicative functions transferred to the Defense Information Systems Agency. Track 4 also called for elimination of the Business Transformation Agency (BTA), which provided daily acquisition program oversight, a responsibility already duplicated elsewhere. Finally, the reforms stipulated the elimination of JFCOM.337

Observers focused on two key related provisions in Gates’s efficiency review announcement. First, the Secretary of Defense pulled back his FY 2010 NDAA proposal to replace an estimated 30,000 SSCs with like-for-like DoD-employed civilian replacements. The proposal had come under widespread SSC industry criticism and, in at least one case involving the Air Force, a court ruling that the service had not executed appropriate cost-benefit analyses of a potential switch.338 Gates himself admitted on August 10 that he had downsized his SSC reform proposal.339 Instead, he now froze hiring levels across many DoD departments.

SSC issues also partially motivated Gates’s decision to close JFCOM, where contractors comprised over half of the labor force.340 Closing JFCOM would save the DoD an estimated $16.5 billion yearly.341 But uncertainty over the need for JFCOM’s future mission also motivated Gates. JFCOM had been specifically established in 1999 to enhance the services’ jointness and support the Joint Staff.342 Gates argued that by 2010 JFCOM had mostly fulfilled its mission: “The U.S. military has largely embraced ‘jointness’ as a matter of culture and practice.”343 On September 1, the DoD established the JFCOM Disestablishment Working Group to oversee its disestablishment and the transfer of relevant expertise, resources, and functions into the Joint Staff, CCMDs, and the services.344


According to Gates, Virginia’s congressional representation “went wild” with anger over the proposed disestablishment of JFCOM, much of which was based at Norfolk.\textsuperscript{345} Mullen’s and Cartwright’s respective immediate personal thoughts on JFCOM’s disestablishment remain unknown.\textsuperscript{346} But available evidence suggests that the CJCS and VCJCS, at least publicly, soon came to agree with Gates’s assessment. At the S.A.S.C.’s September 29 hearing on the DoD’s efficiencies initiatives, Cartwright argued in support of JFCOM’s closure. It had “helped to accomplish the primary goal for which it was established,” the VCJCS observed in his opening statement. “We must continue along the positive vectors regarding joint activities as directed in the Goldwater-Nichols legislation.”\textsuperscript{347} In his prepared statement, he added that the Joint Staff leadership no longer believed a four-star-led dedicated joint command was necessary when joint operations and a culture of jointness had become thoroughly embedded in the military.\textsuperscript{348} On January 6, 2011, Obama formally authorized JFCOM’s closure on the recommendation of both Gates and Mullen.\textsuperscript{349} When JFCOM was formally disestablished in August 2011, Mullen echoed Gates’s argument that while jointness at all levels must continue, “airmen, soldiers, sailors, and marines are so used to operating jointly after nearly a decade of fighting two wars that a separate command dedicated to fostering jointness is no longer needed.”\textsuperscript{350}

In the wake of JFCOM’s dissolution, Cartwright argued, Congress must continue to promote strengthened interagency “whole-of-government” cooperation, both within the DoD itself and with other agencies such as the Department of State.\textsuperscript{351} This correlated with Mullen’s decision in his October 2010 \textit{Joint Forces Quarterly} editorial not to discuss JFCOM’s proposed disestablishment, but rather to reiterate his longstanding argument for enhanced “whole-of-nation” interagency effort.\textsuperscript{352} A 2012 \textit{Naval War College Review} article concluded that JFCOM’s closure had not had any “noticeable negative effects to ongoing combat operations.”\textsuperscript{353}

\textsuperscript{345} Gates, 2014, pp. 462–463.

\textsuperscript{346} According to an August 10, 2010, \textit{Stars and Stripes} article, the Joint Staff deferred reporters’ JFCOM questions to the DoD. Cartwright stated only that “there are several mission areas associated with JFCOM that we’re trying to understand. . . . Some of them we keep, some of them we will actually eliminate and not conduct.” See Jeff Schogol, “Is JFCOM Really Expendable?” \textit{Stars and Stripes}, August 10, 2010.


\textsuperscript{350} “JFCOM Furls Its Colors,” \textit{Air Force Magazine}, August 5, 2011; and Drea et al., 2013, p. 109.


Beyond its leadership, however, internal Joint Staff reactions may have been more mixed. Secretary of Defense Gates’s decision to disestablish JFCOM and reassign some of its responsibilities and personnel to the Joint Staff “surprised UCP [Unified Command Plan] action officers,” according to a Joint Staff official history.\textsuperscript{354} Another 2013 Joint Staff official history argued that JFCOM’s demise marked the culmination of a decade of apparent OSD pressure “to consolidate functions and reduce personnel.” JFCOM’s disestablishment and absorption of many of its functions, the official history argued, at least temporarily “significantly increased” the Joint Staff’s size, responsibilities, and expenditures and redistributed some of its capabilities outside of the Pentagon.\textsuperscript{355}

“\textit{The Most Significant Threat to Our National Security Is Our Debt}”: The Emerging Politics of Deficit Reduction

Most senators and representatives generally approved of Gates’s efficiency initiatives, even if they questioned individual proposals. “I think I also speak for the committee,” H.A.S.C. Chairman Ike Skelton (D-MO) argued at its September 29 hearing, “by saying that we all want to eliminate waste within [the DoD] . . . and I commend the Secretary of Defense and his able support team . . . for making hard choices that have too often been avoided.”\textsuperscript{356}

Skelton’s acknowledgment reflected Gates’s and Mullen’s diverse efforts to demonstrate increased DoD responsibility over its spending in a period of rising national debt. In June, Mullen himself had argued that “the most significant threat to our national security is our debt. . . . That’s why it’s so important that the economy move in the right direction, because the strength and the support and the resources that our military uses are directly related to the health of our economy over time.”\textsuperscript{357}

The CJCS, however, was explicitly not arguing to cut into the DoD’s “muscle” to reduce the nation’s deficit. Instead, Mullen recognized that continued high debt levels could disproportionately impact federal discretionary defense spending if the national economy did not sufficiently improve in the near term. Spending for 050-defense comprised about 21.2 percent of federal outlays in 2010.\textsuperscript{358} In a bid to be seen by the public as acting to reduce the national debt without touching mandatory (and popular) entitlement program spending such as Medicare, Medicaid, Social Security, and veterans’ benefits, the 050-defense function was one of the few levers Congress could pull.

\textsuperscript{354} Drea et al., 2013, pp. 106–107.

\textsuperscript{355} Joint History Office, Office of the Chairman of the Joint Chiefs of Staff, \textit{Organizational Development of the Joint Chiefs of Staff, 1942–2013}, Washington, D.C., April 2013, pp. 80–85.


The 2010 Midterm Congressional Election, the “Tea Party” Caucus, and Continuing Resolutions

Despite acknowledging the DoD’s efficiency efforts, congressional debates over if, how, and where to curtail the Obama administration’s deficit-driven spending continued to hold up the FY 2011 defense budget process. Congress ultimately failed to approve Obama’s FY 2011 total budget request by September 30, forcing it to begin approving a series of continuing resolutions. These were largely set at FY 2010 levels, to keep essential spending going. On October 13, 50 Democrat and Republican representatives and senators, including those involved with SDTF, submitted a letter to NCFRR reiterating calls for major defense budget cuts to help reduce the national deficit.

On October 13, 50 Democrat and Republican representatives and senators, including those involved with SDTF, submitted a letter to NCFRR reiterating calls for major defense budget cuts to help reduce the national deficit.

On November 2, 2010, Republicans won majority control of the House of Representatives, ending Democrats’ two-year control of Congress and complicating Obama’s ability to enact legislation. Scholars have attributed a number of factors to Democratic losses in the 2010 midterm congressional elections, but they generally agree that the rise of the “Tea Party” movement starting in 2009 and related concerns over the nation’s high deficit and slower-than-expected recovery certainly contributed to its outcome.

Picking up six seats in the Senate and ushering in 87 new Republican members in the House, the GOP could deal with the Obama administration from a much stronger position. With the election of the largest freshman class in history for the party, most House members appeared uninterested in a status quo approach to politics. “Incrementalism? Compromise? That wasn’t their thing,” remembered Boehner, who as majority leader quickly became exasperated by the mostly political neophytes. “A lot of them wanted to blow up Washington. That’s why they thought they were elected.”

The Tea Party movement constituted a “loose coalition” of conservative groups motivated by varied interests. Guided by small-government principles and an emotional dislike for large government spending, Tea Party members often focused on local-level issues and criticized the federal government’s role in the economy. Their success in the 2010 midterm elections helped shape the political landscape for years to come.

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Belt-Tightening During Current Operations and an Emerging Focus on Deficit Reduction

of Obama as well as many established members in Congress, the Tea Party was driven by a range of social, political, and fiscal anxieties. Rights-based issues, such as fighting gun-control legislation, were uniting issues for the various groups. Fiscally conservative, the Tea Party targeted the Democratic Party’s “big government” deficit-driven efforts, most notably ARRA, to help the United States recover from the Great Recession. While Tea Party activists themselves comprised a small minority of the population, many Republicans and some Democrats shared their broader concerns over the administration’s deficit spending, especially on domestic programs, but also in defense.

The incoming Tea Party caucus immediately placed increased pressure on both sitting congressional Republicans and the Obama administration. In the weeks following the election, NCFRR released its draft report that, among other proposals, called for additional defense cuts. New OMB director Jack Lew (appointed November 18, 2010) proposed an additional $20 billion cut from the baseline $566 billion FY 2012 defense budget request Obama had promised Gates in late 2009 and a $148 billion reduction over five years. In response, on November 24 Gates wrote to Obama reminding the President that the DoD’s efficiency initiative had already identified $100 billion in savings to be reallocated to priority programs and rebalancing over five years.

Discussions between Gates, Obama, and Lew made little headway. On December 1, NCFRR released its final report. Quoting Mullen’s already oft-cited statement that “the most significant threat to our national security is our debt,” the NCFRR formally recommended establishing equal cuts to defense and nondefense discretionary spending (excepting some OCO funding). NCFRR proposed these caps be set at the FY 2011 level for FY 2012 and lowered to FY 2008 (pre–Great Recession) levels for FY 2013. Limits, or “firewalls,” would hold projected discretionary budget growth to “half the projected inflation rate through 2020.” For the 050-defense function, this meant a potential drop from a proposed $688 billion FY 2012 budget (including OCOs) to $665 billion in FY 2015. These caps, NCFRR concluded,

365 Williamson, Skocpol, and Coggin, 2011, p. 27.
“would serve as a ceiling rather than a floor—so members of Congress would be free to cut spending below the caps in the appropriations process.”

On December 14, Gates proposed to Obama an FY 2012 cut to $555 billion and five-year cumulative cuts of $63 billion. Sensitive to the changing mood of Congress and his own electoral base and consumed with ongoing negotiations for yet another continuous resolution, President Obama rejected Gates’s new proposal. On December 15, Gates proposed to Lew even deeper cuts: $554 billion for FY 2012 and $78 billion over five years. This time, the President and the OMB director accepted. Meanwhile, on January 7, 2011, Obama belatedly signed the FY 2011 NDAA authorizing roughly the same amount as had been authorized in the FY 2010 NDAA.

Gates later admitted that he had been “extremely angry” with Obama for the sudden additional budget cut demands. “I felt like all of the work we had done in the efficiencies effort had been unrewarded and, further, that I had been forced to break my word to the military services.” Senior defense officials were generally empathetic toward Gates’s efforts. One argued that the Secretary of Defense had preemptively executed both top-down (terminating or reforming procurement programs) and bottom-up (streamlining and merging departments; attempting to cut civilian and SSC costs) initiatives “to show that we [the DoD] could be efficient with the money we had.” These efforts were to little avail though. As efficiency initiatives started “skimming staffs,” they argued, the initiatives increasingly became “a lot of torture for small gain.” In January 2011, details would begin to emerge of the December negotiations. Gordon Adams, a former Clinton administration budget official, would conclude in a January 8, 2011, New York Times interview that Gates’s “finger in the dike didn’t work.”

Conclusion

The Great Recession—which began in early 2007 and officially lasted from December 2007 through June 2009—represented the largest decline in output, consumption, and investment, as well as the largest increase in unemployment of any post-World War II recession. The Great Recession itself, however, had only a limited immediate impact on the U.S. defense budget or policy. For senior defense and relevant congressional and White House officials,

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371 This resulted in P.L. 111-317 (December 18, 2010) and eventually P.L. 111-322p (December 21, 2010).
374 RAND interview, SD012021.
the recession remained secondary to ongoing operations. These primarily included winding down operations in Iraq and gradually rebalancing to Afghanistan, as well as rebuilding readiness worn down from these long irregular conflicts. Until the Great Recession’s longer-term consequences began to be felt in late 2009, defense budget debates focused largely on supporting these priorities.

In this period, however, the funding of GWOT and later OCOs through emergency supplemental funds caused perennial uncertainties within the DoD. During the 2007 Surge, for instance, the Army was forced to shift internal funds from nonwar O&M personnel accounts to immediate warfighting requirements while awaiting congressional approval for additional funding. This experience, as the CRS concluded at the time, demonstrated the important role Congress plays in determining the options available to DoD leaders to manage resource reductions.

In early 2008, CJCS Mullen acknowledged on the DoD’s behalf both the worsening global financial situation and that he and Secretary of Defense Gates recognized that the DoD would need to do its part to help the nation recover. By the time the Great Recession reached its peak in December 2008, the Secretary of Defense and CJCS, supported by President-elect Obama, decided to cut or reform a wide range of procurement programs. They targeted those they deemed either no longer relevant or poorly suited for current and near-term threats, which they believed were primarily irregular and asymmetric conflicts. Doing so, they hoped, would fulfill their promise to the government and the nation that the DoD was successfully managing its budget, prioritizing current conflicts, and “trimming the fat.” Within months, Congress would support their efforts by passing WSARA.

Gates’s and Mullen’s sweeping procurement program reforms and cuts, WSARA, and Mullen’s Joint Staff efficiency reforms aided their ability to fully integrate the DoD’s Analytic Agenda SSA into the 2010 QDR process. For the first time, standardized, rigorous analytic baselines were employed across DoD departments to plan for a range of potential conflict scenarios. However, inherent limitations in the Analytic Agenda’s structure, primarily its inability to adequately execute uncertainty analyses even with the integration of alternative scenarios, would eventually lead to its decline from 2011 onward.

While the Secretary of Defense and the CJCS enjoyed a remarkably collaborative relationship, they disagreed as to the level of conventional warfighting investment the DoD was willing to sacrifice in order to fulfill their shared priorities of winning ongoing wars, cutting or reforming troubled procurement programs, and countering asymmetric threats. This disagreement first presented itself during the 2008 NDS process. Although Mullen ultimately backed down, he continued to press for conventional investments as required to maintain U.S. dominance, albeit subtly. Meanwhile, he enjoyed greater success in convincing Gates and Obama to gradually reassign nation reconstruction and aid funding to the Department of State and USAID as part of his consistent efforts to promote a whole-of-government approach to conflict resolution.

The Great Recession’s longer-term consequences, most prominently the nation’s burgeoning debt, became increasingly apparent by late 2009. Gates and Mullen were sensitive to the long-term national debt’s potentially disproportionate impact on discretionary defense
spending, an awareness exemplified by the CJCS’s widely quoted spring 2010 statement that “the greatest risk to our national security is our debt.” In response, they announced a comprehensive efficiency review in May 2010. Aware that they could ask Congress for only a 1 percent real annual increase, and not the 2–3 percent real annual budget increase necessary to sustain current U.S. global force posture, they announced that they would identify $100 billion in savings over the next five fiscal years to be redirected into warfighting and posture maintenance. Doing so, they hoped, would further demonstrate to Congress that the DoD could responsibly manage its budget.

As part of the efficiency review, in June OSD(AT&L) Director Carter and his deputy, Kendall, announced the DoD’s first BBP. Under the slogan of “do more without more,” the BBP sought to fundamentally change how the DoD negotiated and managed contracts with its vast defense industrial base. BBP required significantly greater competition, contract transparency, agreed cost controls, small business participation, and a reduction in duplicative reviews and studies. BBP arguably would be the most long-lasting of the efficiency review’s results; Carter and Kendall would refine and expand it two more times during the Obama administration.

Gates announced the efficiency review’s results and next steps in August 2010. These included the consolidation of several DoD departments, elimination of duplicative IT programs, a 10 percent annual reduction of SSCs between FY 2012 and FY 2015 without like-for-like DoD–directly employed replacements, and the JFCOM’s disestablishment. JFCOM’s disestablishment prompted shock and surprise from some of the Joint Staff—at least temporarily, they had to assume many of the CCMD’s responsibilities, personnel, and expenditures. The dissolution of JFCOM was, nonetheless, projected to save the DoD at least $240 million annually.377

Despite Gates’s and Mullen’s efforts, however, they were reminded that the DoD was not insulated from national politics. Congressional impasse over the FY 2011 defense budget, driven largely by growing Republican and some Democrat concerns over Obama’s total budget request in the context of the burgeoning national deficit, led to a series of continuing resolutions restricting government spending. The formation of the Tea Party caucus after the November 2010 midterm congressional elections only increased pressure on Congress and the administration to seek further reductions. In December, Gates was hastily forced to agree to an additional $78 billion in cuts over five years on top of the $100 billion in efficiency savings that he, Mullen, and senior defense officials had already identified, including an immediate roughly $10 billion cut for the FY 2012 baseline defense request. These left Gates embittered, matching the mood of government officials and civilians alike who experienced the deep turmoil left in the wake of the Great Recession’s initial shock. Internally driven belt-tightening meant to demonstrate the DoD’s responsible management of its budget were ultimately not enough, as outside pressure from both sides of the political aisle demanded more. The further cuts only portended the BCA of August 2011 and the return of sequestration-enforced budget caps.

CHAPTER THREE

Defense as a Deficit-Reduction Billpayer and the Emerging Strategic Shift, 2011–2013

National security didn’t cause the debt crisis nor will it solve it.
—Chairman of the Joint Chiefs of Staff Martin Dempsey, July 26, 2011

Introduction

Mullen’s 2011 NMS, issued on February 8, 2011, explicitly stated that the DoD could not assume budget growth to meet future threats. At the same time, however, global developments suggested a growing range of strategic threats. The pro-democracy reform movements, popularly termed the “Arab Spring,” quickly spread throughout the Arab world after beginning in Tunisia in December 2010. By March, it had extended to Syria, catalyzing a protracted civil war. The dynamic changes in the broader Middle East coincided with the Obama administration’s desired “pivot to Asia,” with strategic priorities that looked beyond current operations to emerging threats. This evolved focus deeply informed the January 2012 Defense Strategic Guidance (DSG), a QDR-like document that called for increased focus on the Asia-Pacific and countering actors’ increasingly sophisticated A2/AD capabilities.

At the same time, the 2012 DSG was also deeply informed by new deficit control legislation, the BCA, which passed in August 2011. The BCA had twofold effects: capping discretionary defense and nondefense spending over the next decade and threatening deeper

3 This DSG is different from the Defense Planning Guidance (DPG) developed from the NMS. The DPG is “the principal planning document of the planning phase” of the DoD’s planning, program, and budgeting system. See Brian R. Taylor, “An Analysis of the Departments of the Air Force, Army, and Navy Budget Offices and Budget Processes,” MA thesis, Monterey, Calif.: Naval Postgraduate School, December 2002, pp. 5–6.
sequestration-enforced budget caps in 2013 in the event an agreement over discretionary caps did not occur. Despite the DoD’s efforts to further trim its budget and enhance efficiencies, sequestration was triggered in March 2013. To meet sequestration requirements, the DoD had to make budget reductions that affected military readiness and its estimated 650,000-strong civilian workforce. More broadly, it signaled that a fundamental reconsideration of investment priorities would be required.

The 2011–2013 National Security Context

CJCS Mullen and the Obama administration’s rebalance toward Afghanistan, and ultimately the Asia-Pacific, dominated national security priorities in the 2011–2013 period. Despite the rise of grassroots-driven instability in the Middle East and North Africa, by February 2011 the United States was rebalancing its strategic priorities away from the Middle East proper and to South Asia and the broader Indo-Pacific. In Tunisia, protests beginning in December 2010 toppled the dictatorship of Zine el-Abidine Ben Ali on January 14, 2011, triggering “snowball[ing]” protests in Egypt against President Hosni Mubarak. Within weeks, what became known as the “Arab Spring” was spreading to Libya, Syria, Bahrain, and Yemen.

Senior defense and White House officials nonetheless continued to plan for an imminent U.S. withdrawal of forces from Iraq and a “surge” in Afghanistan. As per SOFA and its associated agreements, U.S. authorities continued to transition defense and administrative responsibilities to the Baghdad government. In early December 2010, Obama announced to troops stationed at Camp LeJeune in Jacksonville, North Carolina, that all but 50,000 troops would leave Iraq during the summer of 2011 in preparation for the full withdrawal scheduled for December 31. The Department of State was beginning to assume managerial oversight for some Iraqi transition and post-transition programs from the DoD and MNF-I, although it still remained unclear when they would assume more formal authority. Meanwhile, in December, Obama reportedly acknowledged that the Iraq Surge had “turned out to be a good

9 Brennan Jr. et al., 2013, p. xxix.

Meanwhile, senior defense officials and commentators were ever more identifying Iran as a potential future threat.\footnote{See, for instance, Mark Gunzinger and Christopher Dougherty, \textit{Outside-In: Operating from Range to Defeat Iran’s Anti-Access and Area-Denial Threats}, Washington, D.C.: Center for Strategic and Budgetary Assessments, January 17, 2012; and Michael Mayer, \textit{IFS Insights: The 2010 QDR and U.S. Grand Strategy}, Oslo, Norway: Norwegian Institute for Defence Studies, February 2010, p. 7.} While negotiations between Iran and the United States, United Kingdom, France, Russia, China, and Germany (P5+1) had been increasing in number since 2009, little progress had been made. Iran continued its efforts to both undermine MNF-I efforts in Iraq and develop its nuclear capabilities. As a result, in June 2010 the United Nations, the United States, and the European Union all issued additional sanctions. Meanwhile, China and North Korea continued to supply Iran with weapons such as antiship cruise missiles.\footnote{Scott W. Harold and Alireza Nader, \textit{China and Iran: Economic, Political, and Military Relations}, Santa Monica, Calif.: RAND Corporation, OP-351-CMEPP, 2012, p. 18.}

For the short term, at least, the Iranian nuclear threat began to be ameliorated somewhat with the signing of the Joint Plan of Action in November 2013. This plan initiated negotiations that ultimately led to the Joint Comprehensive Plan of Action in July 2015, and the United States briefly lifted some sanctions against Iran.


Chinese People’s Liberation Army Navy (PLAN) and Chinese fishing vessels harassed the USNS \textit{Impeccable} and USNS \textit{Victorious}, for instance, as those ships legally transited through China’s exclusive economic zone in the South and East China Seas, respectively. In 2010, PLAN’s North Sea Fleet executed major exercises in contested South China Sea waters. The government announced that the region now constituted a
“core national interest” alongside Taiwan, Tibet, and Xinjiang. In response, Vietnamese vessels harassed Chinese fisheries administration vessels, and its navy undertook hydrographic surveys in support of its exclusive economic zone claims. Secretary of State Hillary Clinton rejected China’s South China Sea claims at the July 2010 meeting of the Association of South East Asian Nations chaired by Vietnam. In the interim, the United Nations Commission of the Limits of the Continental Shelf was still considering rival South China Sea claims. Many U.S. observers worried that a finding against China would only escalate regional tensions.

The 2012 QDR-like DSG reflected these evolving national security concerns. While it certainly acknowledged the continuing terrorist and VEO threat, it noted both the winding down of Iraq operations and the shift in counterterrorist activities to South and Southeast Asia. But it moved quickly to acknowledge the rising, albeit “long-term,” development of China as a strategic threat. It argued that the United States should prioritize deepening its relationships with Asia-Pacific allies and partners. As importantly, the 2012 DSG explicitly articulated the need for the United States to “project power despite Anti-Access/Area Denial Challenges” from both China and such other, smaller state actors as Iran and North Korea.

Further, 2012 also arguably signaled the end of a brief thaw in U.S.-Russian relations. On December 14, Congress passed the Sergei Magnitsky Rule of Law Accountability Act (P.L. 112-208). Magnitsky, an outspoken Putin critic, had been arrested in Moscow in 2009 on concocted embezzlement charges. He was imprisoned and, following sustained torture by Russian authorities, died on November 16, 2009. The Magnitsky Act argued that such persecutions were systemic, noting similar behavior against such other Putin critics as Mikhail Khordorkovsky and Platon Lebedev. The Magnitsky Act initially imposed sanctions against 18 individuals in Putin’s inner circle. In 2016 the act would be expanded to impose sanctions


17 Swaine, 2013.


23 P.L. 112-208, Sec. 402(13), 126 Stat. 1504.
against global human rights abusers. Putin responded soon thereafter, banning the U.S. adoption of Russian children and imposing sanctions on U.S. officials. Obama would meet Putin only once again—briefly at the June 2013 Group of Eight Summit in Northern Ireland—before Russia unilaterally invaded and seized Crimea from Ukraine in February 2014. The two leaders disagreed on how to resolve the burgeoning Syrian Civil War; the United States suspected Russia of providing support to the Al-Assad government. On August 1, 2013, Russia provided temporary (later permanent) asylum to Edward Snowden, who had leaked classified information to Wikileaks. In response, Obama canceled his scheduled September G20 meeting with Putin.

“The Finger in the Dike Didn’t Work”: Continuing Search for Efficiencies amid Emerging Strategic Shift

By late 2010, the political machinations of deficit reduction forced the DoD to continue its ongoing efforts to demonstrate responsible budgetary management capabilities through multiple comprehensive procurement program reforms and efficiency reviews. Congress’s failure to pass the FY 2011 NDAA by September 30, as part of a broader debate over the Obama administration’s deficit-driven spending, had resulted in a series of continuing resolutions that constrained DoD spending and increased uncertainty. The election of a Republican-controlled House of Representatives—notably, the “small government” deficit reduction-focused Tea Party caucus and their supporters in the 2010 midterm congressional election—only added pressure for additional DoD budget cuts. In December, Secretary of Defense Gates was forced to hastily agree to an additional $78 billion in budget cuts over the next five fiscal years and an immediate roughly $10 billion baseline budget cut for the FY 2012 request. He recalled feelings of anger and betrayal at the prospect of additional reductions: “I felt like all the work we had done in the efficiencies effort had been unrewarded and, further, that I had been forced to break my word to the military services.”

Nonetheless, Gates and senior defense officials set to work over the winter of 2010–2011 to identify an additional $78 billion in cuts. True to his now established form, Gates’s approach combined top-down reconsideration of troubled procurement programs with more bottom-

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up efficiencies. On January 6, Gates publicly announced the additional cuts, reflecting what the *New York Times* described as "the new political reality." It was “more important than ever,” Gates explained, to find additional cuts and efficiencies “in a time of extreme fiscal duress.”

The DoD would further trim its IT, contracting, civilian workforce, potentially duplicative IC offices, and general and flag officer billets. Gates also accepted the Marine Corps’ recommendation to cancel their expeditionary fighting vehicle (EFV) procurement program. The Marine Corps had originally conceived the EFV in the 1980s as a light, fast, and maneuverable operational vehicle to replace its existing 1970s-designed amphibious assault vehicle. Despite continual EFV schedule, cost, and reliability problems, the Marine Corps had resisted Gates’s reprioritization of the heavier MRAP, even after the latter had demonstrated its abilities against IEDs in Iraq and Afghanistan. Despite continued Marine Corps support, by 2010 the EFV had triggered critical Nunn-McCurdy breaches for both the original and current unified capabilities requirements baseline cost estimates, as well as acquisition program baseline schedule and unit cost breaches.

Many observers remained unconvinced that Gates’s latest efforts would quell congressional concerns. Gordon Adams, a former Clinton administration budget official, remarked in response to Gates’s January 6 announcement that the Secretary of Defense’s “finger in the dike didn’t work.” “Pressure from outside,” he added, “is [now] impinging on defense.”

Obama submitted the FY 2012 defense budget request, incorporating Gates’s proposals, on February 14, 2011. For the moment, splits within the Republican party obfuscated exactly what measures—if any—Congress would take to pressure the DoD to further reduce its budget. Newly appointed Speaker of the House Boehner and House Majority Leader Eric Cantor (R-VA), pressured by the Tea Party and other elements of the Republican electorate,
sought new defense cuts. But Howard McKeon (R-CA), a longtime defense spending proponent newly elevated to the chair of the H.A.S.C., sided with Gates and Mullen in resisting “cuts that stress our forces and jeopardize the lives of our men and women in uniform.”38

It had also become clear that Gates was considering retirement. In August 2010, Gates had expressed his wish to retire after the Obama administration completed its 2011 Afghanistan strategic review, but well before the spring of 2012 when the administration would be focusing much of its attention on the November presidential election.39 By January 2011, concerns were growing that the DoD would “lose its most forceful advocate” just when such advocacy was most likely needed.40


In the context of this highly uncertain fiscal and political climate, Mullen and the Joint Staff had been working throughout the winter of 2010–2011 to develop the 2011 NMS. As discussed in the previous chapter, the NMS and internal issuances provide “near-term” guidance, “joint operating concepts,” and risk assessments to the service and CCMD chiefs.41 It constitutes a major opportunity for the priorities and vision of the CJCS to be voiced. A full NMS had not been issued since 2004, well before the Bush administration had shifted its Iraq strategy.42 In September 2008, initial efforts to develop an NMS had stalled.43 The 2011 NMS therefore provided Mullen with an opportunity to fully lay out his strategic vision, even while acknowledging that “both our nation and military will face increased budget pressures and we cannot assume an increase in the defense budget.”44

The 2011 NMS, released on February 8, 2011, therefore represented a careful balance between increasingly austere fiscal and divisive political environments, the pressing need to complete the Iraqi withdrawal and succeed in Afghanistan, acknowledgment of both emerging conventional and asymmetric threats emanating from the Middle East, South Asia, and East Asia, and Mullen’s continued personal emphasis on a resource-sensitive “whole of nation”

40 Drew and Shanker, 2011.
44 Mullen, 2011d, p. 18.
approach to conflict resolution.\textsuperscript{45} In this sense, the 2011 NMS was foundational. It constituted a transitional document between the GWOT/CVE operations-focused 2008 QDR and 2010 QDR\textsuperscript{46} and the future conventional and nonconventional threat-focused 2012 DSG.\textsuperscript{47}

Notably, Mullen’s conceptualization of “deter and defeat aggression” now encapsulated a combination of maintaining “robust” conventional capabilities, whole-of-government and regional partner cooperation, and a strengthened focus on dominating the emerging space and cyberspace domains “to counter anti-access and area denial strategies.”\textsuperscript{48}

Mullen’s “deter and defeat aggression” objective represented three key trends, the latter two of which constituted a gradual evolution from Gates’s 2008 NDS and DoD’s 2010 QDR priorities. First, Mullen maintained his and Gates’s whole-of-government interagency approach. As discussed in the previous chapter, the CJCS had long argued that better allocation of funding to the most appropriate agencies with the best expertise in a given area was preferable. It resulted in greater success in CVE operations requiring nation-building and reconstruction efforts, enhanced efficiencies, and ultimately reduced costs. Second, compared to the language found in the 2010 QDR,\textsuperscript{49} Mullen’s more strident assertion of the U.S. military’s need to maintain a “robust conventional deterrent . . . to rapidly and globally project power in all domains” signaled a subtle evolution from Gates’s acceptance of increased conventional risk in the medium term. Third, his similarly strengthened prioritization of counter-A2/AD efforts hinted at a broader, gradual priority shift in thinking—away from contemporary


\textsuperscript{46} Meinhart, 2012, pp. 89–90.

\textsuperscript{47} See, for instance, John Roberti, The 2011 National Military Strategy: Briefing to the Precision Strike Association, Washington, D.C.: Office of the Chairman of the Joint Chiefs of Staff, February 23, 2011, p. 5. In this presentation, a distinction is made between the 2010 QDR’s fourth priority of “preserving and enhancing the All-Volunteer Force” and the 2011 NMS’s fourth priority to “shape the future force,” through “focus[ing] on our people,” and “improv[ing] our capabilities and readiness.” Enhanced language is employed between the 2010 QDR’s second priority to “prevent & deter conflict” and the 2011 NMS’s second priority to “maintain strategic deterrent capabilities,” “maintain a robust conventional deterrent,” and “counter anti-access and area denial strategies.”


CVE operations and toward future, near-peer, likely Indo-Pacific conflicts. Ultimately, these considerations would influence the 2012 DSG, which would stress a strategic rebalance of U.S. force posture toward the Indo-Pacific theater. There would be an increased focus on a smaller, more agile force supplemented with more advanced asymmetric, nontraditional technologies. It would also lead to the DoD’s abandonment of its two major theaters of war (MTW) construct, favoring instead a “defeat and deny” 1.5-MTW construct comprising one conventional or CVE defeat-and-rebuild operation and one A2/AD containment operation.50

From Gates’s immediate wartime priorities outlined in the 2008 NDS and the 2010 QDR, the 2011 NMS was thus influenced by new concerns and realities. The Obama administration sought a measured rebalance to South Asia and ultimately the Indo-Pacific.51 Iran continued to demonstrate an adversarial stance. Especially in the South and East China Seas, China showed a worrying resurgence. Finally, Gates’s self-publicized interest in retiring in 2011, combined with Mullen’s own upcoming retirement in September 2011, may have provided the CJCS with an opportunity to author a somewhat more forward-thinking NMS.

Mullen stressed the transitional nature of the 2011 NMS in his April Joint Forces Quarterly editorial. “While this strategy is informed by institutional lessons and constraints from nearly a decade of conflict, it also focused on areas of forward and innovative thinking.” The Joint Force, he argued, must “adapt full spectrum . . . capabilities and attributes to the emerging threat environment,” whether VEO or more conventional state adversaries.52

Ongoing Politics of Deficit Reduction: The Road to the Budget Control Act

The Debt Ceiling and Congressional Impasse over the Fiscal Year 2012 National Budget

As discussed earlier, Obama’s FY 2012 defense budget request, incorporating Gates’s $78 billion in additional cuts and efficiencies, did little to quell political debate over how to reduce the rising national deficit—or, indeed, whom to blame. The left generally argued that the


51 In this report, we seek to avoid using the term “pivot” to describe the Obama administration’s rebalancing of U.S. force structure and posture to the Indo-Pacific region, as it has been misunderstood to mean a U.S. withdrawal or loss of interest elsewhere. See, for instance, the explanation of Janine Davidson, who served as Deputy Assistant Secretary for Plans between 2009 and 2012, in Janine Davidson, “The U.S. ‘Pivot to Asia,'” American Journal of Chinese Studies, Vol. 21, 2014, p. 78.

Bush administration’s tax cuts, scheduled to expire at the end of 2012, were major causes. Also targeted were the Bush-era TARP I and II programs, designed to purchase and/or guarantee “troubled assets” and thereby help rescue large financial and manufacturing assets. The right generally blamed the Obama administration’s ARRA and ACA.

In the spring of 2011, at least two factors accelerated political debates over the national deficit. First, U.S. spending was rapidly reaching the existing $14.3 trillion debt ceiling limit passed by the Democratic-controlled Congress in February 2010 (P.L. 111-139). The Tea Party caucus and its supporters within the Republican-controlled House now sought to prohibit an additional debt ceiling increase without major spending reforms. Second, the DoD, as well as the government as a whole, continued to operate under restrictive continuing resolutions that severely hampered agencies’ abilities to plan. P.L. 111-322 expired on March 4, 2011, prompting a divided Congress to pass new continuing resolutions every one to two weeks through April 15, when P.L. 112-10 was passed providing restricted funding through September 30, 2011. For the DoD, this meant operating at a reduced $530 billion fiscal year budget owing to the delayed full year appropriations bill. P.L. 112-10 ultimately forced the DoD to “absorb” an additional $18 billion cut through the end of FY 2011.

On April 5, the Republican-controlled House proposed its own FY 2012 budget entitled “The Path to Prosperity.” In a compromise between prodefense Republicans and the small-government, deficit-minded Tea Party caucus, it sought to cut nondefense discretionary spending, reduce corporate tax by 25 percent, eliminate the alternative minimum tax, and reform mandatory programs to reduce $5.8 trillion in spending between FY 2012 and FY

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53 According to the CBO, “The law defines troubled assets as “(a) residential or commercial mortgages and any securities, obligations, or other instruments that are based on or related to such mortgages, that in each case was originated or issued on or before March 14, 2008, the purchase of which the Secretary [of the Treasury] determines promotes financial market stability; and (b) any other financial instrument that the Secretary, after consultation with the Chairman of the Board of Governors of the Federal Reserve System, determines the purchase of which is necessary to promote financial market stability, but only upon transmittal of such determination, in writing, to the appropriate committees of Congress.” See Congressional Budget Office, Report on the Troubled Asset Relief Program, Washington, D.C., October 2012, p. 1.

54 Kathy A. Ruffing and James A. Horney, Economic Downturn and Bush Policies Continue to Drive Large Projected Deficits, Washington, D.C.: Center on Budget and Policy Priorities, May 10, 2011. TARP I and II were scheduled to end in FY 2012.

55 See, for instance, Alex Brill, “A Sickening Deficit,” American Enterprise Institute, webpage, October 19, 2009.


57 Specifically, these continuing resolutions were P.L. 112-4 (March 2–March 18, 2011); P.L. 112-6 (March 18–April 8, 2011); and P.L. 112-8 (April 9–April 15, 2011). See Jessica Tollestrup, 2011, p. 16.

In response, President Obama announced on April 13 his intent to propose a new FY 2012 budget with $400 billion in defense cuts on future growth over twelve years. A new defense budget request was to be developed in consultation with the Secretary of Defense and the CJCS. On May 25, the Democratic-controlled Senate defeated the “Path to Prosperity” 40–57 and Obama’s original FY 2012 budget request 97–0 with the understanding that the President would introduce a new FY 2012 budget proposal. This effectively restarted the entire budget request and authorization cycle with only four months left before the FY 2012 budget was technically supposed to be approved.

Further complicating budgetary matters, the federal debt ceiling was again reached on May 16, 2011. In response, Treasury Secretary Timothy Geithner declared a “debt issuance suspension period.” With temporary “extraordinary measures,” the Treasury would pay for existing programs to prevent the government from exceeding the debt ceiling and defaulting, an event that could trigger economic turmoil as investors lost faith in the U.S. economy and the dollar. These extraordinary measures included “suspending sales of States and Local Government Series Treasury Securities”; “redeeming existing, and suspending new, investments of the Civil Service Retirement and Disability Fund and the Postal Service Retiree Health Benefits Fund”; “suspending reinvestment of the Government Securities Investment Fund”; and “suspending reinvestment of the Exchange Stabilization Fund.” Geithner added that the Treasury’s “borrowing authority” would “be exhausted” by August 2, 2011, unless Congress and the Obama administration reached a compromise. Failure to do so would force the Treasury to begin using its cash balances to pay for programs and potentially lead to a national default with international repercussions. If the United States defaulted on its national debt, Geithner warned in a May 13, 2011, letter to Senator Michael Bennet (D-CO) (and copied to Federal Reserve Chairman Ben Bernanke and OMB Director Jack Lew),

this would be an unprecedented event in American history. A default would inflict catastrophic, far-reaching damage on our Nation’s economy, significantly reducing growth and increasing unemployment.


65 “Treasury: U.S. Still Projected to Exhaust Borrowing Authority on August 2nd,” U.S. Department of the Treasury, webpage, June 1, 2011.
A default would call into question, for the first time, the full faith and credit of the U.S. government. As a result, investors in the United States and around the world would be less likely to lend us money in the future. And those investors who still choose to purchase Treasury securities would demand much higher interest rates, reflecting the increased risk we might default on our obligations again.

Default would not only increase borrowing costs for the Federal government, but also for families, businesses, and local governments—reducing investment and job creation throughout the economy. Treasury securities set the benchmark interest rate for a wide range of credit products, including mortgages, car loans, student loans, credit cards, business loans, and municipal bonds. Accordingly, an increase in Treasury rates would make it more costly for a family to buy a home, purchase a car, or send a child to college. It would make it more expensive for an entrepreneur to borrow money to start a new business or invest in new products or equipment.

Moreover, the fact that the United States would not have enough money to meet all of its obligations would have serious economic consequences. If the United States were forced to stop, limit, or delay payment on obligations to which the Nation has already committed—such as military salaries, Social Security and Medicare, tax refunds, contractual payments to businesses or for goods and services, and payments to our investors—there would be a massive and abrupt reduction in federal outlays and aggregate demand. This abrupt contraction would likely push us into a double dip recession.66

The debt ceiling debate roiled the U.S. stock and bonds markets, and Standard and Poor’s downgraded the U.S. credit rating for the first time in its history.67 Former Congressional Budget Director Rudolph Penner argued that a national default would cause a “crash” of the markets.68 Congress scrambled to find a compromise solution without success. On May 24, Representative Dave Camp (R-MI) introduced H.R. 1954, raising the debt ceiling to $16.7 trillion without any stipulations; the House defeated it on May 31.69 In its wake, on July 19 the House passed the Tea Party–influenced “Cut, Cap, and Balance Act of 2011” (H.R. 2560) adding a requirement that the debt ceiling would be raised to $16.7 trillion only if a proposed constitutional amendment requiring a balanced national budget was submitted to the states. The Senate quashed H.R. 2560 on July 22.70

66 Timothy F. Geithner to Michael Bennet, personal correspondence, May 13, 2011.
Gates’s and Mullen’s Efforts: Shifting to the Offensive

In the interim, lawmakers and policymakers alike were zeroing in on discretionary defense spending with some suggesting ten-year cuts of up to $800 billion.71 According to Gates, Obama provided him and Mullen only 24 hours’ notice before announcing his decision to develop a new FY 2012 budget on April 13. The Secretary of Defense recalled that he was “furious,” arguing to OMB Director Lew that any additional defense cuts would be “math, not strategy. It would have a big impact on the morale of our forces and send [the wrong] strategic message abroad.”72 On the afternoon of April 12, Obama reminded Gates that his voting base would require any cuts to come from defense as well as domestic mandatory and discretionary programs, “[not] dollar for dollar, [but] maybe one in ten.”73 The President’s message, nonetheless, was clear. The DoD would need to find yet more cuts.

Despite announcing his retirement in May (effective June 30),74 Gates tasked CAPE Director Fox75 with leading another DoD-wide comprehensive review with a goal of presenting its recommendations by the end of the summer. Gates organized the comprehensive review around four themes: additional efficiencies, which he defined as both overhead and noncritical future programs; “reducing or cutting capabilities for highly specialized but lower-priority programs where generic capabilities could be made to work”; eliminating niche capabilities such as counter-narcotic efforts and security-building in developing countries that were U.S. allies and partners; force structure changes; and reforming benefits and compensation.76

Meanwhile, Mullen had embarked on a farewell tour in which he tried to contextualize his widely cited observation that “the most significant threat to our national security is our debt.” He also took the opportunity to warn against cutting into the “muscle” of national defense, as some congressional members continued to call for doubling Obama’s proposed $400 billion cut over 12 years of defense budget growth to $800 billion.77 “I’ve been the one who has said this [the national debt] is our biggest threat to national security,” he told PBS’s Charlie Rose in a June 14, 2011, interview, “but we need to do this very, very carefully. And we’re not going to solve the national debt problem on the back of the Pentagon. We are but four percent of GDP. You can’t do it. There are other much bigger challenges out there for our country that have to be grabbed in order to solve [the debt] problem.”78 General Martin Dempsey, nominated by

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75 Cancian et al., 2017, p. 113.
77 Dao, 2011.
Obama on May 26 to succeed Mullen as Chairman, echoed these warnings. “National defense didn’t cause the debt crisis nor will it solve it,” he argued in July 26 congressional testimony, “Defense spending is not what is sinking this country into fiscal crisis, and if the Congress and the president act on that flawed assumption, they will create a situation that is truly unaffordable: the hollowing out of U.S. military power and the loss of faith of our military members.”

Those “much bigger challenges” Mullen had alluded to primarily concerned mandatory spending, including Medicare, Medicaid, Social Security, unemployment, and other benefits budgets. By 2011, mandatory spending had increased to over 60 percent of total annual federal spending, or nearly 25 percent of GDP. In contrast, in 2011 total discretionary spending accounted for just over 10 percent of GDP, and defense spending roughly half of that.

Mullen and Gates were aware, however, that Republican and Democrat efforts to execute major mandatory spending reforms, especially to entitlement programs, would be politically unpopular. They believed that Congress would instead pull the discretionary budget lever, especially that of defense, given the public’s war fatigue. Since 2005, Gallup polls had found that a steady 50–60 percent of Americans believed it was a mistake to invade Iraq. Interest in news about Iraq had fallen steadily since the war’s start as well. By the end of 2010, only 19 percent of Americans claimed they were very closely following the situation in Iraq, down from 46 percent at the start of the troop surge in 2007. In an August 10, 2010, Wall Street Journal interview, Gates admitted that “my greatest fear is that in economic tough times people will see the defense budget as the place to solve the nation’s deficit problems, the place to find money for other parts of the government.” The outgoing Secretary of Defense and CJCS hoped the DoD’s comprehensive review would be finished before Con-

79 Alexander and Stewart, 2011.


81 See Figure 1, “Federal Outlays by Category Since FY 1962 as a % of GDP” in D. Andrew Austin, Present Trends and the Evolution of Mandatory Spending, Washington, D.C.: Congressional Research Service, R44763, January 31, 2017, p. 3.


83 Gallup, “Polls on Iraq.” Gallup, undated.


gress and the administration took additional action. Unfortunately, their hopes would be left unfulfilled.\textsuperscript{86}

The 2011 Budget Control Act

Congress passed the BCA (P.L. 112-25) only hours before the Treasury’s August 2, 2011, debt issuance suspension period deadline. BCA required a roughly $1.2 trillion reduction primarily in discretionary spending between FY 2012 and FY 2021,\textsuperscript{87} in exchange for immediately increasing the national debt ceiling by $400 billion.\textsuperscript{88} Specifically, it would cut $450 billion from defense, $300 billion from nondefense (both discretionary), and only $140 billion from mandatory spending.

BCA Title I immediately restricted what it classified as “security category” FY 2012 funding to $684 billion total which included the discretionary appropriations of the “Department of Defense, the Department of Homeland Security, the Department of Veterans Affairs, the National Nuclear Security Administration, the intelligence community management account . . . and all budget accounts in budget function 150 (international affairs)”\textsuperscript{89}—of which the 050-defense function could expect a maximum of only $555 billion.\textsuperscript{90} In an effort to pressure Congress and the administration to negotiate a solution, BCA delayed future years’ budgetary restrictions until January 2, 2013, and established the Joint Select Committee on Deficit Reduction (JSCDR),\textsuperscript{91} also known as the “Super Committee,” to identify $1.5 trillion in discretionary and mandatory savings over the FY 2012–FY 2021 period. If JSCDR failed to reach consensus by December 9, 2011,\textsuperscript{92} BCA Title III would be triggered. BCA Title III would require an additional $1.2 trillion in primarily discretionary budget sequestered

\textsuperscript{86} See Jacob J. Lew and Leon E. Panetta, “Letter Regarding the Budget Control Act (BCA) and the Effects It Will Have on the Budget of the Department of Defense (DoD),” to Howard P. “Buck” McKeon, Washington, D.C., September 15, 2011.


\textsuperscript{89} See Sec. 102((1)(B), 125 Stat. 246 in P.L. 112-25.


\textsuperscript{91} JSCDR included Representative Jeb Hensarling (R-TX), co-chair; Senator Patty Murray (D-WA), co-chair; Senator Max Baucus (D-MT); Representative Xavier Becerra (D-CA); Representative Dave Camp (R-MI); Representative James Clyburn (D-SC); Senator John Kerry (D-MA); Senator John Kyl (R-AZ); Senator Rob Portman (R-OH); Senator Pat Toomey (R-PA); Representative Fred Upton (R-MI); and Representative Chris Van Hollen (D-MD). See House Budget Committee, “The Joint Select Committee on Deficit Reduction,” webpage, undated.

\textsuperscript{92} See Sec. 401, 125 Stats. 259-266 in P.L. 112-25.
cuts over a ten-year fiscal period from FY 2013—an ultimate total of roughly $2.4 trillion—by employing a budget cap enforcement mechanism known as sequestration.93

Sequestration, a budget authority enforcement mechanism created in the 1985 Balanced Budget and Emergency Deficit Control Act (commonly known as the “Gramm-Rudman-Hollings Deficit Reduction Plan”),94 imposes “automatic,”95 “uniform”96 line-by-line cuts to enforce congressionally mandated caps across all impacted discretionary and, where applicable, mandatory budget programs.97 Ironically, Panetta, Gates’s successor as Secretary of Defense, had fought against sequestration’s creation in 1985 when he was House Budget Committee Chairman.98

BCA Title III sequestration-enforced caps were particularly dangerous for the DoD in at least three respects. First, if JSCDR failed to identify $1.5 trillion in savings, BCA Title III would trigger sequestration-enforced caps on both “revised security” [emphasis ours] and “nonsecurity” categories, where the “revised security category” was redefined solely as the 050-defense function. This meant that half of all discretionary sequestration would hit the 050-defense function (historically the DoD budget accounts for about 95 percent of the 050-defense function).99 Second, the baseline defense budget uniform cuts could be recalculated to exempt military personnel (MILPERS) (an option Obama ultimately invoked), thereby increasing the cut percentage to all other nonexempt DoD accounts. And third, sequestration would impose caps only on nonexempt mandatory spending—thus, not on such extremely expensive but popular programs as “Social Security, Medicaid, Children’s Health Insurance Program, Temporary Assistance for Needy Families, and Supplemental Nutritional Assistance Program.” In addition, Medicare’s sequester would be limited to only 2 percent annually.100 The OCO funding did not count toward the BCA Title I cap but would be subject to sequestration cuts if BCA Title III was triggered, except where Congress explicitly designated “emergency requirements” or “Overseas Contingency Operations/Global War on Terrorism in statute on

93 McGarry, 2019, p. 4. BCA Title II provided for a vote on a balanced budget amendment. See 125 Stat. 240 in P.L. 112-25.
94 For an early examination of the sequestration mechanism’s potential defense impact, see Glenn A. Gotz, Notes on the Gramm-Rudman-Hollings Deficit Reduction Plan, Santa Monica, Calif.: RAND Corporation, N-2426-FMP/RA, 1986.
95 McGarry, 2019, p. 1.
100 McGarry, 2019, p. 3. These exemptions, according to the Congressional Research Service, date back to P.L. 99-177.
an account by account basis and the President subsequently so designates.”101 Sequestration-enforced BCA Title III caps would apply to both current and previous year unobligated funds.

In sum, the DoD’s non-MILPERS budget would be disproportionally hit by sequestration if JSCDR (by December 9, 2011) or Congress and the administration subsequently failed to find $1.5 trillion in discretionary and mandatory spending savings (by January 2, 2013). In a September 13, 2011, JSCDR hearing, CBO Director Douglas Elmendorf warned that “cuts in defense and nondefense spending of that magnitude would probably lead to reductions in the number of military and civilian employees and in the scale and scope of Federal programs.”102

“Inshallah”: A New Department of Defense Team Faces a Daunting Task

In September, JSCDR began its negotiations on $1.5 trillion in discretionary and mandatory spending savings in order to avoid BCA Title III’s even harsher sequestration-enforced cuts. Two days after Elmendorf’s warning against excessive discretionary cuts, Secretary of Defense Panetta notified McKeon that, given the BCA, he now expected to complete the comprehensive review by late in the fall of 2011. By this point, Panetta had decided that given the budget’s immense uncertainties, the comprehensive review would become more strategic in nature.103 Instead of the efficiencies review Gates had initially intended, the comprehensive review would inform a QDR-like 2012 DSG. In turn, this would instruct how the DoD would propose approximately $450 billion in reductions over ten fiscal years from FY 2013.104 In the interim, the DoD would again review its immediate FY 2012 budget request.105

Critically, Panetta informed McKeon that since only BCA Title I currently applied, the President and OMB had advised the Secretary of Defense not to begin planning for operations under BCA Title III sequestration-enforced caps, but only for the roughly $450 billion in cuts proposed in BCA Title I. “Planning beyond the $450 billion in cuts would not be appropriate at this time,” Panetta wrote, paraphrasing Obama, “especially while the [JSCDR’s] work, just underway, is focused on developing a credible proposal that meets the requirements of the BCA and that the President can sign.”106 Implicitly detailing Elmendorf’s warning, Panetta cautioned McKeon that if BCA Title III was permitted to enter into effect, the DoD could have to absorb up to a 25 percent reduction compared to Obama’s originally projected FY 2013


103 Cancian et al., 2017, p. 116.


105 Lew and Panetta, 2011.

106 Lew and Panetta, 2011.
defense budget, especially if the President invoked his BCA-mandated authority to exempt MILPERS accounts. The immediate results could be severe: The “DoD would almost certainly be forced to furlough large numbers of its civilian workers. Training would have to be curtailed, the force reduced, and purchases of weapons would have to be cut dramatically.”

Meanwhile, Mullen continued pressing the DoD’s budget case to the public as his own retirement loomed. The proposed $450 billion cuts, the CJCS informed the Business Executives for National Security conference on September 22, “Only represents a little over 9 percent a year from our baseline.” While this was “achievable,” he cautioned that identifying such cuts within the DoD would be harder than in the large private corporations the conference attendees represented. The DoD possessed “large capital expenditures, huge, fixed costs, and aging infrastructure such as bases, ships, and aircraft” vital for national security. Any deeper cuts, he warned, would cut into the DoD’s “muscle”—its people and their benefits—potentially putting the nation’s security at risk. Echoing his successor’s remarks, the DoD, he argued, “should not be the billpayer for everyone else.”

Mullen retired as CJCS on September 30, 2011. In his farewell ceremony, he reminded his audience and successor that Afghanistan, Iran, North Korea, and China posed strategic challenges for the United States even as the DoD simultaneously battled potentially severe budget reductions. “Cuts in defense spending are fair game and we should do our part,” Mullen argued. “But cut too deeply and we will burn the very blanket of protection we’ve been charged to provide our fellow citizens. Cut too deeply now and we will harm, perhaps irreparably, the industrial base from which we procure the materials of war” to face the nation’s biggest strategic challenges. In an NPR interview, Mullen assured listeners that his successor perhaps uniquely understood the budgetary and strategic challenges that lay before him. Dempsey would be “the first [CJCS] since 2001 to fight in the wars he is now tasked with ending.”

Dempsey acknowledged the impending budget battle in his swearing-in ceremony as the new Chairman. “We are at another inflection point” that would require “a re-examination of the roles, missions, [and] core competencies of the joint force. . . . With each inflection point, there is a complication. The complication this time is our economic stature as a nation.” Asked by a reporter to comment on the adage “When the money is gone, you have to think smarter,” he simply replied, “Inshallah”—“God willing.”

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107 Lew and Panetta, 2011.
The Joint Select Committee on Defense Reduction Fails to Agree on Cuts

As Panetta and Dempsey continued the DoD’s comprehensive review, JSCDR continued to argue over how to cut $1.5 trillion in discretionary and mandatory spending over the 2012–2021 fiscal years. On November 21, JSCDR cochairs Jeb Hensarling (R-TX) and Senator Patty Murray (D-WA) admitted failure: “After months of hard work and intense deliberations, we have come to the conclusion today that it will not be possible to make any bipartisan agreement available to the public before the committee’s deadline.”

Unless Congress and the administration found a solution, BCA Title III and its sequestration-enforced “across-the-board” primarily discretionary budget caps would now enter effect on January 2, 2013.

JSCDR’s failure resulted primarily from partisan disagreements concerning mandatory and discretionary medical spending reductions, especially in Medicare, Medicaid, and ACA, not defense. Yet, per BCA Title III, the invoked discretionary “revised security category”—the 050-defense function—was now targeted for a disproportionate amount of sequestration-enforced additional budget caps over the next decade.

A December 2011 CSIS analysis, while downplaying Secretary of Defense Panetta’s September comments that BCA would be “catastrophic,” nonetheless stressed that JSCDR’s failure only created additional uncertainties.

On December 31, 2011, Obama signed the FY 2012 NDAA, 13 days after the last U.S. combat forces withdrew from Iraq. Accounting for the BCA Title I FY 2012 caps, it authorized a $530.6 billion base budget, only $2.4 billion higher than the FY 2011 actual base budget, as well as a $115.1 billion OCO budget, $43.7 billion less than the FY 2011 actual OCO budget. It also required the DoD to “commission an independent assessment of U.S. strategy and force posture in the Asia-Pacific,” an assessment CSIS submitted in September 2012. As the FY 2012 NDAA went to press, however, Obama, Panetta, and Dempsey were

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119 Zack Cooper, John Schaus, Ernest Bower, Victor Cha, Heather Conley, Ryan Crotty, Melissa Dalton, Bonnie Glaser, Rebecca Hersman, Murray Hiebert, Christopher Johnson, Thomas Karako, Stephanie Sanok
leading the DoD’s own rapid strategic assessment—the 2012 DSG and its associated Defense Budget Priorities and Choices (DBPC) and Chairman’s Strategic Direction for the Joint Force (CSDJF) documents.

Defense Strategic Guidance and Proposed Rebalance to Asia-Pacific in an Age of Fiscal Austerity

The 2012 Defense Strategic Guidance, Defense Budget Priorities and Choices, and Chairman’s Strategic Direction for the Joint Force

As discussed earlier, by September 2011 Secretary of Defense Panetta had decided to revamp Gates’s original efficiencies review into a QDR-like strategy document, given both the evolving national security environment and the increased fiscal uncertainties BCA had created. The DSG would inform Obama’s announced rebalance to the Indo-Pacific. Via the DBPC, it would also influence how the positioning and funding of U.S. force posture and structure would be reshaped to support this rebalance within the uncertain and austere financial environment.

Panetta and CJCS Dempsey generally maintained Gates’s and Mullen’s “small group” approach to crafting key strategy and budget documents. Panetta and Dempsey appointed new Deputy Secretary of Defense Carter and VCJCS James “Sandy” Winnefeld to lead what they termed the “Strategic Choices Group.” Kathleen Hicks, Deputy Under Secretary of Defense for Strategy, Plans, and Force Development (DUSD[SPF]), and Lieutenant General Robert Schmidle Jr., Joint Staff advisor and former first Deputy Commander of CYBERCOM, were directed to oversee daily Strategic Choices Group management. Both were 2010 QDR alumni, as was Flournoy, now OSD(P) Under Secretary. Obama, National Security Advisor Tom Donilon, National Security Council Senior Director for Defense Christine Wormuth,

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120 RAND interview, JS011321.


122 Cancian et al., 2017, p. 114.


124 Cancian et al., 2017, p. 114.

125 Cancian et al., 2017, p. 114; Cohen, 2018a, p. 36.

Deputy National Security Advisor Denis McDonough, former OMB Director (and now White House Chief of Staff) Lew, and new OMB Director Jeffrey Zients were also deeply involved. They would ensure difficult strategic and budgetary choices were made—especially to meet the BCA Track I estimated $450 billion cut requirement—as efficiently and transparently as possible.\textsuperscript{127} CCMD chiefs informed the DSG and DBPC process as needed, but independent assessments and former senior defense officials interviewed for this report generally agreed that this was primarily a top-down effort.\textsuperscript{128} Given the White House’s deep involvement, ongoing BCA-driven congressional turmoil, and the upcoming FY 2013 defense budget request, the Strategic Choices Group swiftly executed first the 2012 DSG and then the DBPC between November 2011 and January 2012.\textsuperscript{129}

On January 5, 2012, Obama personally introduced the DSG, demonstrating its importance to White House thinking.\textsuperscript{130} “Now we’re turning the page on a decade of war . . . [and] we will be strengthening our presence in the Asia Pacific” he informed reporters. “At the same time, we have to renew our economic strength at home, which is the foundation of our strength around the world.”\textsuperscript{131}

The DSG broadly laid out the strategic rebalancing that the DBPC would explicate in greater detail a few weeks later (Table 3.1). While maintaining its traditional global presence, U.S. military force posture would continue its “rebalance toward the Asia-Pacific region.”\textsuperscript{132} In the Middle East, the DoD would more narrowly focus its efforts on “emphasiz[ing] Gulf security” through stabilization support, limited CVE activities, and enhancing cooperation with regional allies and partners.\textsuperscript{133} The DoD would also rebalance force structure to “fully deny a capable state’s aggressive objectives” in one MTW, including territorial acquisition and reconstruction, while simultaneously successfully “denying the objectives of,” “imposing unacceptable costs on,” and countering the A2/AD capabilities of an “opportunistic aggressor” in a second MTW.\textsuperscript{134} To accomplish this goal, the DoD would downsize its force structure and evolve away from “conduct[ing] large-scale, prolonged security operations”\textsuperscript{135} to “innovative, low-cost, and small footprint approaches to achieve our security objectives,” including enhanced development and use of asymmetric cyber, space, and unmanned sys-

\textsuperscript{127} Cancian et al., 2017, p. 114; Cohen, 2018a, pp. 36–37.
\textsuperscript{128} Cancian et al., 2017, p. 114; Cohen, 2018a, pp. 36–37.
\textsuperscript{129} Cancian et al., 2017, p. 114; Cohen, 2018a, pp. 36–37.
\textsuperscript{130} Cohen, 2018a, p. 37.
\textsuperscript{132} DoD, 2012b, p. 2.
\textsuperscript{133} DoD, 2012b, p. 2.
\textsuperscript{134} DoD, 2012b, p. 4.
\textsuperscript{135} DoD, 2012b, p. 6.
The DBPC warned, however, that it would not cut into readiness, a difficult goal if BCA Title III was permitted to enter into effect.

On January 26, the DoD released its DBPC detailing how U.S. military posture and structure would evolve to meet the DSG’s goals within the austere fiscal environment. The DBPC articulated that the $487 billion reduction over the next decade would be “hard, but manageable.” Specifically, the total DoD budget (baseline and OCO) would decline by 22 percent after inflation between FY 2013 and FY 2021, roughly the same percentage as in the seven years following the end of the Vietnam and Cold Wars, respectively.137

The DBPC announced a further $60 billion in cuts, acknowledging the $150 billion already identified through Gates’s prior efficiencies initiatives.138 It maintained or increased investment in counter A2/AD capabilities such as C4ISR, a new strategic bomber, Virginia-class SSN increased cruise missile capabilities, a new submarine-based “conventional prompt strike option,” upgraded ship and aircraft radar, and “improved air-to-air” capabilities.139 It would also maintain SOF funding and increase their size.

136 DoD, 2012b, pp. 3–4. The DBPC would more fully explain the Strategic Choices Group’s reasoning behind this technological push. They argued that, unlike the previous period of significant defense budget growth in the 1980s, post-9/11 growth had focused on GWOT/CVE warfighting, not R&D or modernization. The United States, they argued, needed to fill “significant gaps” that had emerged. See DoD, Defense Budget Priorities and Choices, Washington, D.C., January 2012a, p. 2.

137 DoD, 2012a, p. 2.

138 DoD, 2012a, p. 3.

139 DoD, 2012a, p. 5.
To pay for this rebalance, the DoD would retire seven cruisers, defer large deck amphibious ship and Virginia-class SSN procurement for a year, reduce LCS and joint high speed vessels procurement for five years, and retire several smaller amphibious ships.\textsuperscript{140} It would reduce the current 60 Air Force squadrons to 54, eliminate a training squadron, retire or reduce such “niche capability” aircraft as the A-10 Warthog, and retire 27 C-5A, 65 C-130, and 38 C-27 airlift aircraft.\textsuperscript{141} DBPC slowed F-35 procurement and largely canceled the Joint Land Attack Cruise Missile Defense Elevated Netted Sensor System, an already expensive experimental program that had experienced a critical Nunn-McCurdy breach when BCA Title I passed into law.\textsuperscript{142} The Army end strength would be reduced from 570,000 to 490,000, and Marine Corps end strength would downsize from 202,000 to 182,000.\textsuperscript{143} While maintaining FY 2013 and FY 2014 planned MILPERS pay raises, DBPC increased TRICARE enrollment fees and co-pays.\textsuperscript{144}

On February 6, 2012, Dempsey issued his 2012–2013 strategic guidance and risk assessment, the CSDJF. The CSDJF accomplished at least two goals. First, it demonstrated the Chairman’s blessing for the DSG and DBPC. Second, it built on both documents’ discussion of “Joint Force 2020” in specifically joint terms—a smaller and more agile, focused, and integrated joint force able to defeat a variety of multidomain threats from nonstate and state actors.\textsuperscript{145} Previously “specialized capabilities [such as C4ISR], once on the margins, will move to the forefront.”\textsuperscript{146} The Joint Staff would also reconsider how it measured and responded to risks, given current and presumed near-future fiscal austerity.\textsuperscript{147}

Together, the DSG, DBPC, and CSDJF informed Obama’s FY 2013 defense budget request, submitted on February 13, 2012.\textsuperscript{148} It requested $613.9 billion total, a $31.8 billion reduction from the FY 2012 enacted base. This included a $525.4 billion base, $5.2 billion down from

\textsuperscript{140} DoD, 2012a, p. 6.
\textsuperscript{141} DoD, 2012a, pp. 6, 8.
\textsuperscript{144} DoD, 2012a, p. 15.
\textsuperscript{145} Martin E. Dempsey, Chairman’s Strategic Direction for the Joint Force, Washington, D.C.: Office of the Chairman of the Joint Chiefs of Staff, February 6, 2012a, p. 5.
\textsuperscript{146} Dempsey, 2012a, pp. 5-6.
\textsuperscript{147} Dempsey, 2012a, p. 6.
the FY 2012 enacted base and, more notably, an $88.5 billion OCO budget, $26.6 billion down from the FY 2012 enacted OCOs.\(^{149}\)

**The Department of Defense’s Analytic Agenda Begins to Unravel**

Unknown to many observers at the time was that the DoD’s internal SSA capabilities, then known as the “Analytic Agenda,” had begun to atrophy. This gradually hampered the Pentagon’s ability to jointly plan for current and future force structure, programming, and prioritization. According to a former senior defense official interviewed in a 2018 RAND defense planning report, “For the 2012 [DSG and DBPC], things had begun to change. There was this erosion of the [A]nalytic [A]genda and there was not a strong sense of community on these issues. You started to have divergent data sources.”\(^{150}\)

As discussed in the previous chapter, in 2002 then–Deputy Secretary of Defense Wolfowitz had established the Analytic Agenda to promote closer, more efficient, and transparent strategic analytical cooperation between OSD(P), the Joint Staff, PA&E (later CAPE), and the services. Its primary purpose was to develop rigorous common analytical baselines—including scenarios, CONOPS, and integrated data—to be employed across departments and services to more accurately “generate, collect, develop, and disseminate data on current and future U.S. and non-U.S. Forces in support of [DoD’s] strategic analyses.”\(^{151}\) The “Tri-Chairs” of OSD(P), the Joint Staff, and PA&E (later CAPE) comanaged the Analytic Agenda. The IC and CCMDs were to provide advice and support as necessary.

The Analytic Agenda fitfully developed during the 2000s. It was insufficiently mature to substantively inform the 2006 QDR, owing to a combination of still-under-development common analytic baselines, limited abilities to incorporate risk and uncertainty, and poor interoffice communication. By 2009, however, Gates and Mullen deemed the Analytic Agenda sufficiently mature and robust to integrate into the heart of the 2010 QDR’s development. Gates attempted to introduce an improved degree of uncertainty analysis. He directed ONA and JFCOM (the so-called Red Team) to develop alternative scenarios. The QDR 2010 leadership subsequently integrated them into ISCs to establish combined complex scenarios.

Despite these efforts, the 2010 QDR ultimately came to represent the height of the Analytic Agenda’s interoperability and effectiveness. CAPE’s Director Fox later admitted that she “did not have much confidence in the campaign analyses that ha[d] traditionally been used as a common framework for assessing the capabilities of current and planned forces to prevail in various warfighting scenarios.”\(^{152}\) Some observers participating in the 2010 QDR

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150 Larson et al., 2018, p. 217.


152 Larson et al., 2018, p. 213.
development process admitted that planners had continued to excessively rely on “status quo” CONOPS and that the Analytic Agenda’s painstakingly constructed scenarios prevented adequate uncertainty and risk analysis.\textsuperscript{153}

In 2011, CAPE decided to limit its future involvement in the Analytic Agenda. It stopped developing the critical common analytic baselines—also known as detailed views—that the Joint Staff and OSD(P) required to develop the most relevant and up-to-date scenarios, as well as disestablishing its internal campaign modeling and analysis group.\textsuperscript{154} Some former senior defense officials interviewed for a 2016 RAND joint analytical capabilities report argued that CAPE’s decision had resulted from higher-level criticisms over its excessive emphasis on campaign-level, not mission-level, modeling, “where many problems reside[d].”\textsuperscript{155} As discussed earlier, CAPE Director Fox admitted that she had been concerned over the Analytic Agenda’s structural inability to account for risk and uncertainty. CAPE officials interviewed in 2016 also argued that the time-consuming analytic baseline development process—sometimes taking up to two years to obtain Tri-Chair consensus\textsuperscript{156}—inhibited CAPE’s congressionally mandated mission “to provide independent analysis” to the Secretary of Defense, the CJCS, and other senior defense officials.\textsuperscript{157} Some 2016 interviewees, especially those within OSD, expressed apprehensions. CAPE’s loss in all but name damaged the DoD’s abilities to support its “strategic planning,” defined by RAND in its 2016 report as “assessing the executability of force-sizing strategy.”\textsuperscript{158} These were the very concerns RAND, Brookings, and others voiced in the wake of the 2012 DSG and its associated documents.

The Analytic Agenda—officially renamed SSA, but still commonly referred to as the “Analytic Agenda” for some years thereafter—survived beyond CAPE’s 2011 decision. Department of Defense Directive (DoDD) 8260.05 (July 7, 2011) reoriented SSA around CCMD plans instead of campaign-level modeling (although the latter continued to exist) and nominally retained CAPE as executive secretary of the SSA oversight committee (Tri-Chairs).\textsuperscript{159} The damage, nevertheless, had been done. Several former senior defense officials interviewed for this report argued that the services did not possess adequate analytical capabilities or institutional incentives to support SSA as envisioned.\textsuperscript{160} Instead, they would simply “ask for more and better stuff” based on their own “identity metrics.”\textsuperscript{161} Another former senior

\begin{footnotesize}
\textsuperscript{153} Davis, 2016, pp. 3–5; and RAND interview, JS011321.

\textsuperscript{154} Davis, 2016, pp. 1–2.

\textsuperscript{155} Davis, 2016, p. 18.

\textsuperscript{156} GAO, 2019, p. 15.

\textsuperscript{157} Davis, 2016, p. 2.

\textsuperscript{158} Davis, 2016, p. x.


\textsuperscript{160} RAND interview, JS011321; and RAND interview, JS121220.

\textsuperscript{161} RAND interview, JS011321.
\end{footnotesize}
defense official added that there were increasing “swim lane issue[s]” from 2011 onward: “lots of cross over and bickering over timelines, warning times . . . how much the force can do.”

The 2013 sequestration-driven Strategic Choices and Management Review (SCMR) would demonstrate just how much the Analytic Agenda had atrophied.

“A Year of Living Dangerously”: Defense Planning in the Shadow of the Budget Control Act

President Obama, Secretary of Defense Panetta, and CJCS Dempsey explicitly planned the 2012 DSG, DBPC, and CSDJF to conform to BCA Title I’s roughly $450 billion proposed cut over ten years. They had not planned these for the looming threat of BCA Title III’s additional nearly $450 billion sequestration cut that would enter enforcement on January 2, 2013, unless the administration and Congress negotiated a resolution. This instruction not to plan for sequestration would ultimately last until the beginning of December 2012. While criticizing sequestration as an “irresponsible way to reduce defense spending,” CNAS’s Sharp admonished the DSG-informed FY 2013 defense budget request for only, in effect, “mak[ing] the down payment on the [full] defense budget cuts that may eventually be imposed through sequestration.” In so doing, one former senior defense official interviewed for this report concluded that 2012 became the “year of living dangerously,” as planning for multiple uncertain strategic and fiscal futures advanced while an existing war continued. Officially, at least, the DoD was not permitted to plan for an even harsher fiscal possibility that loomed in the very near future.

Using the 2012 DSG and its associated documents, senior defense officials continued to plan for BCA Title I–level ten–fiscal year cuts and the rebalance to the Asia-Pacific. They did so despite the looming threat of sequestration and the Arab Spring, which by late February 2012 had spread to Syria, instigating a violent crackdown from the long-established Al-Assad regime. In a February 19, 2012, CNN interview, for instance, Dempsey made it clear that the United States had little intention of intervening militarily in Syria. Instead, he argued, the United States was seeking to gain “international consensus” on the proper path forward, especially with regional allies and partners.

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162 RAND interview, JS121220.
163 RAND interview, JS121220.
166 RAND interview, SD010821.
Within the Joint Staff, Dempsey and Winnefeld developed matrices to identify how well the “ends” and “means” of each service or joint program, operation, or base supported the six strategic priority “ways” outlined in the 2010 QDR.168

1. “Defend the United States and support civil authorities at home.”
2. “Conduct counterinsurgency, stability, and counterterrorist operations.”
3. “Build the capacity of partner states.”
4. “Deter and defeat aggression in anti-access environments.”
5. “Prevent proliferation and counter weapons of mass destruction.”
6. “Operate efficiently in cyberspace.”169

A former senior defense official interviewed for this report recalled the Joint Staff’s matrix approach. “Those with dark squares were those that intersected strongly, those [with] light [squares] did not [intersect] so much.”170 Dempsey and Winnefeld determined to continue or increase investments in those areas where a high correlation existed and accept increased risk and reduce or eliminate investments in others.171 The Joint Staff’s leadership concluded that they “were buying a lot of stuff [they] did not need,” motivated by “service entrenchment,” outdated priorities, or both. They also identified that the DoD was spending a large sum on the 2010 QDR’s third priority, “build[ing] the capacity of partner states,” primarily in support of CVE operations. They recognized that such a cut would disproportionately fall on the Army and Marine Corps.172

Dempsey later explained that this approach was intended to provide a modicum of budgetary and planning certainty and rigor that Congress could not provide. After his September 2015 retirement, the former CJCS told Foreign Affairs, “In 2012 . . . When we’re told, ‘You have to find $750 billion to cut,’ and we say, ‘OK we can do that; we have 25 percent excess infrastructure, and we’ve got six or seven weapons systems that are aging and largely redundant.”173 Those decisions likely resulted from the Joint Staff’s matrix-based analysis. “[But] the Congress shouldn’t turn around and say, ‘Not in my district,’ or ‘Not my weapons system.’ And we need certainty.”174

168 RAND interview, JS011321.
170 RAND interview, JS011321.
171 RAND interview, JS011321.
172 RAND interview, JS011321.
173 Given the 2012 contextualization of Dempsey’s response, the CJCS’s “$750 billion” estimate was likely an amalgamation of the BCA Title I and Title III cuts, which ultimately totaled just under $1 trillion for the DoD over a ten-year period.
The Joint Staff deliberately undertook this analytical assessment outside the Analytic Agenda. The same former senior defense official interviewed argued that they decided to do so because the CJCS and VCJCS came to believe by 2011 that the “hog wo[uld]n’t butcher itself.” The [Analytic] [A]genda [was] about preserving the status quo. They [would not] take a new look at the problem.” In deliberately keeping CAPE and OSD(P) out of their analytical process, the CJCS and VCJCS arguably only reinforced the Analytic Agenda’s gradual decline.

In July, Dempsey laid out how he and the Joint Staff were beginning to implement the strategies outlined in the DSG and its associated documents. Implicitly recalling his internal analyses with Winnefeld and the Joint Staff, Dempsey defined strategy in the DSG’s context as “essentially about choices—choices about how to achieve our aims with the resources available to us. A sound strategy reconciles ends, ways, and means.” To understand how to make the new strategy work, he and VCJCS Winnefeld held three conferences with the services chiefs and CCMD commanders earlier in the year to test the rebalance in a variety of scenarios. While not disclosing the results of those tabletop exercises, Dempsey concluded that they demonstrated a “security paradox”: the general decline of GWOT-related issues offset both by the rapidly growing abilities of state and nonstate actors to obtain and/or develop at least some A2/AD capabilities and the United States’ continued austere fiscal realities. To respond to this security paradox, Dempsey directed both sustaining C4ISR capabilities and “exploring new ways to organize and employ” them, while continuing the rebalance toward Asia-Pacific with such specific measures as reintroducing the Marine Corps to Australia. In April, the first 200 of an eventual 2,500 arrived in Darwin under a bilateral U.S.-Australian agreement to establish a permanent Marine Air-Ground Task Force (MAGTF) to visibly enhance allied cooperation and deter regional threats.

Privately, Dempsey was worried that sequestration would indeed occur. He was evidently not assuaged by Panetta’s repeated advice not to plan, confident that a political solution would be found. Nor was he mollified by Carter’s official September 25, 2012, issuance, informed by OMB’s guidance, not to plan for sequestration and “to continue spending at normal levels.” As the political impasse over BCA Title III’s impending implementation continued into the fall, Dempsey made a “friendly wager” with Hale, as the former comptroller later described it. While Hale bet that Obama, Panetta, and Congress would negotiate a solution to avert

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175 RAND interview, JS011321.


177 Dempsey, 2012b, p. 2.


sequestration, Dempsey, predicted that sequestration would occur. Hale “delivered a bottle of good scotch” to Dempsey after sequestration belatedly entered force on March 1, 2013.

In practice, some DoD offices were undertaking what Hale described as informal “limited advance planning.” His Office of the Comptroller revisited both the BCA and the 1985 Balanced Budget and Emergency Deficit Control Act to better understand their implications and to “think through how the Department would accommodate sequestration if it occurred.” It is unknown to what extent, if any, the Joint Staff undertook informal sequestration planning before December 2012. Dempsey’s bet with Hale, however, suggests that the CJCS, at least, was considering its implications.

For its part, OSD asked RAND to undertake a study using the 2012 DSG and its associated documents as a starting point to examine how the DoD might undertake additional reductions beyond the BCA Title I–driven $487 billion cut from a strategy-driven perspective. The report, delivered before the end of the year, identified three strategy-driven reduction paths the DoD could take to further reduce its budget by an estimated $300–$500 billion. Two out of the three scenarios involved cutting Army and Marine Corps end strengths to minimize Air Force and Navy reductions. The study also estimated potentially “rein[ing] in [personnel] benefits,” which RAND acknowledged “have typically been rejected by Congress” owing to its political unpopularity.

In sum, the 2012 Joint Staff internal and OSD-commissioned RAND studies independently concluded that any further strategy-driven budget cuts beyond the $487 billion that could meet the 2012 DSG’s rebalance toward the Asia-Pacific would require further Army and Marine Corps reductions in order to largely maintain Air Force and Navy force structure. A former senior defense official interviewed for this report conceded that having borne the brunt of a decade of GWOT/CVE operations, the Army and Marine Corps would not be pleased with having to take additional manpower cuts beyond those already imposed by the BCA Title I–driven DSG and associated documents.

As Dempsey and the Joint Staff sought to match the DSG’s strategy with resources and priorities, Carter and Kendall executed a review of BBP 1.0 efficiencies initiatives. On November 13, 2012, they announced BBP 2.0, “continuing the pursuit for greater efficiency and productivity in defense spending.” BBP 2.0 would be implemented in a three-stage approach: first, a two-month review with BBP 1.0 DoD and defense industrial base stake-

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180 Hale, 2015, p. 4.
181 Hale, 2015, pp. 1, 4.
182 Hale, 2015, p. 4. According to a former senior defense official, CAPE and the Joint Staff’s J-8 Directorate were involved in the Comptroller’s Office informal planning, but the Joint Staff writ large was “brought in later after planning had to start.” RAND interview, SD010721.
183 Johnson et al., 2012, pp. ix–x, 39–43.
184 RAND interview, JS011321.
holders; second, more detailed guidance issued in early 2013; and third, implementation of BBP 2.0 to improve and expand on BBP 1.0. Owing to continued political uncertainties concerning BCA and BCA Title III sequestration entering enforcement on March 1, 2013, Carter and Kendall would not issue specific BBP 2.0 implementation guidance until April 23. Its core tenets, however, would remain the same.

“"I'm Not Houdini": Sequestration Becomes a Reality amid Broader Budgetary Challenges

Debates over looming sequestration and its potential impact on defense continued with little headway in November 2012. Divided public opinion reflected the congressional impasse. Supporters of sequestration-enforced defense cuts cited the SDTF’s 2010 report that argued that the DoD could absorb a $1 trillion cut over ten fiscal years by eliminating such procurement programs as the F-35, reducing the U.S. nuclear arsenal, and cutting force structure. Others posited that it would go some way, along with tax increases, to actually achieving a balanced budget over the long term. Detractors argued that sequestration would harm already-strained readiness, damage scientific R&D, and cause both civilian furloughs and a wave of defense–industrial base layoffs.

Congressional negotiations were hampered, in part, because BCA and sequestration constituted only part of a larger “fiscal cliff” that would occur on January 2, 2013. Besides BCA Title III sequestration, this precipice included the expiration of the Bush administration’s tax cuts, the “expiration of the Alternative Minimum Tax patch” and “temporary payroll tax reduction”; the “lapse of extended unemployment benefits”; and “reductions in payments to physicians under Medicare.” Adding additional uncertainty, on October 31 the Treasury announced that the U.S. government would likely reach the new debt ceiling in “early 2013.” A November 2012 CNAS report was pessimistic in its opinion that any progress would be made before January 2, 2013, despite the fiscal cliff’s potentially enormous impact on both the DoD and national spending more generally: “The president was reelected and Congressional leadership remains the same, and they are unlikely to break the deadlock of the last two years in just a few short weeks.” The CNAS report surmised that some politicians

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on both political sides might want the fiscal cliff to occur, if only to force deficit reduction, “whatever the consequences,” to achieve “broader consensus . . . about balancing the nation’s revenues and expenditures.”

These became urgent issues to senior defense officials as it became clear by the first week of December that a solution to avoid sequestration would not likely be found by January 2. According to some accounts, on or around December 1 senior defense officials initiated an internal review. On December 5, Obama directed OMB to revise its guidance to the Pentagon to begin “internal planning.”

On December 20, Panetta issued a DoD-wide memorandum detailing what its workforce could expect under sequestration. First, the Secretary of Defense reminded the DoD that on July 31, Obama had invoked his BCA-empowered authority to exempt MILPERS budgets from sequestration. That being said, Panetta cautioned civilian employees that, while they should not expect to be furloughed on or immediately after January 2, 2013, furloughs could occur at a later date while the DoD operated under sequestration-enforced BCA Title III budgetary caps. The Secretary of Defense, nevertheless, remained at least publicly hopeful that “there is no reason why both sides should not be able to come together and prevent this scenario.” Panetta’s wish would not be granted. Rather, the DoD would be granted an eleventh-hour “stay of execution,” which had the potential to cause even worse FY 2013 consequences.

A Stay of Execution: The American Taxpayer Relief Act of 2012

After protracted eleventh-hour negotiations, on January 1, 2013, Obama signed into law the American Taxpayer Relief Act (ATRA) of 2012. Apart from extending a version of the Bush-era tax cuts (among other provisions), ATRA deferred implementation of BCA Title III sequestration-enforced discretionary budget caps until March 1 and reduced their FY 2013 level from $109 billion total (defense and nondefense) to $85 billion. For the 050-defense func-

191 Barno et al., 2012, pp. 6–7.
193 Martinez, 2012; and Kevin Baron, “Pentagon Starts Sequester Planning, Slowly,” Foreign Policy, December 5, 2012.
197 Panetta’s desire for a long-term solution that would avert sequestration echoed Mullen’s own comments on December 6. Now chairman of the Coalition for Fiscal and National Security, Mullen argued that Congress and the administration needed to both find an interim solution to provide breathing space and negotiate a whole-of-government “longer-term deficit-reduction plan that would combine revenues, entitlement reforms[,] and further cuts to discretionary spending, including defense.” See Kate Brannen, “Mullen Focuses on Debt as Threat,” Politico, December 6, 2012.
tion, this resulted in a reduced FY 2013 sequestration-enforced budget cut from $54.5 billion to $42.5 billion. However, ATRA offset some of this temporary defense budget relief with additional reductions to the FY 2014 sequestration-enforced budget cap.198

ATRA provided senior defense officials with a two-month stay of execution during which they would both rapidly plan for sequestration and increase pressure on Congress and the Obama administration to find a means to avert its March 1 implementation. In January, the DoD was operating under another continuing resolution. ATRA, set to expire on March 27,199 “limit[ed] spending flexibility” by maintaining spending at FY 2012 levels. During this period, however, the DoD was finalizing its FY 2014 defense budget request and beginning to consider its FY 2015 request, all with FY 2012 continuing resolution “figures,” and had only recently been given formal permission to begin sequestration planning. ATRA, therefore, only added to senior defense officials’ deep fiscal uncertainty. Air Force Acting Undersecretary Jamie Morin complained at the time that ATRA “multiplies the uncertainty. It multiplies the range of potential outcomes. Obviously, we don’t know what our 2013 column is going to show. . . . [I t’s] going to take some time to fully understand the impacts.”200 ATRA also added an additional layer of contingency planning. A defense analyst interviewed by Inside the Air Force argued that by deferring BCA Title III implementation by another two months into the DoD’s fiscal year, it would ultimately “make the [sequestration-enforced] percentage reduction greater from a sequester cut and possibly more disruptive as the government fiscal year will already be half over.”201

On January 10, Panetta, Dempsey, and Carter laid out the DoD’s immediate, “reversible” measures in preparation for sequestration, a mechanism the CJCS now described as “a self-inflicted wound on national security.”202 These measures were as follows:

- Freeze civilian hiring (with exceptions for mission-critical activities)
- Provide authority to terminate employment of temporary hires and to notify term employees that their contracts will not be renewed (with the exceptions for mission-critical activities and when appropriate in terms of personnel timing)
- Reduce base operating funding


- Curtail travel, training, and conferences (all with exceptions for mission-critical activities including those required to maintain professional licensure or equivalent certifications)
- Curtail facilities maintenance or Facilities Sustainment, Restoration, and Modernization (with exceptions for mission-critical activities)
- If necessary, services/agencies are authorized to fund Facilities Sustainment, Restoration, and Modernization at levels below current guidance
- Curtail administrative expenses such as supply purchases, business IT, ceremonies, etc. (with exception for mission-critical activities)
- Review contracts and studies for possible cost-savings
- Cancel 3rd and 4th quarter ship maintenance availabilities and aviation and ground depot-level maintenance activities. Take this action no earlier than February 15, 2013
- Clear all R&D and production contracts and contract modifications that obligate more than $500 million with the USD(AT&L) prior to award
- For Science and Technology accounts, provide the USD(AT&L) and the Assistant Secretary of Defense (Research & Engineering) with an assessment of the impact that budgetary uncertainty may have on meeting Departmental research priorities.

At the component level, Panetta, Dempsey, and Carter requested estimated reductions and/or freezes for civilian employees, proposals on how long potential furloughs might last, and estimated reductions in “flying hours, steaming days, [and] vehicle miles.” They additionally ordered reviews of all major defense acquisition programs, with a focus on potentially “major changes in unit buys [and] delays,” as well as “significant reductions in joint programs.” In sum, the DoD expected sequestration to impose a hit on maintenance, procurement timelines, training and readiness, and its large civilian workforce.

In the interim, however, senior defense officials continued to warn Congress and the Obama administration with increasingly dire language to pressure them to negotiate a solution to avoid sequestration. In his January 2013 Joint Forces Quarterly article, Dempsey stressed that the joint force must sustain its global edge. In an effort to assuage U.S. forces, he reminded readers that politically imposed defense drawdowns and budget cutbacks historically had fostered “creative and collaborative [DoD] thinking” that paid dividends down the line.

On February 12, General Dempsey informed the S.A.S.C. that sequestration would “put the nation at greater risk of coercion. . . . We need the antithesis of sequestration—a steady, predictable funding stream. . . . [and] the time to implement reductions in a responsible manner over a manageable timeline.” Sequestration, he concluded, “would be immoral,” potentially damaging trust and readiness and forcing a reconsideration of the 2012 DSG-

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203 See Table 1 in Carter, 2013, p. 4.
204 See Table 2 in Carter, 2013, p. 5.
driven defense strategy. At a meeting of the H.A.S.C. the following day, Dempsey echoed Morin’s concerns when he succinctly summarized the DoD’s difficulties in planning under the complex austere fiscal environment. “We are facing the prolonged specter of sequestration,” the CJCS argued, “while under a continuing resolution, while we are just beginning to absorb $487 billion worth of cuts from 2011 [BCA Title I], and while we’re still fighting and resourcing a war” in Afghanistan.

House Speaker Boehner claimed in early February that sequestration was “taking a meat ax to our government, a meat ax to many programs and it will weaken our national defense.” S.A.S.C. member Lindsey Graham (R-SC) described it as “a dumb thing.” Chairman Barbara Mikulski (D-MD) promised “to find a way to vitiate the sequester and hope that the higher powers find a way to vitiate it for the 9 years that it is mandated.” On February 5, President Obama argued that thousands of jobs in national security, education, and energy, as well as the economy’s growth, were at risk “because folks in Washington couldn’t come together to eliminate a few special interest tax loopholes or government programs that we agree need some reform.”

Despite these types of sentiments from across the political spectrum, by February 20 neither Congress, the White House, nor any “higher powers” had made tangible progress in averting sequestration. That day, Panetta issued a new DoD-wide memorandum. He echoed analysts’ January warnings when he said that sequestration’s impacts “will be magnified because [the DoD] has been forced to operate under a six-month continuing resolution that has already compelled us to take steps to reduce spending.” He also confirmed that while BCA had empowered Obama to protect MILPERS’ accounts, no such legal “flexibility” existed for protecting DoD’s civilian workforce. Civilian employees, Panetta admitted, should expect furloughs of a yet-to-be-determined length, although they would be provided with 30-days’ advance warning.

On February 26, the Joint Chiefs—Army Chief of Staff General Ray Odierno, CNO Admiral Jonathan W. Greenert, Marine Corps Commandant General James F. Amos, Air Force

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212 See Barbara A. Mikulski’s testimony in U.S. Senate, 2013, pp. 1–2.


214 Joint Chiefs of Staff Public Affairs, 2013.
Chief of Staff General Mark A. Welsh III, and National Guard Bureau Chief Army General Frank J. Grass—testified together to the House Appropriations Committee Defense Subcommittee. They detailed sequestration’s likely immediate impact on readiness across all services—already worn down from a decade of constant GWOT/CVE operations—earlier outlined in senior defense officials’ January 10 memorandum:

- Transfer O&M funds from all services to maintain mission-critical warfighting requirements.
- Furlough DoD civilian employees for up to 22 days before the end of the FY 2013 fiscal year (September 30, 2013).
- Curtail ground, sea, and air training.
- Restrict medical clinic, educational, and psychological counseling hours.

Amos concluded that by January 2014 half of all Marine Corps units would fall below minimum combat readiness levels. Welsh added that by May 2013 two-thirds of Air Force units would fall beneath their minimum combat readiness levels, given their need to maintain expensive flight hours. Even if a FY 2014 budget was approved by October, the Air Force Chief of Staff argued, “It would take six months to regain its present level of training.”

Sequestration Hits

The Joint Chiefs’ protestations had little influence on the entrenched political camps and domestic politics. Despite their warnings, reports in late February suggested that neither side was willing or able to stop sequestration entering enforcement. Instead, Democrats and Republicans increasingly focused their public efforts on blaming each other for failing to find a resolution. Panetta, who later concluded that he “might as well have been talking to the wall,” had tendered his resignation in late January and formally retired on February 26. President Obama tapped former Senator Charles “Chuck” Hagel (D-NE) to replace Panetta at the helm of the Pentagon.

On March 1, 2013, sequestration-enforced BCA Title III caps on the 050-defense function entered effect. Dempsey minced no words about its immediate readiness impact at a March 12 speech to the National League of Cities Congressional Cities Conference. “I’m not

Houdini,” Dempsey admitted. “You can’t take $500 billion out [total] over five years, $46 billion out over six months.” Cuts of that size were bound to cause “some long-term readiness issues that will affect the force.”

Readiness and maintenance were hit as an immediate result of BCA Title III sequestration-imposed budget caps. In March and April 2013, the Army, Navy, and Air Force curtailed ground, sea, and air training for non-mission-critical units, defined as those “deployed, preparing to deploy, or stationed overseas.” On March 12, the DoD warned that most of its civilian employees would be furloughed starting April 26 for 22 days; eventually, through shifting an additional $1.5 billion, it was able to reduce the furlough to six days spread out over July and August. The DoD halted most nonessential depot and base operational support maintenance, while prioritizing funding for mission-essential equipment. It also moved to trim its AH-64 Apache Block III and OH-58 Kiowa Warrior helicopter procurement, among other program delays or cuts. By April, Hale estimated that up to 2,500 investment programs across the DoD’s vast portfolio had been “disrupted” to at least some extent. The DoD was permitted some flexibility in the proportion of cuts for obligated funds for FY 2013 and unobligated funds from previous years. A CRS study determined that the DoD reduced obligated funding by “an average of 5.2 percent while unobligated funds were cut by an average of 11.2 percent.”

The Overseas Contingency Operation Budget

On March 26, Congress passed another FY 2013 continuing resolution to fund government agencies, including the DoD, through the end of the fiscal year. P.L. 113-6 permitted the DoD

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222 GAO, 2013, p. 5.


224 GAO, 2013, p. 5.

225 GAO, 2013, pp. 5–6.

226 Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, 2013a, slide 5.

$7.5 billion in total reprogramming authority, including $3.5 billion in OCO transfer authority. The DoD used this authority to shift O&M funding into accounts with a high degree of OCO funding so as not to disrupt ongoing war operations. These transfers were offset with “proportionately large reduction[s] in the service[s’] base budget spending.” It submitted additional requests to transfer $9.4 billion on May 17 and $1.5 billion on July 19.

The Obama administration submitted its FY 2014 defense budget request to Congress in April 2013 (revised request submitted subsequently). The revised request reflected the 2012 DSG’s priorities and readiness investment to avoid creating a “hollow force,” as well as a 1 percent (versus 1.8 percent) military and civilian raise. It included a $79.4 billion OCO budget, or $7.9 billion less (adjusted) than the FY 2013 enacted OCO request. The DoD acknowledged that this 10 percent reduction was “less than the percentage reduction in forces.” It explained that this smaller-than-expected reduced request was due to higher-than-expected withdrawal costs as well as intelligence-related expenditures in Afghanistan and Pakistan.

CSBA’s Todd Harrison, however, posited that the DoD was moving funds into OCO to free up space in the capped base budget. “Both Congress and [the DoD] have an incentive to migrate costs from the base to the OCO budget,” he argued, “because this helps avoid the budget caps imposed by the BCA”—a temporary arrangement that could work both for the DoD and for congressional members concerned about sequestration’s impact on national security. Harrison noted that while the “OCO request assume[d] a 39 percent reduction in U.S. forces in Afghanistan . . . funding for Afghanistan decline[d] by only 10 percent.” The bulk of the increases were assigned to the Army and Air Force, the two branches that had arguably complained most vocally about readiness erosion. Obama also requested a 9 percent increase in the “Other” OCO category, with much of the increase going to the Air Force. Harrison concluded that up to $20 billion in “predeployment training,” normally classified under peacetime baseline readiness, potentially had been moved to the OCO budget request to partially mitigate readiness shortfalls.

228 GAO, 2013, p. 6.
229 Towell and Belasco, 2013, p. 8.
235 Harrison, 2013, p. 11.
236 Harrison, 2013, pp. 13–14; and RAND interview, SD010721.
Dempsey on the Offensive

Dempsey embarked on a communications offensive as sequestration began to hit the joint force. Throughout the spring, the Chairman articulated four consistent messages concerning

- sequestration’s immediate and long-term readiness consequences
- how deep uncertainty inhibited DoD’s ability to achieve the national security strategy
- his reassurance to servicemembers that the DoD would emerge from this crisis, as it had done so in previous budget downturns, more creative and versatile
- his reassurance to allies and partners that the United States could still defeat any adversary.

In his April Joint Forces Quarterly op-ed, the CJCS warned that “the risks to our national security interests are real.” An increasingly complex array of threats, they ranged from Arab Spring–inspired instability and extremism, Iran’s and North Korea’s enduring hostility, development of A2/AD capabilities, such as cyber weapons and intermediate-range missiles, and rising conventional threats. Now was not the time to create a “hollow force” or inhibit implementing the “ends, ways, and means” to successfully execute the national security strategy.237

Speaking at a March 22 town hall meeting, Dempsey reiterated his belief that the DoD budget reductions had historically produced creativity, versatility, and adaptability.238 While acknowledging that the DoD would need to continue to cut costs, he sought to assuage servicemembers’ concerns somewhat by arguing that no “existential threat” immediately potentially affected the nation.239 En route to Afghanistan on April 6, Dempsey repeated to reporters earlier Joint Staff and OSD explanations that rebuilding readiness—already being drained by sequestration—was more expensive over time than simply maintaining it.240 Presenting Obama’s FY 2014 $615 billion (base plus OCO) defense budget request on April 10,241 Dempsey again stressed to reporters sequestration’s impact on readiness and the already longstanding budgetary uncertainty that constrained the DoD’s ability to fulfill the national security strategy.242 At the end of April, Dempsey embarked on an East Asian tour to reassure U.S. allies and partners. In Japan, Dempsey advised officers at the National Institute

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239 Garamone, 2013a.
for Defense Studies that “our rebalancing is still on” and that “the American people and our elected leaders will . . . find the resources we need to maintain our global leadership.”

The Strategic Choices and Management Review

Meanwhile, on March 15, 2013, Hagel ordered Dempsey and Carter to execute the SCMR, due May 31, 2013. As laid out in the Secretary of Defense’s initial memorandum, SCMR’s purposes were to

- Define, for my consideration, the major strategic choices and institutional challenges affecting the defense posture in the next decade ahead that must be made to preserve and adapt defense strategy and management under a range of future circumstances.[243]
- Consider the 2012 [DSG] as the point of departure and be informed by the Chairman’s Risk Assessment [CSDJF]. The results will frame my Fiscal Guidance for the FY 2015 budget and ultimately be the foundation for the statutorily required [QDR] due in February 2014.[244]
- Be inclusive but confidential to allow for the free exchange of ideas. Service Secretaries and Chiefs, Office of Secretary of Defense Principals, and Combatant Commanders will serve as essential participants.[244]

In his April FY 2014 budget request update, Comptroller Hale additionally noted SCMR’s broader intent to provide a modicum of planning certainty “under a wide range of future circumstances.”[245]

The Strategic Choice and Management Process: Close Collaboration but an Atrophied Analytic Agenda

Former senior defense officials interviewed for this report recalled that Dempsey and Carter utilized the Analytic Agenda’s top-down Tri-Chair framework, comprising CAPE, OSD(P), and the Joint Staff’s J-8 Force Structure, Resource, and Assessment Directorate, to undertake much of SCMR’s day-to-day deliberations. Under Fox’s leadership (outside of her formal role as CAPE Director), the Tri-Chairs were tasked with developing multiple budget scenarios to


245 Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, 2013a, slide 20.
“help DoD balance strategic ends, ways, and means” under sequestration. Nearly every day, Fox, Wormuth (now DUSD[SPF]), J-8’s Lisa Disbrow, and their deputies would meet for deliberations.

The Tri-Chairs did not intend to “produce a detailed budget blueprint,” but instead “menu[s] of options,” which they ultimately organized into three budget scenarios. According to Hagel, “four principles guided the Tri-Chairs’ thinking”:

- First, prioritizing DoD’s missions and capabilities around our core responsibility of defending our country
- Second, maximizing the military’s combat power by looking to reduce every other category of spending first
- Third, preserving and strengthening force readiness
- Fourth, honoring the service and sacrifice of DoD’s people and their families.

SCMR’s “process was good,” one former senior defense official recalled. Hagel and the Joint Staff appeared to agree, arguing that it was “inclusive, collaborative, and thorough.” The Tri-Chairs examined a range of potential conflict scenarios and then tested cutting force structure components to consider whether the resulting increased risk was acceptable (green) or unacceptable (red). The Comptroller maintained a role in the SCMR process, primarily to ensure that the Tri-Chairs kept the BCA budget caps in mind. In addition, all services were requested to “propose their own solutions.” In the Air Force, Vice Chief of Staff General Larry Spencer initiated the “Every Dollar Counts” campaign, an open solicitation to all service members to submit their cost-saving ideas. The Air Force found the initiative so popular that it continued it in 2014.

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247 Historical Office, 2020, p. 43.
248 RAND interview, SD012021.
249 Hagel, 2013a.
250 Carter and Winnefeld, testimony, August 1, 2013, p. 4.
251 RAND interview, JS121220.
252 RAND interview, SD010721.
253 Carter and Winnefeld, testimony, August 1, 2013, p. 4.
However, several former senior defense officials argued that SCMR’s execution evidenced how much the Analytic Agenda had atrophied since CAPE effectively removed itself in 2011. The quibbling was the list of scenarios, the force list—the [A]nalytic [A]genda fell apart. There was no official scenario, the analytical baseline[s] were disputed.” Without updated rigorous analytical baselines, the Tri-Chairs relied on 2011 scenario planning data and CCMD commanders’ operation plans. SCMR apparently still struggled with the Analytic Agenda’s structural issues with adequately addressing risk or uncertainty. “Even if [the potential conflict] was in the same country, the scenario could be different,” the former senior defense official recalled. If “CAPE would choose one that disfavored a service”—whose secretaries, chiefs, and combatant commanders were officially supposed to be involved—“then [CAPE] got flak.” As a result, one interviewee argued, outdated analytic baselines and limited risk analysis meant that “any decisions” based on SCMR’s outputs “could be disputed.” Another former senior defense official raised the question of whether the association of SCMR with the director of CAPE led it to be excessively budget-, rather than strategy-driven, and therefore did not, as Secretary Hagel intended, adequately “close the loop” of the “ways, ends, and means” necessary for a balanced defense strategy.

Strategic Choice and Management’s Results: Harsh Choices and the “Orange Wedge”

Despite demonstrating how far the Analytic Agenda had atrophied, SCMR nonetheless generally fulfilled its broad mandate to rapidly develop a range of budget cut options. Organized in three increasingly fiscally austere scenarios, these reflected both sequestration’s harsh realities and the 2012 DSG’s strategic guidance. On July 16, before SCMR had concluded, Hagel and Dempsey announced one of its key proposals: a 20 percent budgetary reduction in headquarters’ staff budgets over the next five fiscal years.

Defense Secretary Hagel and VCJCS Winnefeld formally announced SCMR’s results to Congress on July 31, 2013. They laid out three options, each presuming a different level of budget cuts beyond the BCA Title I–mandated $487 billion reduction between FY 2012 and FY 2021. For the purposes of this report, we refer to these respective scenarios as the

256 RAND interview, JS121220.
257 RAND interview, JS121220.
258 RAND interview, JS121220.
259 Hagel, 2013a, p. 2.
260 RAND interview, JS121220.
262 Dempsey had traveled to Arizona to take care of important family matters. See Hagel, 2013a, p. 1.
“Obama FY 2014 scenario,” the “in-between scenario,” and the “BCA Title III sequestration scenario.” The Obama FY 2014 scenario was based on the President’s FY 2014 defense budget request with approximately $150 billion in reductions beyond the BCA Title I caps over ten fiscal years. The in-between scenario was based on an intermediate $250 billion reduction over the same period. The BCA Title III sequestration scenario was based on the full additional $500 billion mandated by BCA over the same period (see Table 3.2). All of these, Hagel explained, balanced a “basic tradeoff... between capacity—measured in the number of Army brigades, Navy ships, Air Force Squadrons, and Marine battalions—and capability—our ability to modernize weapons systems and to maintain our military’s technological edge.”

Hagel and Winnefeld concluded their briefing with a stark warning: Even the worst-case SCMR scenario would not meet sequestration’s mandated caps. “Cuts to overhead, compen-

### TABLE 3.2

<table>
<thead>
<tr>
<th>Proposed Scenario</th>
<th>Trade-off</th>
<th>Detailsa</th>
<th>10-FY Reductionb</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obama FY 2014</td>
<td>“Size for high-end capability”</td>
<td>• Reduce Army end strength to 450,000–380,000</td>
<td>$150 billion</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Reduce carrier strike groups from 11 to 8 or 9</td>
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<td></td>
<td></td>
<td>• Reduce Marine Corps end strength to 175,000–150,000</td>
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<tr>
<td></td>
<td></td>
<td>• Retire older Air Force bombers</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Maintain [counter-] A2/AD investments</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Maintain C4ISR investments</td>
<td></td>
</tr>
<tr>
<td>In-Between</td>
<td>“Bend”</td>
<td>• “Break’ some parts of the strategy” in diverse ways</td>
<td>$250 billion</td>
</tr>
<tr>
<td>BCA Title III Sequestration</td>
<td>“High-end capability for size”</td>
<td>• Sustain “regional power projection and presence” capacity</td>
<td>$500 billion</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Make more limited cuts than the Obama FY 2014 scenario to services</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• “Cancel or curtail” most modernization, C4ISR, and SOF expansion</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>efforts, resulting in a “decade-long modernization holiday”</td>
<td></td>
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</tbody>
</table>


a All of these reductions, according to Hagel, involved “consider[ing] compensation changes of greater magnitude for military and civilian personnel.”

b Reduction beyond the BCA Title I-imposed $487 billion for the FY 2012–FY 2021 period.

263 Hagel, 2013a, p. 2.

264 Hagel, 2013a, p. 6; emphasis added. Also see Lowrey, 2016, p. 57.
sation, and forces generate savings slowly,” they argued. “With dramatic reductions in each area, we do reach sequester-level savings, but only toward the [back-end] of a 10-year timeframe. . . . These shortfalls will be even larger if Congress is unwilling to enact changes to compensation or adopt other management reforms and infrastructure cuts we’ve proposed in our [FY 2014] budget.”

Hagel and Winnefeld continued their offensive the next day. They informed Congress of the toll that sequestration had already taken on the services, primarily within readiness. Air Force squadron combat readiness had fallen under 50 percent, and the service had grounded 12 “combat-coded squadrons.” The Army “ha[d] cancelled all Combat Training Center rotations” for BCTs not scheduled for an Afghanistan deployment. The Navy had cancelled the USS *Truman* carrier strike group deployment to the Middle East. In addition, 650,000 DoD civilian employees were experiencing furloughs. All services and offices had largely halted nonessential maintenance and support.

To more effectively convey the DoD’s increasingly dire budget shortfalls over the coming years, Carter and Winnefeld introduced to the H.A.S.C. one of SCMR’s key visual outputs: a graph with an “orange wedge” (see Figure 3.1) visualizing how readiness, maintenance, and increasingly modernization would continue to fall ever more severely over ten fiscal years

**FIGURE 3.1**

*The Orange Wedge was Prepared by the Senate Armed Services Committee*

![Graph showing the impact of sequestration on the U.S. defense budget over ten fiscal years, with a focus on the orange wedge representing the decrease in readiness.](image)


even as the DoD could even remotely hope to meet sequestration-enforced budgetary caps. Carter summarized the orange wedge as “having to be filled in with things that you and I would never sit in a room [talking] about doing as sensible things. . . . That is a gap that can’t be made up in a strategically and managerially sensible way.” CAPE Director Fox recalled in a 2015 interview that SCMR had created what she described as “a killer chart.” “I knew it had worked,” she concluded, “when I started hearing [the DoD] talk to each other about dealing with the challenge of the Orange Wedge. . . . I knew it had been a killer chart when I started doing Hill calls, and Congressmen were telling me that they were concerned about the Department’s ability to handle the Orange Wedge.”

Back in the Pentagon, Hagel immediately directed now former–Air Force Secretary Michael Donley to manage the OSD Organizational Review as a first step in the DoD’s planned effort to reduce headquarters staff budgets by 20 percent over five years. Explicitly leveraging SCMR’s results, Donley began interviewing current and former service secretaries, chiefs, deputies, and OSD offices with a view to complete his review by December 2013.

### Toward the Bipartisan Budget Act: Some Top-Line Relief, but Continued Challenges to Long-Term Planning

#### A Distracted Congress: The October 2013 Government Shutdown

The H.A.S.C. acknowledged SCMR’s sobering warnings. Committee Chairman McKeon bluntly argued that “further cuts will cause catastrophic readiness shortfalls.” Ranking committee member Representative Adam Smith (D-WA) concurred, adding that sequestration “would also have a devastating impact on the industrial base. And by ‘industrial base,’ I mean jobs.”

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267 One defense analyst at the time broke down the orange wedge’s short-term growth as follows: $10 billion in readiness shortfalls; $15 billion in proposed compensation reform and base closures that Congress was unlikely to approve; and $10 billion in overhead, staffing, and contracting efficiencies. See Mackenzie Eaglen, “Hagel’s Strategic Review Falls Short; Make Hard Choices Now,” *Breaking Defense*, August 26, 2013.


269 Stats & Data Science Views, “Providing Data Analysis for the Highest Chain of Command: An Interview with Christine Fox,” webpage, November 2, 2015.


271 Historical Office, 2013.


Nevertheless, Congress was becoming increasingly distracted by the looming end of the most recent continuing resolution, scheduled for the end of the 2013 fiscal year on September 30. During the summer of 2013, the Tea Party caucus and its supporters in the House had pressured Republican leaders to connect passing any new continuing resolution to defunding the Affordable Care Act. In effect, they showed a willingness to shut down the government as a way to force deep spending cuts and put an end to “ObamaCare,” the largest Republican target of the Obama Presidency. Following Mitt Romney’s loss in the 2012 presidential election, the Republican Party underwent an internecine conflict. The establishment wing found itself grappling for influence with grassroots groups that perceived their electoral victories as a mandate to reform a corrupt and broken political system. Mike Lee (R-UT), who entered the Senate as a result of the 2010 midterm election, initially led the charge for the Tea Party–affiliated Republicans. He claimed that the President “unilaterally decided not to enforce” the act’s employer mandate, thereby protecting “only big business” and “unfairly forcing everyone else into ObamaCare’s unstable and unsound system.”274 The act promoted “rampant dysfunction, waste, and injustice to taxpayers and working families.” The responsible choice, he averred in early July, was “to protect the country from ObamaCare’s looming disaster, start over and finally begin work on real health care reform.”275 Ted Cruz (R-TX) became the standard bearer in the Senate for conservatives, along with Rand Paul (R-KY) and Marco Rubio (R-FL). They helped rally support among Senate Republicans for a letter penned by Lee demanding defunding the ACA. The Tea Party–backed freshman Representative Mark Meadows (R-NC) did the same for the House in late August, acquiring signatures from 80 members.276

The political mood throughout the country seemed to stress the need for deficit reform in 2013. In March 2013, 61 percent of Americans in an ABC News/Washington Post poll welcomed reducing overall federal spending. Cutting 8 percent of the defense budget was opposed, however, by 73 percent of Republicans, 63 percent of Independents, and about half of Democrats.277 By May, another ABC News/Washington Post poll reported that 37 percent claimed they had been negatively affected personally by budget cuts, up from 25 percent in March.278 Others, however, found that budget reductions were having little day-to-day effect on voters. An ABC News/Washington Post poll in September showed 43 percent approved across-the-board spending cuts from earlier in the year.279 Another survey in early October recorded that only 23 percent of respondents believed they had experienced the consequences

of lower government spending. By the end of the calendar year, some 51 percent of respondents to a Pew Research Center poll supported reducing the deficit by cutting military spending. According to some poll numbers, across 2013, at least, the fervent warnings from the DoD and White House were not translating into widespread public alarm.

In the first week of September, the House initially proposed a $986.3 billion continuing resolution with a clause requiring Congress to vote on continuing ACA funding. But on September 11, Republican leaders both pulled this continuing resolution and deferred debate over potential U.S. intervention in the deteriorating Syria conflict after the Tea Party caucus voiced their opposition. Republicans and Tea Party supporters in Congress were at least rhetorically spurred on by support from some parts of the American public. In a September poll by the Pew Research Center, 49 percent of Republican and 71 percent of Tea Party respondents claimed that lawmakers who shared their views should stand on principles, even if it meant a government shutdown. In response to the Republican leaders, Obama threatened to veto any continuing resolution that would defund ACA. On September 17, OMB issued revised guidance to agencies in the event of a government shutdown.

On September 20, the Republican-controlled House passed a revised continuing resolution funding the government through December 15 but defunding most of ACA. On September 27, the Democrat-controlled Senate rejected the House’s proposed continuing resolution. Instead, they used their authority to remove the section defunding ACA and passed a revised version providing government funding through November 15. They returned this version to the House for consideration. Instead of approving it, however, on September 29 the House again revised the continuing resolution, this time seeking to defer much of ACA’s implementation until the following year and repeal a medical device tax that had been previously enacted to help pay for ACA. The Senate refused to consider the House’s revised version and instead removed the provisions and sent the continuing resolution back to the House again. Although tit-for-tat versions of the continuing resolution continued to move between the two congressional chambers, on September 30 the administration directed most govern-

ment agencies (except the Transportation Security Administration, Postal Service, air traffic controllers, and emergency, disaster relief, and law enforcement officials)\textsuperscript{286} to implement shutdown plans.\textsuperscript{287}

The October government shutdown ultimately lasted 16 days and furloughed between 800,000 and 850,000 government employees—although most were eventually paid back.\textsuperscript{288} Other employees were required to work without knowing when they would be paid for their time, according to a September 2014 Stanford University study.\textsuperscript{289} A Standard and Poor's study later estimated that the U.S. economy lost $24 billion.\textsuperscript{290} According to the Obama administration, DoD spending in the shutdown period was forced to drop 40 percent despite Congress's eleventh-hour passage of P.L. 113-39 ("Pay Our Military Act"), which continued MILPERS's compensation through the shutdown.\textsuperscript{291} The White House estimated that DoD employees were cumulatively furloughed for 1.6 million days—the most of any affected agency.\textsuperscript{292}

Department of Defense Leadership Continues to Pressure Congress and the Administration for Relief

In early September, Dempsey acknowledged that the DoD would need to “transition” at least 100,000 military personnel “out of the military” owing to ongoing sequestration.\textsuperscript{293} The CJCS’s warnings were largely ignored by a Congress increasingly consumed with the upcoming resolution deadline. Dempsey began his second two-year term as CJCS on October 1, the very day the government shutdown began. In an October 2013 Joint Forces Quarterly editorial, Dempsey sought to reassure the joint force that “military leaders at every level” would


\textsuperscript{287} Associated Press, 2013.


\textsuperscript{290} Bush, 2018.


\textsuperscript{292} Executive Office of the President, 2013, p. 26. See Appendix Table I, “Estimated Employee Furlough Days by Agency.”

“get us through today’s challenges.” He reiterated this message in an October 22 letter to the joint force.

On November 7, the Joint Chiefs returned to the S.A.S.C. to remind Congress of the austere fiscal climate’s continuing impacts on defense. The Chiefs brought with them SCMR’s orange wedge that Hagel and Winnefeld had first introduced at the end of July. James Inhofe (R-OK) acknowledged that, in advance of the Joint Chiefs’ scheduled testimony, “the minority and the majority” of the committee had reviewed the orange wedge graph and created their own similar chart visualizing the services’ personnel, TRICARE, readiness, and other categories. General Amos admitted that the Army had to move funds allocated to infrastructure and training in units not about to deploy in order to maintain the service’s essential combat readiness. He warned, however, that within 18 months that method would be exhausted and what he described as the “crisis response force” would suffer. Admiral Greenert concurred with Amos’s assessment that readiness and “quality” had suffered: His servicemembers “want training. . . . [They] want to go to the bin and get spare parts.” The CNO, nonetheless, wanted to demonstrate the seriousness with which they undertook Hagel’s headquarters staff budget reduction directive. “We’re going beyond” the 20 percent, he announced. “We’re looking at four times that reduction,” because of the funds historically allocated to naval headquarters budgets.

As Congress negotiated a potential budget resolution into December, Hagel, Dempsey, and senior defense officials pressed ahead with their SCMR-informed proposals to publicly demonstrate the DoD’s continuing efforts to reduce its spending, irrespective of how long sequestration would last. On December 4, Donley announced the results of his OSD Organizational Review. Among other proposals, Donley proposed to

- “restructure” OSD(P) to better align with the 2012 DSG’s Asia-Pacific focus and allies and partners cooperation
- disestablish several deputy under secretary positions by redistributing their responsibilities to the relevant assistant secretaries of defense (ASDs)

297 See James Amos’s testimony in S.A.S.C., 2013, p. 15.
299 See Marshall, 2013b.
300 According to one former senior defense official, Donley had finished the OSD Organizational Review by Thanksgiving. See RAND interview, JS121620.
• eliminate the DUSD(SPF) position and transfer its responsibilities, among others, to a more efficient ASD for strategies, plans, and capabilities

• strengthen the ASD for global strategic affairs by transferring other offices’ varied C4ISR, space, and counter-WMD functions to it

• consolidate relevant management and business offices into an umbrella Office of the Deputy Chief Management Officer

• consolidate various multidepartment relevant functions into an Office of the Chief Information Officer

• maintain ONA, but reorganize it under OSD(P)

• reform the Office of the Undersecretary of Defense for Intelligence to focus on Asia-Pacific while still maintaining an eye on Iraq and Afghanistan

• eliminate OSD’s five remaining deputy undersecretaries of defense.

These changes ultimately entered enforcement on January 1, 2015.

The 2013 Bipartisan Budget Act

As part of their agreement to end the government shutdown on October 16, 2013, House and Senate leaders began negotiating a longer-term budgetary solution that would provide some sequestration relief to affected agencies, including the DoD. These negotiations were still ongoing when the DoD announced its first set of 20 percent headquarters reductions on December 4. On December 10, House Budget Committee Chairman Representative Paul Ryan (R-WI) and his Senate counterpart, Senator Patty Murray (D-WA), jointly announced the Bipartisan Budget Act (BBA). It raised the 050-defense function’s budget cap for two years, by $22.5 billion for FY 2014 and $9 billion for FY 2015. DoD’s FY 2014 baseline budget therefore would be permitted to rise from $518 billion to roughly $520 billion instead of falling to BCA Title III’s originally mandated FY 2014 baseline budget of $498 billion. In FY 2015, it would rise to $521 billion and reach the preexisting BCA Title III sequester-enforced $523 billion cap for FY 2016. Sequestration-enforced across-the-board cuts, however, could still be imposed if funds were appropriated in excess of the 2013 BBA-raised caps. In exchange, the 2013 BBA offset the cost over the next ten fiscal years (into FY 2023)

302 Historical Office, 2013, pp. 1–3.
with extended sequestration-enforced caps in some mandatory programs, primarily BCA’s 2 percent annual Medicare reduction. It additionally increased federal civilian government employees’ annual individual retirement contribution amounts, reduced the annual cost-of-living raise for veterans under 62 receiving retirement benefits, increased aviation security fees, and reduced the federal contractor salary cap to $487,000 per year.\textsuperscript{306}

Obama signed the BBA into law as P.L. 113–67 on December 18, 2013. Senior defense officials met the BBA with cautious relief.\textsuperscript{307} In a December 19 press conference, Hagel argued that “it gives us some predictability for the next two years.” Dempsey concurred: “At least in the short term, the [BBA] gives [the DoD] three things it needs: certainty, time, and flexibility.” The additional monies, the CJCS explained, would be immediately put toward readiness and “minimiz[ing] disruption to our most critical modernization efforts” required to realize the 2012 DSG’s strategic guidance.\textsuperscript{308}

As evidenced in their responses, however, Hagel and Dempsey highlighted BBA’s fundamental weakness: its short two-year duration. “DoD still faces very difficult decisions,” the Secretary of Defense acknowledged.\textsuperscript{309} Many of the efficiencies identified in SCMR and the OSD Organizational Review, they argued, would have to continue to be implemented, as BBA’s partial relief from the BCA caps only extended to FY 2016.\textsuperscript{310} “Some of the force structure changes—force structure reductions—that we had planned based on sequestration[-enforced budget caps] will march on,” Dempsey concluded.\textsuperscript{311} Nonetheless, the CJCS ended the press conference on a note of optimism: “I hope that in the time we’ve just now bought for ourselves, this two-year period, we can continue to have a conversation, a discussion, a debate, and an understanding about what full sequestration would do to the military forces of the United States.”\textsuperscript{312} Dempsey would have to be patient. The 2013 BBA ultimately set in motion a series of two-year BBAs that would continuously inhibit the DoD’s ability to plan for and realize the 2012 DSG’s strategic shift to meet a complex range of existing and emerging asymmetric, extremist, and near-peer threats.\textsuperscript{313}


\textsuperscript{307} See, for instance, Lowrey, 2016, p. 333.


\textsuperscript{309} Roulo, 2013fv.


\textsuperscript{311} Roulo, 2013fv.

\textsuperscript{312} Roulo, 2013fv.

\textsuperscript{313} RAND interview, SD010721; and RAND interview, SD010821.
Conclusion

Between 2011 and 2013, senior defense officials sought to steer the DoD through an increasingly complex, austere, and uncertain economic environment. The circumstances increasingly inhibited its ability to plan for a nearer-term “reset,” as U.S. forces withdrew from Iraq and shifted to Afghanistan and toward a longer-term strategic rebalance in the Asia-Pacific. It also impinged on plans to counter increasingly sophisticated A2/AD threats from a variety of actors, ranging from smaller, long-standing adversaries such as Iran to a resurgent and unpredictable China.

By 2011, it had become evident that Gates’s and Mullen’s efforts to streamline the DoD’s budget and demonstrate fiscal responsibility had become entangled in the emerging political debates over deficit reduction; the department’s efficiency initiatives would be insufficient. Frustrated over renewed pressure to identify another $450 billion in cuts over ten fiscal years on top of the $150 billion he had already cut, Secretary of Defense Gates retired in the summer of 2011 after starting a new comprehensive efficiency review under CAPE Director Fox’s leadership. CJCS Mullen, himself nearing retirement, embarked on two missions. First, he developed an NMS that reflected both Gates’s emphasis on succeeding in current operations and the Obama administration’s emerging gradual rebalance toward the Asia-Pacific while maintaining global force posture. Second, he undertook a communications tour imploring Congress and the public to avoid cutting into the “muscle” of national defense.

From the summer of 2011, Gates’s and Mullen’s respective replacements, Leon Panetta and Martin Dempsey, were faced with navigating the DoD through BCA. BCA Title I imposed an immediate $487 billion defense cut over ten fiscal years. If a bipartisan JSCDR failed to identify $1.5 trillion in national budget cuts by December 2011, BCA Title III would enter force in January 2013, imposing deeper, primarily discretionary across-the-board sequestration-enforced budgetary cuts. The JSCDR admitted failure before Thanksgiving 2011, triggering the BCA Title III countdown and the threat of deep sequestration-enforced DoD budget cuts.

In the midst of this political and economic turmoil, Panetta, Dempsey, and their Strategic Choices Group pressed ahead with Gates’s efficiency review, now reimagined as a QDR-like strategy document that would recognize nearer- and longer-term threats to U.S. national security. In turn, this document, which became the 2012 DSG, directly informed how senior defense officials would make hard choices to achieve the BCA Title I–required $487 billion in savings over ten fiscal years. The DSG and its associated documents, the DBPC and CSDJF, explicitly recognized the United States’ strategic rebalance to Asia-Pacific while maintaining its traditional global presence. It also cut the Army’s and Marine Corps’ respective end strengths in recognition of both this geographical rebalance and strategic shift away from CVE operations and toward asymmetrical and near-peer counter-A2/AD competition. As had earlier efforts, it cut, trimmed, or otherwise reformed problematic procurement programs. The 2012 DSG and its associated documents reoriented U.S. national security strategy from a 2-MTW construct and toward a so-called 1.5-MTW construct. This would mean defeating one adversary and potentially conducting nation-rebuilding and stabilization oper-
ations while simultaneously containing another adversary’s A2/AD operations and repelling its offensive efforts.

Observers at the time praised the DSG and its associated documents for the speed with which it was conducted. The clear, hard choices its leadership was forced to make were also recognized, as were shifting U.S. strategic realities within an austere and uncertain fiscal climate. Observers nonetheless criticized the MTW shift, arguing that it was vague, not sufficiently supported by rigorous data, and simply reflected preexisting national security realities.

The 2012 DSG demonstrated how senior defense officials could come together in periods of crisis to make difficult decisions. But it also evidenced the gradual decline of the Analytic Agenda, the DoD’s in-house SSA initiative responsible for creating the complex common analytic baselines and scenarios required for data-driven strategy development. CAPE, one of the “Tri-Chairs” that played a critical role in conducting analysis, had largely ended its involvement in 2011. It cited the Analytic Agenda’s structural inability to adequately account for uncertainty and risk and had drawn its resources away from its primary mission to provide independent resource-driven analysis to the Secretary of Defense and CJCS.

Throughout 2012, Panetta, Dempsey, and senior defense officials formally continued to plan for BCA Title I budget caps, not the lower BCA Title III budget caps, under presidential and OMB directives. Informally, however, several DoD offices, including the Comptroller and OSD, quietly began examining how the DoD would undertake cuts beyond $487 billion. Panetta, Dempsey, and senior defense officials continued the public relations efforts begun by Gates and Mullen. They warned Congress and the American public how sequestration would immediately damage already war-weary readiness. In the medium-term, they cautioned, it would damage U.S. national security by creating a “hollow force.” Modernization would grind to a halt while U.S. force structure reduced globally. Their repeated warnings earned sympathy but no tangible results. Congress ultimately could not agree on how to resolve other, principally mandatory budget spending aspects of the so-called “fiscal cliff.” In the interim, Carter and Kendall introduced BBP 2.0, an evolution and expansion of 2010’s BBP 1.0, which sought primarily to revamp the DoD contracting life cycle early in the process to reduce excess expenditures, cost increases, and duplicative R&D and OSD-level studies and to significantly enhance competition.

At the eleventh hour, congressional leaders and President Obama agreed on ATRA, a two-month BCA Title III delay that slightly raised sequestration-enforced caps and provided the DoD with a two-month stay-of-execution to plan for sequestration’s likely implementation. ATRA proved to be a mixed blessing at best for DoD. While it provided senior defense officials with additional time to plan for sequestration, it only deepened the eventual impact of FY 2013 sequestration-required cuts, which would need to come out of the remaining seven months of the fiscal year, instead of nine. The DoD’s continued protestations to Congress to stop sequestration ultimately proved ineffective. On March 1, 2013, BCA Title III sequestration-enforced budget caps entered into force, hitting all DoD budgets except MILPERS. Some 800,000–850,000 civilians were furloughed for six days between July and August.
Readiness plummeted due to a training halt. Essential maintenance was put on hold. Ships, aircraft, and vehicles were held in port, grounded, and stopped to minimize expenditures.

In an effort to plan a way through sequestration and provide a modicum of certainty for the FY 2014 budget, 2014 QDR, and beyond, Hagel ordered SCMR in March 2013. Its findings, announced at the end of July, presented Congress with harsh choices between capacity and capability that the DoD would have to undertake if sequestration continued. Congressional leaders arguably were most influenced by the “orange wedge,” an SCMR product that showed sequestration’s increasingly deep impacts on readiness, modernization, and ultimately personnel—the “meat” of national defense. SCMR simultaneously informed the OSD Organizational Review, the first step of a 20 percent headquarters staff budget cut that Hagel ultimately intended to be applied DoD-wide.

Congressional deliberations, however, were sidetracked by an impasse over another looming continuing resolution, scheduled to expire on September 30, 2013. The Tea Party caucus and their supporters sought to block passage of another continuing resolution unless it defunded the ACA. This prompted a partisan showdown that resulted in a 16-day government shutdown at the beginning of the 2014 fiscal year in October and served only to raise DoD planning uncertainties. After the government shutdown ended, the Secretary of Defense and the Joint Chiefs pleaded with Congress for a measure of BCA relief. Alongside those of congressional and Obama administration officials, their efforts resulted in the 2013 BBA. The BBA also proved to be a mixed blessing. It provided relief for two years by increasing the budget caps. In the process, though, it set in motion a series of two-year BBAs that would follow this same bipartisan model. These would continuously inhibit the DoD’s ability to plan for, and realize, the rebalanced national defense strategy to meet a complex range of existing and emerging asymmetric, extremist, and near-peer threats.

We needed to be as attentive to tomorrow as we had been towards meeting the current operational requirements

—Chairman of the Joint Chiefs of Staff Joseph Dunford

Introduction

On the heels of a tumultuous 2013, the DoD entered calendar year 2014 facing continued and new fiscal, strategic, and management challenges. Senior DoD leaders breathed a sigh of relief when they gained a two-year reprieve due to the passage of the BBA in December. They entered the year determined to avoid a second sequestration. Major efforts in this period, such as the Third Offset to counter growing near-peer threats through advanced technologies, made significant advances to prioritize capability over capacity investments and “rebalance” toward the future fight. Related to this strategic imperative, the evolution of the Global Force Management (GFM) process asserted an important role for the Chairman and the Joint Staff. The GFM process, which directs the assignment, allocation, and apportionment of forces from the services to the CCMDs, had been recognized by the Joint Chiefs of Staff as serving the interests of the CCMDs without giving enough consideration to the services’ mandates to maintain ready forces. They now sought a more resource-informed process intended to gain a better sense of the global availability of forces and then distribute them between high-priority missions and rebuilding readiness.

The return on GFM reforms to support global integration were gradually realized over the following years. It would ultimately inform decisions about resource prioritization in a dynamic threat environment with an understanding that resources were not unlimited. In this context, senior leaders asserted that budget caps or short-term fixes were insufficient for


enabling the DoD to plan, manage within budget constraints, and position to meet future threats. In FY 2016, the DoD emerged from a period of budget decline when its budget in real terms increased for the first time in six years. However, while the topline ticked up in that year, uncertainty about available resources persisted. So did reverberations of past choices that were imposed in the aftermath of the Great Recession.
The 2014–2016 National Security Context

U.S. national security priorities returned to primarily near-peer competition in the 2014–2016 period. Russia’s unrecognized annexation of Crimea, support of rebels in Ukraine’s Civil War, and military intervention in the Syrian Civil War ended any prospect of warming U.S.-Russian relations. Similarly, China had become increasingly assertive in the South China Sea, threatening both key U.S. allies and partners and freedom of navigation through one of the world’s busiest shipping routes. While the United States had focused on GWOT/CVE, primarily in Afghanistan and Iraq, both Russia and China had greatly enhanced their traditional and asymmetric military capabilities. In so doing, a 2021 RAND report concluded, the United States had “lost its conventional warfighting edge.”

Senior defense officials, led by Deputy Secretary of Defense Robert Work, responded with the “Third Offset” (see note) strategy to match or exceed Russian and Chinese military capabilities, especially in C4ISR, long-range conventional, and counter-A2/AD technologies, as well as rethinking U.S. strategy. But as the RAND researchers acknowledged, this shift, much like Obama’s rebalance to Asia-Pacific, was evolutionary as the United States maintained existing global military responsibilities, including an ongoing war in Afghanistan and countering VEO organizations, notably the rapidly rising so-called Islamic State of Iraq and Syria (ISIS). By the end of 2016, ISIS would control “vast portions of territory in Iraq and Syria with several million inhabitants” and begin implementing state-like institutions to enforce an extremely harsh form of Islamic law.

Living in the Shadow: Rebalancing to the Future Under Risk of Another Sequester

When Obama signed the 2013 BBA into law on December 26, 2013, defense leaders recognized it was not a long-term fix. On the one hand, budget caps for the remainder of FY 2014 and FY 2015 were raised above the original caps, and the DoD was temporarily spared from indiscriminate line-by-line sequestration-enforced cuts, provided Congress did not exceed these new caps. On the other hand, the new budget caps remained less than the FY 2014 projection for the defense budget, left the original budget caps in place after FY 2015, and only delayed the return of deeper cuts by two years rather than eliminating them. As long
as BCA remained the law of the land, defense spending would again face the BCA Title III sequestration-enforced spending caps beginning in FY 2016. To address these longer-term concerns, OSD officials and the Joint Staff turned their efforts toward communicating the risks to meeting the nation’s defense strategy if the threat of sequestration-enforced budget caps returned to enforce the lower budget level. At the same time, the DoD used the small window of budget stability from the 2013 BBA to focus on rebalancing the force in line with the 2012 DSG and the 2014 QDR. Defense leaders emphasized that if Congress granted flexibility to enact additional cost-saving measures and ensure long-term budget certainty over time, they would be able to rebalance and support the nation’s defense strategy. These resource-informed planning efforts set the stage for the DoD’s rebalance from 2014 to the future under the risk of the BCA budget caps remaining at the lower level.

The 2014 Quadrennial Defense Review and the Fiscal Year 2015 Budget Request

On March 4, 2014, the DoD released its 2014 QDR simultaneously with the President’s FY 2015 budget request. Together, the documents reaffirmed the DoD’s intent to continue rebalancing under the strategic guidance of the 2012 DSG toward a smaller, more agile and technologically advanced force focused on the Asia-Pacific while maintaining a global posture. In contrast to 2012, however, the DoD now faced BCA Title III budget caps below that of the original BCA Title I caps planned for in the DSG. According to Hagel and Dempsey, the DoD could still meet the nation’s defense strategy, albeit with increased risk, if Congress approved the President’s new budget request and its out-year projections. If Congress did not pass the requested reforms, however, or if it allowed the budget caps to return to the BCA Title III level, the 2014 QDR argued that the risk to national security would “grow significantly.” In the interim, Hagel and Dempsey led two efforts. One focused on what it meant to rebalance the force under the given fiscal constraints. The other argued for budget certainty, time, and stability to implement their rebalancing approach. In contrast to the DoD’s decision not to formally plan for sequestration and the BCA Title III budget caps before 2013, Hagel and Dempsey also oversaw development of an official, BCA Title III budget cap–based budget for FY 2016. Doing so would ostensibly demonstrate to Congress and the public the risk that the force would face if the caps remained.

Rebalancing the Force: Force Structure, Modernization, and Readiness

The 2014 QDR and the FY 2015 budget request were the DoD’s first opportunities to articulate an approach to rebalancing the force under both the BCA and the 2012 DSG, and to do so explaining the risks sequestration posed to the strategy. Indeed, the 2014 QDR, as one former


senior defense official recalled, was a “planning document” for the 2012 DSG under increasing fiscal constraint.\(^9\)

Under this guidance, the DoD would continue to pursue a leaner, more agile force, prioritizing modernization and readiness over maintaining force structure. This prioritization had different implications across the joint force. The 2014 QDR and the FY 2015 budget prioritized modernization efforts for the Air Force and Navy while shrinking the force structure within the Army and Marine Corps in line with the 2012 DSG, DPBC, and CSJDF. These priorities were additionally refined from findings and discussions among stakeholders during SCMR.\(^10\) The Air Force would continue to receive funding to its top modernization priorities. These included the F-35, KC-46A next-generation tanker (formerly the KC-X), and a new long-range strike aircraft. Likewise, the Navy would continue building the DDG-51 and Virginia-class SSN, modernizing aging AEGIS cruisers, and developing next generation weapons such as the Ohio-class SSBN replacement. At the same time, the Navy would not procure additional LCSs while the DoD assessed their operational effectiveness for a high-end fight, particularly in the Asia-Pacific. The Marine Corps would focus resources on modernizing its amphibious capabilities. Unlike the Air Force and Navy, however, it would do so while reducing its end-strength. As operations in Iraq and Afghanistan drew down, Army force structure reductions to “restore a balanced force over time” were particularly deep.\(^11\) The QDR called for a reduction across all components. The Regular Army was to decrease from its recent peak of 570,000 soldiers to 440,000–450,000. At the same time, it would end modernization programs such as the Ground Combat Vehicle, with which the Army had hoped to replace its aging Bradley fleet. Per the 2014 QDR, the short-term cuts to Army end strength and modernization were, in the long run, seen as necessary to restore readiness across the force.\(^12\)

The debate over rebalancing initiatives within the Joint Force was particularly fierce given limited resources. As one former senior defense official recalled, the 2014 QDR became “a platform to fight budget battles.”\(^13\) During the 2014 QDR and FY 2015 defense budget request development cycle, the analytic basis underlying resource and force structure decisions became a key ground for debate.\(^14\) The terms of this debate led to disagreements between the services and with the Joint Staff over key assumptions, scenarios, and access to data.\(^15\) Fur-

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\(^9\) RAND interview, JS030321.


\(^11\) DoD, 2014a, p. 29.

\(^12\) DoD, 2014a, pp. 27–31.

\(^13\) Cohen, 2018a, p. 39.

\(^14\) For additional information on the Service’s disagreement over planning assumptions as they relate to the 2014 QDR, see Cohen, 2018a; Larson et al. 2018; Eric 2019; and Mazaar et al., 2019.

\(^15\) RAND interview, JS011321
thermore, several senior defense officials within the DoD felt that the two-year reprieve from the BCA Title III budget caps in the 2013 BBA incentivized the services to delay hard decisions in the hopes of continued relief from Congress.\textsuperscript{16} Disagreements over data, the analytic basis for decisionmaking, and decisionmaking itself led one former senior defense official to recall that the rebalancing effort articulated in QDR 2014 was based on “opinion based budgeting” and “less connected to resources than QDR 2010.”\textsuperscript{17} Indeed, multiple former senior defense officials interviewed for this report, as well as several previous RAND reports, noted that the DoD’s SSA initiative, which had reached its zenith during preparations for QDR 2010, had atrophied by the 2014 QDR development process. CAPE’s departure from the Analytical Agenda in 2011 opened the door for disparate analyses across the Joint Force.\textsuperscript{18} Despite the interservice disagreements over planning assumptions, senior defense leaders ultimately agreed on a rebalancing effort focused on modernization and readiness at the expense of force structure in line with the 2012 DSG.

Advocating for Resource Certainty and Flexibility

The DoD did not use the FY 2015 budget request to argue for a new top-line budget above the revised BCA budget caps that year. The 2013 BBA had established the FY 2015 national defense spending cap between the BCA Title III–level cap and the FY 2014 budget request—the last budget released before sequestration was triggered in 2013. Officials chose to follow this middle ground budgetary path while planning its five-year projection—similar to that of the “bend” option between the original BCA cap and sequestration-level cap that the DoD had considered during SCMR.\textsuperscript{19} As shown in Figure 4.1, the FY 2015 out-year budget projection remained below the pre-BCA FY 2014 projection but above BCA Title III–level caps. In turn, the DoD recognized the imperative of gaining flexibility to enact unpopular internal reforms, having time to implement cuts, and enjoying a degree of longer-term budget certainty. OSD and Joint Staff officials stressed to decisionmakers, including Congress, that these components were all required for the DoD to meet the nation’s defense strategy with increased, but acceptable, risk.\textsuperscript{20}

As is evident in Figure 4.1, the DoD’s annual budget was never cut to the BCA Title III caps as Congress raised the caps each year through successive BBAs following the sequestration trigger in March 2013. Under the circumstances, senior defense officials were instead concerned about persistent uncertainty and their lack of real authority to manage internal cost-saving efforts. As has been discussed, the DoD had long requested greater flexibility from Congress to manage internal cost-saving efforts. Yet efforts such as the retirement of


\textsuperscript{17} RAND interview, SD010521.

\textsuperscript{18} RAND interview, SD012621.

\textsuperscript{19} See Chapter 3 of this report for an overview of SCMR.

\textsuperscript{20} DoD, 2014a, pp. iv–v.
legacy platforms, a new Base Realignment and Closure (BRAC) round, and compensation reform for military personnel lacked support in Congress. Following analysis derived from SCMR, the DoD asked for reforms totaling $18.2 billion in savings for the FY 2015 budget, the second largest reform package since 2011. It included retiring the A-10 fleet, canceling or restructuring troubled modernization programs, another BRAC round, and additional compensation and benefits reforms including reduced commissary subsidies, freezing general and flag officer pay raises, and consolidation of health benefits.\footnote{Senior defense leaders framed these decisions as introducing acceptable risks given resource constraints. For instance, the Air Force publicly stated as early as September 2013 that while it preferred not to retire the A-10 fleet, it determined that multi-mission capable aircraft could more efficiently carry out close air support missions.\footnote{Secretary Hagel’s prepared testimony in U.S. Senate, 2014b, pp. 8–17.}}\footnote{Richard Sisk, “Air Force Mourns Likely Passing of A-10 Warthog,” DoDBuzz.com, September 18, 2013; Jeremiah Gertler, \textit{Proposed Retirement of A-10 Aircraft: Background in Brief}, Washington, D.C.: Congressional Research Service, R43843, January 5, 2015, p. 3.} Senior defense leaders framed these decisions as introducing acceptable risks given resource constraints. For instance, the Air Force publicly stated as early as September 2013 that while it preferred not to retire the A-10 fleet, it determined that multi-mission capable aircraft could more efficiently carry out close air support missions.\footnote{Tom Bowman, “Gen. Dempsey: Better to Get Others to Solve their Own Problems,” National Public Radio, January 17, 2014.} With respect to compensation reform, the Joint Chiefs acknowledged the hard choices required to avoid a “crisis” of overinvesting in manpower at the expense of capability and readiness.\footnote{The Commandant of the Marine Corps, General...
James Amos, summarized the frustration as the Joint Chiefs testified about compensation reform before the S.A.S.C. in May 2014:

There is much about today’s discussion on compensation proposals that frankly I do not like, but I’m stuck with them, I’m stuck with them because I have raided every other pot of money available to me to pay for a ready Marine Corps.24

OSD acted in lockstep with the Chiefs. Hagel felt curbing personnel costs and enacting other reforms as soon as possible were critical, given that the defense budget “could very well return” to full BCA Title III–level funding in FY 2016 and beyond.25 But without congressional approval for these cost-savings measures, the DoD would have to again pull from readiness accounts and delay modernization.

The Joint Chiefs of Staff, who had adamantly but ultimately unsuccessfully warned Congress of the risk to readiness and modernization as sequestration approached in early 2013, now attempted to illustrate what an actual loss in flexibility meant. During a March 2014 H.A.S.C. hearing on the FY 2015 budget request, Representative Adam Smith (D-WA) asked Hagel and Dempsey how they would balance the budget given that Congress was unlikely to approve the DoD’s requested reforms. In turn, Dempsey presented an infographic developed by the Joint Staff’s J-8 Directorate that showed what $1 billion bought in terms of modernization and readiness (see Figure 4.2).26 If Congress forced the DoD to fund legacy platforms, compensation growth, or infrastructure the budget request had asked to curtail, the Joint Staff wanted Congress to know what they would be forced to cut in return. As VCJCS Winnefeld argued, “Every efficiency we need that’s denied, every program cut we need that’s reversed, every element of old force structure . . . we’re required to keep will require a decrease in readiness or modernization somewhere else.”27

The DoD attempted to make up for the readiness “hole,” as Dempsey put it, and modernization delayed during the FY 2013 sequester in the FY 2015 budget request through a proposed Opportunity, Growth, and Security Initiative (OGSI).28 The OGSI provided an additional $26 billion to the DoD to accelerate investments in readiness and modernization.29

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However, the proposed OGSI funds were to be tied to an equal increase in both discretionary defense and nondefense spending accounts. While members of the armed services committees were sympathetic to the need for additional funds for the DoD, Congress was unwilling to compromise on a budget cap outside the BBA. Ultimately, it did not approve the President's request for OGSI.

In addition to budget flexibility, OSD and the Joint Chiefs pushed Congress to provide the DoD more time to meet the revised BCA caps. Hagel remarked in his June 2014 testimony to Congress, for instance, that the DoD would implement a five-year plan to reduce end strength to meet BCA Title III–level cuts. Significant cuts could not be taken quickly without severely increasing risk. For instance, savings could be generated by reducing force structure, but downsizing personnel to meet sequestration-cap budget levels could not happen over a single year. Greater savings could also be gained over time; if Congress approved such DoD-proposed reforms as compensation changes, savings would total $93 billion over five years. The DoD stated that it could eventually manage risk under BCA Title III–level caps, but it needed time and funding above the caps in the near term to do so.

Both flexibility and time, however, hinged on having budget certainty. Across the DoD, that meant removing the shadow of BCA Title III–level cuts in the near term. In 2012, Obama,

### FIGURE 4.2
**What $1 Billion Buys**

<table>
<thead>
<tr>
<th>Rebalancing the Joint Force—$1B Buys...</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Readiness</strong></td>
</tr>
<tr>
<td>- 12 F-16 squadrons for 1 year</td>
</tr>
<tr>
<td>- 8 KC-135 squadrons for 1 year</td>
</tr>
<tr>
<td>- Carrier strike group for 5 months</td>
</tr>
<tr>
<td>- 2 carrier air wings O&amp;M for 12 months</td>
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<tr>
<td>- 1K marines—USMC embassy security group for 10 years</td>
</tr>
<tr>
<td>- 15 USMC infantry battalions for 1 year</td>
</tr>
<tr>
<td>- 3 Army infantry BCTs for 1 year</td>
</tr>
<tr>
<td>- 20 combat training center exercises over 2 years</td>
</tr>
<tr>
<td>- Minuteman III fleet (450 ICBMs) for 1 year</td>
</tr>
<tr>
<td>- 10,000 service members for 1 year</td>
</tr>
<tr>
<td><strong>Modernization</strong></td>
</tr>
<tr>
<td>- 9 joint strike fighters</td>
</tr>
<tr>
<td>- 2 littoral combat ships</td>
</tr>
<tr>
<td>- 5 P-8A maritime multi-mission aircraft</td>
</tr>
<tr>
<td>- 900 JSOW and 80 AMRAAM weapons</td>
</tr>
<tr>
<td>- Upgrades to 1K light armored vehicles and 140 amphibious assault vehicles</td>
</tr>
<tr>
<td>- Army ground combat vehicle RDT&amp;E</td>
</tr>
<tr>
<td>- 50 Black Hawk helicopters</td>
</tr>
<tr>
<td>- 5 KC-46A strategic tanker aircraft</td>
</tr>
<tr>
<td>- Terminal high altitude air defense battery with 48 interceptors</td>
</tr>
</tbody>
</table>

*$1 Billion Buys* One of the Above  
*These figures are rough orders of magnitude built around multiple assumptions  
**Readiness costs include military personnel

Panetta, and the OMB had explicitly directed defense officials not to plan for sequestration in an ultimately unsuccessful effort to make it appear unmanageable to Congress.\textsuperscript{33} Hagel now pushed OSD and the services to accept that sequestration and the lower BCA Title III caps were indeed the “law of the land” and to publicly plan for its consequences in the FY 2015 budget request. The DoD therefore deliberately planned at least two budgets for FY 2015 based on its work during SCMR: one that funded the DoD above BCA Title III in FY 2016 and a second at BCA Title III–level caps in FY 2016 and beyond. Defense officials then contrasted these two budgets in the 2014 QDR, as well as in an addendum to the FY 2015 budget request titled “Estimated Impacts of Sequestration Level Funding.” If BCA Title III–level cuts returned, the DoD informed Congress, an aircraft carrier would be retired, a squadron of F-35s reduced, and the Army’s active end strength would fall to 420,000 personnel. These would be in addition to numerous other capacity, capability, and readiness cuts across all services.\textsuperscript{34} With budget certainty, the DoD could still meet the nation’s defense strategy, but as Dempsey noted, “If sequester-level cuts return in 2016, the risks will grow, and the options we can provide the Nation will shrink.”\textsuperscript{35}

Congressional Action Constrains Department of Defense Levers to Manage Resource Constraints

The FY 2015 NDAA was signed into law on December 19, 2014, as the government continued to operate under a series of continuing resolutions.\textsuperscript{36} However, Congress did not implement all the DoD’s requested reforms or alter the BCA, forcing the DoD to fund programs and initiatives not included in its strategic rebalancing effort at the expense of those that were supposed to be prioritized. For instance, the final FY 2015 appropriations bill appropriated $337.1 million in funding to continue operating the A-10 fleet for the fiscal year against the efforts of the DoD and H.A.S.C. Chairman McKeon and ranking member Smith to retire the platform.\textsuperscript{37} The FY 2015 NDAA prohibited the DoD to use any funds to retire the first-generation UAV MQ-1 Predator, U-2, KC-10 Extender, or E-3 Sentry Airborne Warning and

\textsuperscript{33} Hale, 2015, p. 4; and Lew and Panetta, 2011.


\textsuperscript{35} See CJCS Dempsey’s prepared testimony in U.S. Senate, 2014b, p. 23.

\textsuperscript{36} Specifically, these continuing resolutions were: P.L. 113-164 (September 19–December 11, 2014); P.L. 113-202 (December 12–December 13, 2012); P.L. 113-203 (December 13–December 17, 2014); and ultimately P.L. 113-235, which would run until February 27, 2015. See \textit{Continuing Resolutions: Overview of Components and Practices}, Washington, D.C.: Congressional Research Service, R42647, April 19, 2019, p. 26, Table 5, “Number, Page Length, and Duration of Continuing Resolutions (CRs).”

Control aircraft or to terminate the C-130 Hercules avionics modernization program.38 Likewise, Congress provided $190 million to reverse the DoD’s request to reduce commissary subsidies, which the DoD had expected would save $1 billion over three years. These changes, along with others, were funded by cuts to other requests across the budget, such as $2.9 billion decrease in O&M “readiness” funds ($1 billion of which Congress moved to OCOs at the expense of other requested items in the OCO budget).39 Rebalancing was constrained by Congress’s unwillingness to provide additional flexibility to make trade-offs, and the BCA Title III caps were still set to return in FY 2016. As a result, leaders within OSD and the Joint Staff realized they needed better ways to manage the DoD’s limited means.

Balancing Ends, Ways, and Means amid Changes to the Global Security Environment

While senior defense officials defended the FY 2015 budget request to Congress, changes to the global security environment created unanticipated pressures on the force and subsequently the defense budget. On March 1, three days before the DoD released the 2014 QDR, Russia approved the use of force in Ukraine to protect Russian interests. This was one event in a series of escalatory actions that raised tensions between Russia and the United States to their highest in decades. In August, U.S. forces launched the first airstrikes against ISIS as its forces rapidly approached Baghdad. In the same month, Hagel created the Ebola Task Force within the Pentagon, which by September had grown to 3,000 personnel deployed to West Africa under Operation United Assurance.40 In light of these events, both civilian and military leadership began to reevaluate how the DoD should balance its ends, ways, and means to achieve the nation’s defense strategy.

Although the global developments were unanticipated, they did not change the DoD’s strategic ends. During the FY 2016 budget development cycle, which took place in the fall of 2014, officials assessed whether the “surprises,” as characterized by Deputy Secretary of Defense Work, “fundamentally change[d] the assumptions” of the defense strategy outlined in the 2014 QDR. They determined that the strategic priorities remained “germane,” although the assumptions that underpinned them, particularly regarding Europe and the Middle East, would need to be constantly reevaluated. While the strategic ends remained the same, the DoD required more means or better ways to achieve them within an evolving geopolitical environment.


39 For more detail on funding allocation in the FY 2015 NDAA, see Towell, 2015a.

These developments created demands that consumed readiness and resources, pushing the DoD to double down on its long-term budgetary requests for flexibility, certainty, and time to increase its means. In November 2014, Dempsey impressed upon the S.A.S.C. how changes to the global security environment only reinforced the need for Congress’s support:

If we’d . . . had this hearing six months ago, we wouldn’t talk about the necessity of reassuring our European allies, we wouldn’t be talking about ISIL, we wouldn’t be talking about Ebola, all of which have had a—have pressurized our readiness. . . . It’s why I mentioned in my opening remarks that we really need budget certainty, flexibility and time.41

For the Joint Staff, the dynamic threat environment increased the need for stable, flexible funding.

As it did not count against the budget caps, the OCO budget continued to serve as a lever for the DoD to manage dynamic resource requirements and bolster its means while the BCA was the law of the land.42 Although the Obama administration had promised that it would incorporate OCO line items into the base budget since the campaign trail in 2008, the amount of base budget items included in OCOs grew between FY 2014 and FY 2015.43 Work acknowledged the grey line between base and OCO in a September 30, 2014, press conference when he stated that “there’s a lot of money in the OCO that should probably be in base.”44 The DoD recognized that while OCOs contained items that belonged in the base budget, the former’s evolution over time, political sensitivity, and new global demands weakened incentives for change.45

With the 2013 BBA limiting the FY 2015 base budget, OCOs offered an opportunity to resource emerging needs without reductions. The first OCO request for FY 2015, released in June 2014, included $800 million for the European Reassurance Initiative, specifically targeting increased strategic demand in Europe. In November, the Obama administration released an amendment requesting an additional $5 billion to support counter-ISIS efforts under Operation Inherent Resolve. In addition, the administration asked Congress to repurpose $1 billion in excess FY 2014 OCO funds for Operation United Assurance, along with an additional $112 million request for Ebola medical research as an emergency supplemental funding.

42 For years, analysis suggested that OCOs were being used to skirt BCA caps, but it became explicit in FY 2020 when the president’s OCO budget request included “OCO for base requirements.” See for example, Congressional Research Service, Overseas Contingency Operations Funding: Background and Status, Washington, D.C., September 6, 2019.
45 DoD, 2014d.
request to the FY 2015 budget. While OCO funds provided immediate relief to the department’s urgent demands abroad, as well as covering unfunded base budget items, the budget caps continued to constrain the DoD’s ability to plan.46

With increasing demand to meet the 2014 QDR’s strategic ends and the Joint Force’s means set to decline under BCA Title III–level caps in FY 2016, senior leaders turned to innovative approaches to advance strategic priorities efficiently and effectively. Even before the events in Ukraine or the rise of ISIS, senior officials had recognized the need for innovation to balance fixed ends with declining means. In the Chairman’s assessment of the 2014 QDR, Dempsey stressed that the imbalance between ends and means made it “imperative that we innovate to improve ‘ways’ we defend the Nation.”47 Likewise, Hagel argued that “innovation . . . will be center stage as we adapt to meet future challenges” in his 2014 QDR introduction.48 Unanticipated geopolitical events that followed would further elevate the need for innovation within the DoD.

The Third Offset Reinforces the Rebalancing Effort to Secure the Technological Advantage of U.S. Military Against Rising High-End Threats

The geopolitical events of 2014, coupled with the consequences and lingering shadow of the BCA, led senior defense officials to double down on innovation. Within OSD, Deputy Secretary Work led the Defense Innovation Initiative (DII), or the Third Offset Strategy, to catalyze the development of emerging capabilities and new operational concepts.

Since the Obama administration released the DSG in 2012, the DoD had focused on developing innovative technologies, concepts, and practices to sustain the United States’ global leadership in the face of declining resources. While innovation occurred in the years that followed, the BCA consumed planning resources within the DoD. Yet the delay and cost of sequestration in FY 2013 made innovation even more critical by 2014. Following the Russian invasion of Ukraine, DoD senior officials, especially Work, began to reevaluate the strategic technological and operational advantages of the United States relative to that of China and Russia. Work realized that both competitors had achieved parity in what he considered “second offset” technologies.49 For the United States to project power in the face of growing

47 DoD, 2014a, p. 59.
48 DoD, 2014a, Section I: Secretary’s Letter.
49 See Gentile et al., 2021.
A2/AD and other asymmetric capabilities, in the words of one former senior defense official interviewed for this report, it needed to “leap frog forward” with a third offset strategy.\footnote{RAND interview, JS011321.}


All these initiatives came under the shadow of constrained resources. In his address, Hagel stressed that the budgetary environment necessitated thoughtful investments with new approaches:

> Continued fiscal pressure will likely limit our military’s ability to respond to long-term challenges by increasing the size of our force or simply outspending potential adversaries on current systems, so to overcome challenges to our military superiority, we must change the way we innovate, operate, and do business.\footnote{Hagel, 2014b, p. 1.}

The DoD could no longer simply spend its way to superiority. Hagel also recognized the need for innovation to be “Department-wide and come from the top” in the face of “constrained and uncertain budgets.”\footnote{Hagel, 2014b, p. 1.} In turn, he placed Work, the main architect behind the Third Offset, in charge.

One of Work’s first steps was to try to revive the DoD’s SSA that had atrophied since 2011 to explore innovative ideas and resource-informed investments. A day before Hagel announced the start of DII, Work sent a memo to each of the Tri-Chairs with guidance for SSA to explore new force structure approaches to meet future threats. Work’s effort to revive SSA, however, faced challenges as friction continued to emerge between stakeholders over planning assumptions and agreement on the broader basis for analysis. In 2015, the Joint Staff stopped producing joint CONOPS through the SSA, deferring to internal analytic processes instead. By 2016, the SSA still failed to meet Work’s expectations. The 2016 Defense Analytic Guidance, sent from Deputy Work’s office, stated that the SSA was not “adequately exploring innovative approaches to meet future challenges.”\footnote{GAO, 2019, p. 18.} The fractured analytic process left the Third Offset without the baseline products Work desired for cross-DoD decisionmaking.
While the Deputy Secretary attempted to revive and reorient the Tri-Chairs toward innovation, he also created a separate group to leverage wargaming as a tool to test innovative concepts and inform resource decisions. In two memoranda signed by Work, released in February and May 2015, respectively, he formed the Defense Wargaming Alignment Group to conduct gaming across several time horizons, each with a different objective. It would be run by four “Quad Chairs”: OSD(P), CAPE, ONA, and the Joint Staff. Their products were intended to feed into the SSA. As the SSA had atrophied, however, Work and new VCJCS General Paul Selva (who succeeded Winnefeld in September 2015) also created new forums and pathways—such as a wargame repository and monthly reports to four-star leadership—for results to disseminate across stakeholders. Over the next few years, a new emphasis on wargaming spread throughout OSD, the services, and the Joint Staff.

The reinvigoration of wargaming at the DoD had direct ties to the constrained budget as well. Work and Selva conceived of wargaming as a cost-effective means of achieving innovative ideas under a constrained budget. These innovative ideas had a direct link to informing programmatic decisions; as Work put it, “wargaming . . . cannot stand apart from the budget process.” The Quad Chairs were expected to conduct “portfolio-rebalancing exercises” as a means to test where limited resources could be best applied. OSD(P), as one former senior defense official recalled, played games that combined resource-constrained portfolio trades with tactical usage to assess effectiveness of particular investments. Work also ensured that office-level resource constraints did not discourage innovative wargames that fit the strategic direction. Each year, Work offered $10 million through the Wargaming Incentive Fund, which interested offices could apply for through a proposal process. In turn, the increased use of wargames under the Third Offset informed decisionmaking under budget constraints, even as these limitations also informed the wargames themselves.

The Third Offset also informed ongoing efficiency and affordability efforts with an eye toward prioritizing capability over capacity. On April 15, 2015, USD(AT&L) Frank Kendall announced the start of BBP 3.0. While Undersecretary Kendall described it as more “continuity than change” relative to BBP efforts to improve acquisition processes and outcomes, BBP 3.0 reinforced the Gates era affordability and efficiency directives with a new “stronger


58 Work and Selva, 2015.

59 Work, 2015, p. 2.

60 Work, 2015, p. 2.

61 RAND interview, SD012621.

emphasis on innovation, technical excellence, and the quality of our products.” Ash Carter was appointed Secretary of Defense in February 2015 and, along with Kendall, co-creator of the previous BBP initiatives, the new Defense Secretary argued at the March 2015 S.A.S.C. hearing that through BBP 3.0 the DoD was “recommitting” to using defense dollars more wisely as they asked for the first budget increase since 2010.

Another outcome of the Third Offset to improve the DoD’s ways of maximizing its limited means was the Strategic Capabilities Office (SCO). Established in 2012 by then–Deputy Secretary Carter, the SCO’s purpose was to find quick and inexpensive modifications to use existing capabilities in new and innovative ways. According to one source, fiscal constraints at the end of the Obama administration, which made widespread modernization and replacement of legacy systems impractical, made new use of old capabilities critical to closing the gap in a high-end fight. The SCO fit the bill. According to Work, the SCO’s portfolio of projects across the services increased from $200 million annually in its first year to over $1 billion annually by 2016. Innovations such as converting the SM-6 surface-to-air missile into an antiship weapon and developing hypervelocity projectiles from existing cannons and naval guns became examples of the SCO’s ability to achieve big wins with small changes under tight fiscal pressure. Those kinds of innovations have since worked their way into the U.S. Joint operational force. For example, in 2021, the U.S. Navy was working toward integrating the SM-6 into its long-range fire capabilities and the Navy is now using the SM-6 as an antiship weapon system.

Overall, the Third Offset sought to generate innovation within the DoD as it rebalanced toward a new strategic direction. While not directly tied to the budget, the initiative was motivated, in part, by the environment of fiscal constraints in the aftermath of the Great Recession and the BCA. Once announced, many of the Third Offset’s key components guided the DoD toward more innovative decisionmaking with limited resources, such as the attempted revival of SSA and reinvigoration of wargaming. Other initiatives in this period were programs that directly explored opportunities for more efficient and effective allocation of limited resources, such as BBP 3.0 and the SCO. As the DoD faced limited means and greater


66 Freedberg, 2016.


demand to meet its strategic ends, the Third Offset provided top-down leadership to improve the ways in a dynamic strategic and fiscal environment.

Shaping Global Integration Policy to Address a Dynamic Threat Environment and Resource Constraints

Congress officially authorized responsibility of “Global Military Integration” to the CJCS in the FY 2017 NDAA, granting top military authority to advise the Secretary on the allocation and transfer of forces around the globe.\(^6^9\) However, the roots of Congress’s FY 2017 NDAA authorization can be traced to the strategic and fiscal direction heralded by the 2012 DSG. Through it, leadership within the White House and the DoD aimed to better allocate U.S. forces around the globe while keeping the fiscal house in order. “Whenever possible,” stated the DSG, “we will develop innovative, low-cost, and small-footprint approaches to achieve our security objectives.”\(^7^0\) A particular driving point was moving away from the unsustainable readiness consumption and force structure demands of the wars in Iraq and Afghanistan. “With reduced resources,” the department would have to make “thoughtful choices” of where and when to conduct stabilizing operations to fulfill its rebalancing objectives.\(^7^1\) The global operating model of the previous decade could not be sustained, especially under downward fiscal pressure, without degrading readiness. As a result, the DSG directed the DoD to rethink how it allocated forces around the globe—the initial impetus for global integration.

This need only increased with the BCA. “As we face the twin challenges of reduced force structure and reduced readiness caused by sequestration,” stated Work in a September 2014 speech, the DoD had to reevaluate its balance between forward presence and surge force in the United States.\(^7^2\) The Joint Chiefs of Staff also agreed. In the Chairman’s review of the 2014 QDR, Dempsey stressed that the “reduced resources as a result of the national imperative of deficit reduction” made developing new presence models a key area of the DoD’s effort to rebalance.\(^7^3\) If sequestration returned, readiness challenges would “greatly reduce” the force’s ability to conduct steady-state operations or respond to a crisis.\(^7^4\) If unchecked, reduced presence and capabilities to quickly allocate forces would likely embolden adversaries and create

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\(^7^0\) DoD, 2012b, p. 3.

\(^7^1\) DoD, 2012b, p. 6.


\(^7^3\) DoD, 2014a, p. 59.

\(^7^4\) DoD, 2014a, p. xvi.
a more complex security environment. Defense officials, however, did not have to wait for the return of BCA Title III budget caps for new global challenges to emerge.

To senior leaders, the events of 2014, which created new demands in Europe, Africa, and Middle East for the United States, demonstrated that resource prioritization and readiness investments would need to be balanced on a global level. The groundwork for what would become Global Military Integration—a focus on managing allocation of the force's capacity across the globe to balance CCMD demand with readiness consumption—was laid by Dempsey. For him, global operations under continuing fiscal constraints required a new approach. “Today, with the number of complex global security issues we face growing and with resources shrinking,” he argued in a January 2015 Joint Forces Quarterly editorial, the global operating models of the past were no longer adequate.\(^75\) Instead, the Joint Force had to prioritize threats around the globe while balancing present and future risk. Entering his final year as Chairman in 2015, Dempsey sought to turn this vision into reality for his successors.

In the June 2015 NMS, the first issued since 2011, Dempsey introduced the concept of “globally integrated operations.”\(^76\) Supply and demand for forces across combatant commands would now be viewed from a global perspective, ensuring allocation of forces accounted for the priority of a mission relative to other demands.\(^77\) With an eye toward integration, the CJCS could better advise the President and the Secretary of Defense on how the DoD's resources should be allocated to balance risk in the present and future. In effect, a more strategic allocation of the force would provide greater focus on readiness recovery, or the ability to surge forces in case of conflict.\(^78\) The concept of global integration, therefore, was described by proponents as an attempt to improve the department’s management of limited resources.

As the theory and policy behind global integration evolved within the Joint Chiefs of Staff, the DoD began putting its ideas into practice to meet increasing strategic demands with constrained resources. Over the course of 2014, the Joint Staff began a series of reforms to the GFM process to move it from, in Dempsey's words, "strictly demand-based to something more resource-informed."\(^79\) The GFM process, which directs the assignment, allocation, and apportionment of forces from the services to the COCOMs, had been recognized by the Joint Chiefs of Staff as serving the interests of the COCOMs without enough consideration to the

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\(^{77}\) It is important to note that the designation of the Chairman of the Joint Chiefs of Staff as the “global force integrator” in 2016 was controversial in its perceived implications for military and civilian roles and responsibilities and the balance of power between military and civilian leaders. See for example, Shinkman, 2019.

\(^{78}\) Joint Chiefs of Staff, 2015b, p. 15.

\(^{79}\) Dempsey, 2014, p. 5.
services’ mandates to maintain ready forces. They now sought a more resource-informed process intended to gain a better sense of the global availability of forces, then distribute them between high-priority missions and rebuilding readiness.

The return on GFM reforms to support global integration were gradually realized over the following years. By FY 2017, the services had set a “ceiling” of the maximum ready forces they could produce in a year, while the CCMDs had established a “floor” as the minimum number of forces required to meet their objectives within their area of responsibility. Both were passed to the Joint Staff to aid in more effective resource allocation. In 2015, the DoD acknowledged that with the aid of more frequently updated apportionment tables, the CCMDs had begun revisions to several major plans to match current and projected force availability. Within the Joint Staff itself, better data practices and the later introduction of Directed Readiness Tables—which contain the CJCS-recommended quantity of forces that must be ready to execute strategic objectives each year—led one former senior defense official to remark that since 2014 the reforms were “excellent for efficiency” in managing readiness and demand.

General Joseph Dunford assumed the Chairmanship from Dempsey on September 26, 2015. He continued to develop the concept of the global integration to support resource-informed decisionmaking. Like Dempsey, Dunford focused on balancing present and future global demands, which to him remained hindered by readiness lost from years of budget cuts. As he made the case before Congress for a more stable and flexible budgetary environment, Dunford refined the Joint Staff’s policy of global integration and achieved a better way to use limited means. While the FY 2017 NDAA had authorized the CJCS’s authorities for global integration, it was not until the release of the 2018 NDS, which labeled the CJCS the “Global Integrator,” that the Joint Staff began to publicly articulate the core concepts of global integration. The long-term effects of sequestration, budget cuts, and a decade of conflict informed global integration policy as it developed but likely served as less of an impetus

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80 GAO, 2016, pp. 10–11.
81 GAO, 2016, p. 11.
82 GAO, 2016, p. 12.
84 Historical Office, 2020, p. 33.
during its release due to loosened budget constraints relative to years prior. However, those loosened constraints did not come quickly or easily.

“There Is No Slack Left”: Pushing for an Increase to the Defense Top Line

Amid congressional inaction on proposals that would have provided more budget flexibility or stability, senior defense officials presented their FY 2016 budget request on February 3, 2015, with a clear message: Repeal the BCA and increase the base defense budget, or the DoD would not be able to execute the nation’s defense strategy. The FY 2016 defense budget request was, in the words of Joint Staff (J-8) Director Mark Ramsey, a DoD “fiscal turning point.”

After declining or flat budgets since 2010, the FY 2016 budget submission requested a 4 percent increase in the base budget, or $38 billion over the BCA Title III cap set for that year. The request represented the DoD doubling down on the rebalancing effort laid out the previous year and contained the same topline budget as projected in the FY 2015 Future Years Defense Program (FYDP). But whereas senior defense officials had previously argued that the return of BCA Title III caps would only substantially increase risk, they now drew a metaphorical line in the sand. If Congress did not approve the DoD’s proposed reforms or authorized funding below the President’s requested defense budget, let alone allow the lower budget caps to return, the nation would have to adjust its strategy. As Dempsey testified before the House’s Appropriations Committee Defense Subcommittee in February 2015, “There is no slack left.”

Continuing to Rebalance the Force

The FY 2016 budget request largely continued the rebalancing priorities articulated in the FY 2015 budget request and the 2014 QDR. It also included updated modernization plans. As in the previous year’s request, the budget prioritized Air Force and Navy modernization while cutting Army and Marine Corps force structure. The Air Force’s major modernization programs, including the F-35, KC-46 tanker, and Long-Range Strike Bomber, would under the request remained funded at similar levels. The Navy, which had considered whether to

87 By 2018, several officials within OSD felt that the statutory CJCS responsibility of Global Integration and label of Global Integrator overly expanded the Chairman’s influence and degraded the civilian-military relationship within the Pentagon. However, initial reforms to the Global Force Management system in 2014 and 2015, which fall within the scope of our study, to advance global integration took direction and support from OSD leadership in Deputy Secretary Bob Work. For later criticism of the CJCS role in Global Integration, see Shinkman, 2019.


continue the LCS program in FY 2015, now pressed on improving its survivability capabilities with a modified configuration while continuing to develop an *Ohio*-class SSBN replacement. The Army, while still losing capacity, advanced helicopter modernization efforts for the *Apache* and *Black Hawk*. The Marine Corps, facing small cuts to capacity, maintained funding for their Amphibious Combat Vehicle. As in the year prior, though, it did not receive modernization priority.90

While continuing key programs, the FY 2016 budget also contained elements reflecting the modernization priorities of the Third Offset and readiness implications for global integration. The request now included increased funding for cyber- and space-based capabilities, nuclear enterprise upgrades, and science and technology funds directed toward advanced capabilities—all components of the Third Offset’s objective to maintain technological and operational superiority.91

Nonetheless, the FY 2013 sequestration cuts and high operational tempo continued to affect readiness. The Navy, for instance, after continuous deployments to the Middle East and elsewhere, faced a large maintenance backlog that prompted the DoD to resubmit its request to move 12 vessels into a phased modernization program. The Navy also continued to request funds to undertake the aircraft carrier USS *George Washington*’s midlife nuclear refueling and maintenance.92 The problem was pervasive. In his prepared March 3, 2015, testimony before Congress, Carter argued that the Army, Navy, and Marine Corps would not reach their readiness goals under the proposed budget until 2020. The Air Force would not do so until 2023.93 With a similar approach to rebalancing the force, the debate on Capitol Hill focused on ensuring that the DoD had the budget flexibility, certainty, and time to implement programmatic changes. This time, senior defense officials were ready.

**Turning the Tide on the Top Line**

On March 3, 2015, Carter and Dempsey testified before Congress to defend the FY 2016 budget. In near lockstep, both conveyed to Congress that the FY 2016 budget constituted the minimum budget required to execute the nation’s defense strategy. If Congress did not approve the 4 percent increase, including its requested reforms, or allowed the BCA Title III caps to return, the DoD would no longer be able to execute the nation’s defense strategy. Carter and Dempsey argued that the DoD was prepared to meet the nation’s diverse security challenges, but ongoing congressional pressure to severely constrain the budget had to relent.94

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92 S.A.S.C., 2015, p. 17.

93 S.A.S.C., 2015, p. 15.

In his testimony, Carter reminded Congress that the situation they faced was not because of economic conditions or the DoD’s lack of effort to use defense dollars better, but political gridlock:

As I have said before, the prospect of sequestration’s serious damage to our national security and economy is tragically not a result of an economic emergency or recession. It is not because these budget cuts are a mathematical solution to the nation’s overall fiscal challenge—they are not. It is not because paths of curbing nondiscretionary spending and reforming our tax system have been explored and exhausted—they have not. It is not due to a breakthrough in military technology or a new strategic insight that somehow makes continued defense spending unnecessary—there has been no such silver bullet. And it is not because the world has suddenly become more peaceful—for it is abundantly clear that it has not.

Instead, sequestration is purely the collateral damage of political gridlock. And friends and potential enemies around the world are watching. 95

While the DoD may have expected a defense drawdown following the end of Operation Enduring Freedom and Operation Iraqi Freedom, the structure and timing of the BCA brought new challenges amid an already challenging moment of belt-tightening and strategic change.

Indeed, from the Joint Staff’s perspective, this budget drawdown diverged from earlier ones in part because of the nature of the build-up. J-8 Director Ramsey arguably best summarized the situation in a July 2015 briefing, when he listed six points of divergence from previous downturns (see Figure 4.3). For one, this downturn was not proceeded by force-wide period of modernization, nor was there a major force build-up—active-duty end strength had remained under 1,500,000 since 1995. Moreover, it was truly an AVF—there were no drafted personnel within the armed services. This drawdown also stood out because there was no foreseeable peace dividend from the end of OEF and OIF. In fact, global pressures had increased from several actors. Meeting these challenges had demonstrated that spending across the Joint Force was out of balance, with an overinvestment in capacity at the expense of readiness and modernization. Ramsey then argued FY 2016 was the DoD’s chance to see the end of the drawdown—a “fiscal turning point.” But, he asked, “Will we get the certainty, flexibility and time we need to properly rebalance the force?” 96

Once again pursuing flexibility within its budget, the DoD proposed similar reforms in FY 2016 as it had in its FY 2015 budget request. These included the retirement of legacy platforms, compensation and benefits reform, BRAC, and other requests that Congress had denied the previous year. They once again topped the DoD’s request for flexibility to enact internal cost-savings measures. One new addition, retirement system reform, had been sub-

95 S.A.S.C., 2015, p. 10.
96 Ramsey, 2015, slide 6.
ject to an independent study authorized by Congress with the FY 2013 NDAA. The Military Compensation and Retirement Modernization Commission had released its report and recommendations two days after the FY 2016 budget request had been submitted to Congress; the DoD later incorporated it into its own analysis and recommendations to the Hill. With these requests, Dempsey stressed to Congress that he “remained concerned that we still lack support for the reforms necessary” to support the Joint Force. Without flexibility, the DoD would once again have to maintain capacity at the cost of its priorities of modernization and readiness.

In terms of securing time and budget certainty, the Joint Staff still treated BCA Title III as the law of the land, but pressed against them more firmly than before. By FY 2015, the DoD had cut roughly $750 billion from its FY 2012–FY 2021 spending, well over the $487 billion required by the original BCA Title I caps but still $250 billion short of the higher BCA Title

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97 S.A.S.C., 2015, p. 27.
98 S.A.S.C., 2015, p. 27.
III caps. With its initial savings requirement met, the DoD now saw the BCA as more harmful than the national security imperative to reduce the deficit. In his July 2015 briefing, Ramsey bluntly argued that “to execute our QDR and NMS strategy, we need the Budget Control Act repealed.”\footnote{Ramsey, 2015, slide 10.} The FYDP, which officials had used in FY 2015 to show that the DoD could meet BCA Title III caps if given time to incorporate the cuts, grew almost $14 billion in the FY 2016 request.\footnote{Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, 2015, pp. 1–5.} While Carter remarked that the FY 2016 budget and out-year projections were executing the plan articulated in the FY 2015 budget, this increase over the FYDP was not accompanied by a remark regarding operating under future budget caps as it had the year prior.\footnote{S.A.S.C., 2015, p. 9.}

Senior defense leaders increasingly perceived that the threat posed by the national debt was less stressing than ongoing budget uncertainty. In 2015, while the Chairman viewed the relative threat of the country’s debt differently from Mullen’s oft-cited comment from 2011 that it was the single greatest threat to national security, the Joint Chiefs maintained their position that the DoD could not solve the politically motivated debt crisis. Representative Betty McCollum (D-MN) asked General Dempsey in his March 2015 testimony on budget posture: “Do you consider our Nation’s debt our single biggest threat to our national security today? Does that trump ISIL [ISIS], Iran, North Korea, or Russia?” The General replied concisely: “No, it does not.”\footnote{U.S. House of Representatives, 2015, p. 313.} The greatest threat to national security was not the debt itself. Instead, as Dempsey stressed in his testimony, severe budget cuts caused by political gridlock over the debt now threatened DoD’s ability to meet the national security objectives.\footnote{S.A.S.C., 2015, p. 28.}

For Dempsey, budget certainty was the least the DoD could have to meet the dynamic challenges it faced. “I would like to have at least one variable in my life fixed,” the CJCS testified. “And I think the one that is most likely to have an opportunity to be fixed is, in fact, our resources.”\footnote{U.S. House of Representatives, 2015, p. 289.} To Dempsey, his successor Dunford, and the rest of the Joint Chiefs, predictability was an obligation not only to the nation, but to the men and women in uniform. After years of uncertainty, the DoD needed to begin reversing the defense drawdown with a clear path to rebalancing for the future so that servicemembers would not enter a “fair fight” without “a competitive advantage” over their adversary.\footnote{U.S. House of Representatives, 2015, p. 78.} Importantly, in one sense, a decade of legislatively codified budget caps introduced a far higher degree of certainty about future resource levels than the department usually enjoyed. Yet, in practice, the policy environment for BCA implementation was always dynamic; with the introduction of two-year BBAs that amended the caps (and no guarantee that a future agreement would be coming), congressional and executive-branch wrangling over spending priorities that always cast doubt on the
endurance of past legislative decisions, along with the persistent challenge of operating under continuing resolutions, the budget environment in this period was far from predictable.

Ironically, the BBAs did provide DoD with a modicum of budget certainty, insofar as the department knew that it could not receive funding above the agreed two-year caps and the ten-year BCA. But senior defense officials had already endured years of continuing resolutions and contingency operational funding that was, until the Obama administration, meted out every few months. Some former senior defense officials interviewed for this report therefore found that the BBAs provided them with less certainty than they desired for the medium- and long-term planning that the DoD often required, especially as it contended with a continuing conflict in Afghanistan, a rebalance toward the Asia-Pacific, and a renewed focus on near-peer competition. One former senior official recalled that the DoD had become “addicted” to the BBAs and “started to expect them.” “However,” the official said, “we didn’t know what we were going to get [in the next BBA].” Another former senior official recalled that the two-year BBAs influenced service chiefs “not to make hard decisions,” but instead to “defer” those decisions down to the next BBA.

Even as the DoD pushed to increase its base budget, officials also sought to use OCO funds once again to augment their request. Although the OCO budget in FY 2016 continued its gradual decline from its 2008 peak, it remained an important lever for supporting emerging contingency requirements and a release valve for avoiding defense budget caps. Indeed, the practice of resourcing base budget items in OCOs emerged as a particularly contentious issue. Congressional advocates of increased defense spending without commensurate increases in nondefense discretionary spending placed the $38 billion difference between the President’s budget and the BCA cap in effect for FY 2016 into the OCO fund. The blatant addition of base items to OCOs to sidestep BCA requirements did not sit well with the administration. On October 22, 2015, the President vetoed the FY 2016 NDAA, including the implied increased OCO budget. The return of the BCA Title III caps stood just over two months away.

The Budget Increased, but Uncertainty Remained

After Obama vetoed the first FY 2016 NDAA in October 2015, the $38 billion dollar increase in OCOs without an equal increase in nondefense discretionary spending became the focal point of negotiations. On November 2, Congress passed the 2015 BBA, increasing the sequestration-enforced defense spending cap, but still $11 billion below what the DoD

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106 RAND interview, SD010721; RAND interview, SD010521; and RAND interview, SD012021.

107 RAND interview, SD010721.

108 RAND interview, SD010821.

109 Ramsey, 2015, slide 16.

planned for between FY 2016 and FY 2017. Like the 2013 BBA, the new law raised the level of the budget caps only for another two years. Obama signed the amended FY 2016 NDAA on November 25, authorizing the DoD $5 billion less than its total FY 2016 request. Outside of the DoD’s control, Congress and Obama agreed to transfer $9.1 billion of base budget items into OCO funds as a compromise to their earlier disagreement. Although imperfect, the DoD finally received its first budget increase since 2010. The defense drawdown had officially ended.\textsuperscript{111}

Still, the DoD’s repeated requests for flexibility, time, and certainty were not fully met. Congress continued to deny retirement of legacy platforms, enacted some but not all compensation and benefits changes, and did not approve another BRAC round. The FY 2016 NDAA, like those before it, also authorized funds to accounts that the DoD did not request at the expense of other department priorities.\textsuperscript{112} Although readiness and delayed modernization had previously borne the brunt of budget constraints, the department did attempt to cover the deficit from different accounts—namely, procurement and military construction—in order to keep readiness recovery and modernization on track.\textsuperscript{113} At the same time, BCA and BBA-modified budget caps remained in force into 2016. Officials and observers feared that the services would delay hard decisions in anticipation of continued relief from Congress after the 2013 BBA.

### Conclusion

From the 2013 BBA through the return of a defense budget increase in FY 2016, the DoD focused on rebalancing the force under the resource constraints of BCA, even as the U.S. economy continued to grow. While openly planning for the 2013 BBA’s expiration and return of the BCA Title III caps in FY 2016, OSD and Joint Staff officials stressed to Congress that BCA’s defense cuts would prevent the Joint Force from achieving national security objectives with an acceptable level of risk. To rebalance the force, the department needed flexibility, time, and greater certainty with the budget than the BBA and the two-year BCAs provided.

While the defense budget faced continued pressures, the combination of limited resources and rising global challenges in 2014 catalyzed new DoD efforts to find innovative ways to meet growing demands with fixed means. The Third Offset encouraged stakeholders to innovate with capabilities, concepts, and practices within the DoD to maintain U.S. technological and operational superiority. It came both to inform decisionmaking with constrained resources and to be informed by the prevailing fiscal environment. Global integration, the


\textsuperscript{112} For more information on the programmatic differences between the FY 2016 budget request and FY 2016 NDAA, see Towell, 2015b, pp. 3–4.

\textsuperscript{113} U.S. House of Representatives, 2015, p. 15.
initiative to give the Joint Staff more responsibility for allocating forces to balance global demands with future threats, directly sought to improve readiness and manage capacity that had been degraded both by sequestration and over a decade of conflicts. Together, these initiatives helped the DoD adjust to the dynamic fiscal and strategic environment as it looked to rebalance the force to meet the nation’s defense strategy.

Working within the BCA’s constraints, senior defense officials sought to meet ongoing fiscal pressures through a series of cost-saving reforms, many of which were a continuation of previous initiatives such as BBB 1.0 and 2.0 or SCMR-derived findings. A number of proposed reforms enjoyed OSD and Joint Staff support. The services’ resistance to sacrificing capacity, however, combined with the DoD’s inability to resurrect rigorous SSA capabilities, stymied subsequent cost savings and hard decisions on force structure. Compounding these problems, Congress denied many of the reforms that senior defense officials proposed as necessary to fulfilling the nation’s defense strategy. The defense budget increased in FY 2016 with the 2015 BBA ending the drawdown that had prevailed since 2010. However, the approved budget reallocated funds from the DoD’s rebalancing priorities and only delayed the return of the BCA Title III caps for yet another two years. As far as the DoD was concerned, a lack of flexibility, time, and sufficient budget certainty would continue to prevail, even as U.S. GDP had long exceeded its prerecession peak.
Conclusion

The Great Recession that took place from 2007 to 2009 and the subsequent emergence of a legislative environment focused on deficit reduction, coincided with a major strategic shift as the nation attempted to turn the page on a decade of wars in the Middle East. In this evolving strategic context, budgetary challenges affected how senior leaders prioritized investments. The mechanisms of budgetary constraints—short term funding, arbitrary budget caps, and the threat and reality of across-the-board sequestration—aFFECTED the DoD’s ability to plan, make choices, and fully implement defense strategies.

The period considered in this study began with an emerging economic crisis paired with a national commitment to large-scale operations in Iraq and Afghanistan. Indeed, the year 2008 saw both the depths of the Great Recession and the largest defense budget ever recorded in real terms. In this period, the recession’s immediate effects remained secondary to successfully winding down operations in Iraq, shifting resources to Afghanistan, and supporting readiness initiatives. As the Great Recession’s secondary consequences—especially the burgeoning national debt—became an increasingly compelling political reality, the DoD undertook efficiency initiatives to demonstrate that it was doing its part to maintain budgetary discipline.

Meanwhile, a new budgetary and strategic landscape was beginning to take shape, one that would hamper the DoD’s efforts both to satisfy ever-increasing political pressure to further reduce its budget and to respond to evolving global security threats. The January 2011 arrival of a Congress that brought a new level of focus on deficit reduction presaged that the DoD’s efficiency initiatives would be insufficient. In August 2011, Congress passed the BCA with a sequestration mechanism to enter force in January 2013, with half of cuts slated for the national defense budget, if a bipartisan “Super Committee” failed to agree to national budget reductions. The Super Committee did fail, setting in motion the sequestration clock.

Amid these looming budgetary pressures, senior defense leaders were looking beyond current operations to anticipate future challenges. In January 2012, President Obama and senior defense leaders released new strategic guidance. It called for a rebalance away from counterterrorism operations in the Middle East and toward Asia-Pacific with a leaner, more agile, and technologically advanced force intended to meet future near-peer competitive threats. Under explicit guidance not to plan for sequestration, senior leaders rang the alarm bells about deep and indiscriminate cuts. They did not, however, adjust budget execution and spending rates at the beginning of FY 2013.
Sequestration, briefly delayed by ATRA, nonetheless occurred on March 1, 2013. The structure of sequestration and the imperative to realize immediate reductions led to hits to readiness and the DoD’s large civilian workforce. It grounded aircraft and halted maintenance in all but the most essential roles. It also led to mandatory civilian furloughs. To consider the strategic implications of this new budget reality, Secretary Hagel initiated the SCMR in the spring of 2013. The SCMR was intended to assist the department in balancing “strategic ends, ways, and means” in this austere fiscal climate, as well as planning the rebalance effort for future years through the 2014 QDR and the FY 2015 budget. It was also designed to explicitly communicate the significant risks of cutting too deeply into the DoD’s budget. Such messaging led Congress to pass a short-term fix—the BBA—in December 2013, raising the level of the defense and nondefense budget caps for two years. However, this first short-term agreement set in motion a series of two-year BBA budget deals that hindered the DoD’s ability to plan its budget effectively and to implement the defense strategy. With the BCA Title III caps set to return in FY 2016, senior defense officials repeatedly requested flexibility from Congress. They desired the ability to implement internal cost-saving reforms, additional time to implement BCA Title III–level cuts, and budget certainty beyond the two-year BBA modification. These efforts were to little avail. Without levers, the department’s options for advancing priorities with limited resources were notably constrained.

The challenge of aligning strategy to resources emerged not just from arbitrary budget caps and short-term fixes. From 2014, it also emerged from an increasingly diverse array of global security threats. Global developments such as Russian aggression in Ukraine, the rise of ISIS, and the Ebola outbreak strained the DoD’s ability to rebalance under constrained resources toward a leaner, more agile, and technologically advanced force. With the FY 2016 budget request, defense officials made it clear to Congress that their request represented the minimum resources required to meet the United States’ national security objectives. If Congress did not end the defense drawdown or grant the DoD’s requests to exercise additional flexibility, the department would not be able to execute its strategy.

The constrained fiscal environment, combined with increasing global demands, also motivated creative DoD thinking about how to meet its strategic goals with limited resources. Under the Third Offset strategy, for instance, DoD officials implemented initiatives to find effective and efficient means to build and maintain U.S. technological superiority against near-peer competitors. Likewise, the Joint Chiefs began to look toward the concept of global integration to support better coordination and prioritization of resource allocation. Congress finally raised the DoD’s budget for FY 2016 with another two-year adjustment, positioning the DoD to more fully advance its strategic priorities. Yet even with the increase to the defense top line, the DoD still faced long-term budget uncertainty almost a decade after the Great Recession first hit.

In exploring senior defense leaders’ decisionmaking regarding manageable risk and navigating a challenging budgetary environment while advancing strategic priorities to turn the page on a decade of war in the Middle East and prevail against future threats, the authors of this report have gained several insights:
• Senior leaders reported that **policy decisions related to deficit reduction after the Great Recession drove resource constraints for the DoD to a greater degree than did the direct economic consequences of the Great Recession.** Indeed, the period when the national economy was in recession coincided with the largest-ever defense budgets in real terms, as senior leaders focused on supporting ongoing operations in Iraq and Afghanistan.

• Senior leaders reported that the **uncertainty about budget levels and constraints on discretion in achieving cuts presented a greater challenge than the depth of the reductions.** Uncertainty from short-term fixes such as continuing resolutions, two-year BBAs, or “will they or won’t they” periods of waiting for the sequestration trigger hampered the ability of senior leaders to plan. Congressional decisions about whether and how to provide the DoD with discretion (for example, over retirement of legacy platforms or military compensation reform) and the structure of the budget itself hampered senior defense leaders’ ability to prioritize.

• Decisionmaking by senior leaders about **how to prioritize investments was informed by the concept of “rebalance”** from current operations to emerging threats; from operations and sustainment to investment (procurement and RDT&E); from GWOT/CVE operations to near-peer adversaries; and from CENTCOM to other global areas of responsibility.

• Senior leaders reported that **increasing fiscal constraints incentivized internal innovation and reforms within the DoD as it sought to rebalance.** Albeit often contentiously, stakeholders across the DoD came together during this period to develop and support efficiency initiatives such as BBP, SCMR, elements of the Third Offset, and global integration.

• Various stakeholders play a critical role in informing decisions about how to align strategy to resources within acceptable risk (for this history, we have focused on the role of OSD and the Joint Staff). Senior leaders reported that **agreement across stakeholders on a common analytic basis for decisionmaking became strained amid deepening budgetary challenges.**
### Abbreviations

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<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>050-defense</td>
<td>050 defense budget function</td>
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<tr>
<td>A2/AD</td>
<td>anti-access and/or area denial</td>
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<tr>
<td>ACA</td>
<td>Affordable Care Act</td>
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<tr>
<td>AoA</td>
<td>analysis of alternatives</td>
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<tr>
<td>ARRA</td>
<td>American Recovery and Reinvestment Act</td>
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<tr>
<td>ASD</td>
<td>assistant secretaries of defense</td>
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<tr>
<td>ATRA</td>
<td>American Taxpayer Relief Act</td>
</tr>
<tr>
<td>AVF</td>
<td>All-Volunteer Force</td>
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<tr>
<td>BBA</td>
<td>Bipartisan Budget Act</td>
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<tr>
<td>BBP</td>
<td>Better Buying Power</td>
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<tr>
<td>BCA</td>
<td>Budget Control Act</td>
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<tr>
<td>BCT</td>
<td>Brigade Combat Team</td>
</tr>
<tr>
<td>BRAC</td>
<td>Base Realignment and Closure</td>
</tr>
<tr>
<td>BTA</td>
<td>Business Transformation Agency</td>
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<tr>
<td>C4ISR</td>
<td>command, control, communications, computers, intelligence, surveillance, and reconnaissance</td>
</tr>
<tr>
<td>CAB</td>
<td>Combat Aviation Brigade</td>
</tr>
<tr>
<td>CAIG</td>
<td>Cost Analysis Improvement Group</td>
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<tr>
<td>CAPE</td>
<td>Cost Assessment and Program Evaluation</td>
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<tr>
<td>CBO</td>
<td>Congressional Budget Office</td>
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<tr>
<td>CCMD</td>
<td>combatant command</td>
</tr>
<tr>
<td>CENTCOM</td>
<td>U.S. Central Command</td>
</tr>
<tr>
<td>CEO</td>
<td>chief executive officer</td>
</tr>
<tr>
<td>CJCS</td>
<td>Chairman of the Joint Chiefs of Staff</td>
</tr>
<tr>
<td>CNA</td>
<td>Center for Naval Analyses</td>
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<tr>
<td>CNAS</td>
<td>Center for a New American Security</td>
</tr>
<tr>
<td>CNO</td>
<td>Chief of Naval Operations</td>
</tr>
<tr>
<td>COCOM</td>
<td>combatant command</td>
</tr>
<tr>
<td>COIN</td>
<td>counterinsurgency</td>
</tr>
<tr>
<td>CONOPS</td>
<td>concepts of operations</td>
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<tr>
<td>CRS</td>
<td>Congressional Research Service</td>
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<tr>
<td>CSAR</td>
<td>combat search and rescue helicopter</td>
</tr>
<tr>
<td>CSBA</td>
<td>Center for Strategic and Budgetary Assessments</td>
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<tr>
<td>CSDJF</td>
<td>Chairman's Strategic Direction for the Joint Force</td>
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Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Definition</th>
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<tr>
<td>MAGTF</td>
<td>Marine Air-Ground Task Force</td>
</tr>
<tr>
<td>MILPERS</td>
<td>military personnel</td>
</tr>
<tr>
<td>MNF-I</td>
<td>Multinational Force-Iraq</td>
</tr>
<tr>
<td>MRAP</td>
<td>mine-resistant ambush protected</td>
</tr>
<tr>
<td>MTW</td>
<td>major theater war</td>
</tr>
<tr>
<td>NATO</td>
<td>North Atlantic Treaty Organization</td>
</tr>
<tr>
<td>NCFRR</td>
<td>National Commission on Fiscal Responsibility and Reform</td>
</tr>
<tr>
<td>NDAA</td>
<td>National Defense Authorization Act</td>
</tr>
<tr>
<td>NDS</td>
<td>National Defense Strategy</td>
</tr>
<tr>
<td>NMS</td>
<td>National Military Strategy</td>
</tr>
<tr>
<td>NSS</td>
<td>National Security Strategy</td>
</tr>
<tr>
<td>O&amp;M</td>
<td>Operations and Maintenance</td>
</tr>
<tr>
<td>OCO</td>
<td>Overseas Contingency Operation</td>
</tr>
<tr>
<td>OEF</td>
<td>Operation Enduring Freedom</td>
</tr>
<tr>
<td>OGSi</td>
<td>Opportunity, Growth, and Security Initiative</td>
</tr>
<tr>
<td>OIF</td>
<td>Operation Iraqi Freedom</td>
</tr>
<tr>
<td>OMB</td>
<td>Office of Management and Budget</td>
</tr>
<tr>
<td>ONA</td>
<td>Office of Net Assessment</td>
</tr>
<tr>
<td>OSD</td>
<td>Office of the Secretary of Defense</td>
</tr>
<tr>
<td>OSD(P)</td>
<td>OSD Policy</td>
</tr>
<tr>
<td>PA&amp;E</td>
<td>Program Analysis and Evaluation</td>
</tr>
<tr>
<td>P.L.</td>
<td>Public Law</td>
</tr>
<tr>
<td>PLAN</td>
<td>People’s Liberation Army Navy</td>
</tr>
<tr>
<td>QDR</td>
<td>Quadrennial Defense Review</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>research and development</td>
</tr>
<tr>
<td>RDT&amp;E</td>
<td>research, development, test, and evaluation</td>
</tr>
<tr>
<td>S.A.S.C.</td>
<td>Senate Armed Services Committee</td>
</tr>
<tr>
<td>SCMR</td>
<td>Strategic Choices and Management Review</td>
</tr>
<tr>
<td>SCO</td>
<td>Strategic Capabilities Office</td>
</tr>
<tr>
<td>SOF</td>
<td>special operation forces</td>
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<tr>
<td>SOFA</td>
<td>status of forces agreement</td>
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<tr>
<td>SSA</td>
<td>strategic analysis program</td>
</tr>
<tr>
<td>SSBN</td>
<td>nuclear-powered ballistic missile submarine</td>
</tr>
<tr>
<td>SSN</td>
<td>nuclear-powered cruise missile submarine</td>
</tr>
<tr>
<td>SSC</td>
<td>service support contractors</td>
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<td>SDTF</td>
<td>Sustainable Defense Task Force</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>TARP</td>
<td>Troubled Asset Relief Programs</td>
</tr>
<tr>
<td>TSAT</td>
<td>Transformational Satellite Communications System</td>
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<tr>
<td>UAV</td>
<td>unmanned aerial vehicle</td>
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<tr>
<td>USAID</td>
<td>U.S. Agency for International Development</td>
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<tr>
<td>USD(AT&amp;L)</td>
<td>Under Secretary of Defense for Acquisition, Technology, and Logistics</td>
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<tr>
<td>VCJCS</td>
<td>Vice Chairman of the Joint Chiefs of Staff</td>
</tr>
<tr>
<td>VEO</td>
<td>violent extremist organization</td>
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<tr>
<td>WMD</td>
<td>weapons of mass destruction</td>
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<tr>
<td>WSARA</td>
<td>Weapon Systems Acquisition Reform Act</td>
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</tbody>
</table>
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S.A.S.C.—See U.S. Senate, Senate Armed Services Committee.


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The Great Recession began in 2007, when a contraction in the U.S. housing market led to widespread losses in the financial sector and, subsequently, to economic shocks around the world. By December 2007, the country was officially in recession, and it would not emerge from this contraction for 18 months. Although national security decisionmaking was not immediately affected by the recession, uncertainties created by short-term political measures to address the deficit meant that DoD had to fundamentally reconsider its ways and means of ensuring national security in the 2010s.