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Hearing on The FY16 Budget Request: A View From Outside Experts: “Alternative Budgets and Strategic Choices”

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Chairman Thornberry, Ranking Member Smith, and distinguished members of the committee, thank you for inviting me to testify before you today. This hearing on strategic choices for the defense budget is very timely, since last week was an important week for national security and defense matters: on Monday, President Obama submitted his budget request; on Wednesday, Secretary of Defense-Designate Ashton Carter discussed that budget during his confirmation hearings; and on Friday, the White House released the long-awaited 2015 National Security Strategy. The unusual convergence of these important events offers a good opportunity to examine whether the strategic principles of U.S. defense policy and the resources being allocated to them are correctly aligned with each other.

This hearing examines the results of a strategic choices exercise conducted by the Center for Strategic and Budgetary Assessments (CSBA) last January. Although the results are a year old, they continue to have direct relevance for the 114th Congress in evaluating the tradeoffs of the defense budget request for Fiscal Year (FY) 2016. Those of us who participated in this exercise worked very hard to think through the strategic choices required given the immutable realities of the budget caps and the demands of the global environment, and I believe that our choices would be very much the same if we ran the exercise again today. Those choices, and the logic behind them, can help guide your efforts as you evaluate how to make the tough budgetary choices required to deliver the defense the nation needs.

The CSBA Strategic Choices Exercise

In January 2014, Todd Harrison of the Center for Strategic and Budgetary Assessments invited four think tanks to send teams to participate in a strategic choices exercise about the future defense budget, including the Center for a New American Security (CNAS). At the time, I served as the co-director of the Responsible Defense Program at CNAS, alongside Lt. General David Barno, USA (Ret.).¹ General Barno and I were chosen as the CNAS team for this exercise, which took place later that month.

¹ General Barno and I both left CNAS in January 2015; we are now affiliated with the School of International Service at American University.

² According to the just-released National Security Strategy, “Over the next 5 years, nearly half of all growth

Mr. Harrison will provide detailed information about the details of the exercise in his testimony to the committee today, so I will simply note its most important elements. It covered a 10-year period, in two five-year chunks – the first Future Year Defense Program (FYDP), from FY 2016 to FY 2020, and the second FYDP, from FY 2021 to FY 2026. CSBA’s online budget tool used the president’s FY 2015 defense budget request as the baseline, so all spending increases and cut were relative to those numbers. The exercise consisted of two different budget scenarios: one where the full spending caps contained in the 2011 Budget Control Act (BCA) remained in effect, and a second scenario where the BCA caps had been modified to half of their original amount.

Our Team’s Guiding Principles

The first step of the exercise involved identifying the strategic principles that would guide our budget choices. Our core strategic assumption was that the United States will remain a global power with global responsibilities for the next decade and beyond. The complex and unpredictable nature of international security environment will require the United States to protect and defend its national interests and the key principles of an open and free international order – such as maintaining freedom of access to the global commons.

We also assumed that the principles of the 2012 Defense Strategic Guidance, as reaffirmed by the 2014 Quadrennial Defense Review, would continue to guide U.S. national security policy into the future. Absent a major attack on the United States or other event that fundamentally changes U.S. threat perceptions and public support for large-scale military operations, we believe that President Obama and his successor – regardless of political party – are likely to prioritize U.S. interests in the same general way. Asia’s importance to the United States will continue to grow, driven largely by the expanding web of interdependent economic interests² as well as growing security competition and the potential for conflict. The United States will remain heavily engaged in the Middle East, especially given the threat posed by ISIS, but will prefer to address these security challenges by using a combination of special operations forces, military trainers and advisors, and other specialized capabilities rather than conducting major conventional military operations with large-scale ground forces. The U.S. military will not be sized to conduct large, extended stability operations, given the lack of public support for these missions as well as the prohibitive personnel costs that this sizing criteria would impose. Other regions of the world, including Africa, Latin America, and Europe,³ will be lower priorities for military engagement.

² According to the just-released National Security Strategy, “Over the next 5 years, nearly half of all growth outside the United States is expected to come from Asia.” The White House, *National Security Strategy*, February 2015, 24.

³ We conducted the budget exercise in late January 2014, before the Russian intervention in Ukraine and its annexation of Crimea. Europe is clearly now a higher strategic priority than it was then, and the United States has already increased its military support to some of the eastern NATO allies and may reconsider some of its force posture decisions. Nevertheless, the strategic choices we made during the exercise would

Based on these guidelines, we identified two strategic principles that guided our team's choices during the exercise. First, **we would take more risk in the short to medium term in order to reduce risk in the long term.** This was a difficult but necessary risk tradeoff, since the exercise required us to work within the budget caps imposed by the BCA. The fundamental choice in any strategy is where to assign risk, given finite resources and the impossibility of accurately predicting the future. The United States will certainly face many unanticipated security challenges and threats in the next three to five years as hybrid warfare proliferates. Some of those already require the use of U.S. military force – such as the ongoing operations against ISIS – and others undoubtedly will in the future. But the BCA requires lower defense budgets in the earlier years of this 10-year period than the later ones. We judged that the United States is not likely to face a compelling adversary with high-end military capabilities during these earlier years.

That assessment led to our second principle: **we would prioritize investments in advanced military capabilities, especially emphasizing research and development in the first few years.** Since such capabilities require very long lead times, failing to make those investments today could limit the U.S. military ability to defeat potential high-end adversaries in the long term – the middle of the 2020s and beyond. While the likelihood of facing such an adversary remains unclear, being unprepared for that possibility would be extremely dangerous. Given the rapid pace of technological change, we concluded that DOD must also avoid locking itself into current generations of technology and improve its ability to find, develop, and field new technologies quickly and effectively.

Scenario 1: Strategic Choices Under The Full BCA Budget Caps

The First FYDP: 2015-2020

The budget exercise quickly made clear that **it was virtually impossible to meet the budget caps during the first few years of sequestration without cutting civilian and military personnel, readiness, or both.** Personnel and readiness consume so much of the defense budget that we were simply unable to stay within the budget caps by solely cutting procurement, force structure, armaments, and basing. People and force readiness had to be sacrificed in order to stay within the budget caps.

We chose first to cut the number of civilians employed by the Department of Defense (DOD) and the military services by one-third – the maximum allowed by the exercise. Between 2001 and 2012, the number of DOD civilians grew by five times as much as the number of active duty military personnel (17 percent vs. 3.4 percent), and their pay and benefits accounts for \$74 billion of the annual defense budget.⁴ It not clear why so many

not have been significantly different had Europe been a higher priority – especially since many of our choices were driven by the high costs of military personnel, as discussed below.

⁴ See the bipartisan letter to Congress on defense reform, which was signed by individuals from 10 different think tanks (including this witness), June 3, 2013, available at <https://www.aei.org/publication/consensus-on-defense-reforms/>.

additional civilians were needed during major combat operations in Iraq and Afghanistan; it makes even less sense to maintain those disproportionately high numbers, and those high costs, now that those operations are over and the defense budget is shrinking. In our view, military combat forces – the sharp end of DOD’s spear – needed to be preserved even at the cost of deeply slashing civilian staff and overhead. By cutting the number of DOD civilians by one-third, the CSBA budget tool estimated that we saved more than \$13 billion dollars a year for each of the 10 years in the exercise. Similarly, we cut the number of DOD service support contractors by one-third (also the maximum allowed amount by the exercise), which generated an additional \$9 billion in savings.

Yet we also were driven to reduce the active duty and reserve end strength of all four military services. We cut active duty end strength by a total of 127,000 personnel, which saved almost \$7 billion a year. The largest cut came from the Army, which we cut from 490,000 to 420,000, partially reflecting our strategic decision to assume risk in the first few years as well as the fact that the personnel are the Army’s single largest expense by far. We also cut reserve forces in every service and the Army and Air Force National Guard, though the savings was far less (reflecting their part-time status). Again, we found that painful cuts to personnel of all varieties – uniformed, DOD civilian and contractors – were required in order to meet the budget caps numbers in the timeframe required.

Operations and maintenance costs constitute the second-largest chunk of the defense budget, after personnel, and much of that goes to training and readiness. We strongly resisted cutting these funds, since we believe that the United States has a responsibility to prepare its military forces as thoroughly as possible for the missions they are asked to conduct. Sending untrained or inadequately prepared forces into combat is dangerous and irresponsible. Yet sequestration forced us to make the same difficult choice that the services have made in recent years – training and readiness are expensive, and it is extremely difficult to stay within the budget caps without making some cuts to these funds. We did so as sparingly as possible, but still reduced readiness for all of the services except the Marine Corps.

We also cut air, sea, and land capabilities,⁵ and force structure from all of the services. We made significant cuts to the F-35 program, since its hefty price tag crowds out many other investments across the force. We shrank the planned buy of all three F-35 variants, though we cut more F-35As (the variant used by the Air Force) than F-35Bs and F-35Cs (used by the Marine Corps and Navy respectively). We eliminated all Navy cruisers, one carrier air wing, and several destroyers and some Littoral Combat Ships (LCS). We cut two active armored Brigade Combat Teams (BCTs) and three active infantry BCTs, as well as five Marine Corps battalions (two artillery, three infantry, and one tank). We cut both active and reserve civil affairs units, and bought fewer MC-130Js for special

⁵ The budget tool grouped capabilities into these three domains, instead of by service. We found this to be one of the most interesting aspects of the exercise; since we had to decide whether to increase or decrease spending for more than 800 individual options available, it was impossible to track how our changes affected individual services. We did not see how our choices broke down by service until the exercise was complete and we were briefed on the results.

operations forces (SOF). In many cases, these force structure cuts reflected the end strength cuts discussed above; it makes little sense to maintain force structure without the personnel to fill the units.

The exercise only gave us one option to reduce excess infrastructure: a “clean kill” Base Realignment and Closure (BRAC), where any savings would have to be realized within a five-year period. This option was designed to avoid the problems that plagued the 2005 BRAC, whose ultimate savings was 72 percent lower than initially estimated.⁶ Reducing excess infrastructure would have been one of our highest priorities if the tool had included more options to do so. The Army estimates that it has 18 percent excess capacity, costing more than \$500 million a year, and the Air Force estimates that it that it has 20 percent excess capacity.⁷ **It is unconscionable to require these services to continue spending money on facilities that they do not need while the budget caps require them to cut end strength, training, and readiness – which puts American troops at unneeded risk.**

The budget cuts required by the BCA left very few dollars available for increased investments. Nevertheless, we increased spending in a few selected areas by limited amounts – even though any money that we added had to be accompanied by an equivalent cut somewhere else in order to stay within the budget caps. In accordance with our strategy, we made small additional investments in science and technology; cyber offense and defense; new F-15 Strike Eagles and F-16 E/F Block 60 (partly to offset the cuts to the F-35A); and unmanned intelligence, surveillance, and reconnaissance.

The Second FYDP: 2021-2025

Once we submitted our budget choices for the first FYDP, we then had to prepare a budget for the second FYDP. However, the online budget tool captured all the downstream savings from our earlier choices. Most notably, the large end strength cuts we made in the first FYDP saved so much money in the second FYDP that we were able to restore an additional 30,000 active Army personnel (for a total end strength of 450,000) and the force structure to effectively utilize them. We then restored the cuts we had made during the first FYDP to destroyers, LCS, long-range strike platforms, and aerial tankers. We also made greater investments in science and technology funding

⁶ In 2012, the Government Accountability Office estimated that the net present value of the BRAC was \$9.9 billion, which is 72 percent less than the 2005 estimate of \$35.6 billion. Government Accountability Office, *Military Base Realignments and Closures: Updated Costs and Savings Estimates from BRAC 2005*, GAO-12-709R, June 29, 2012, 4.

⁷ The Navy has stated that it has already closed most of its excess facilities in previous BRAC rounds. See Katherine G. Hammack, Assistant Secretary of the Army (Installations, Energy and Environment), “2014 Green Book: The costly consequences of excess Army infrastructure and overhead,” September 30, 2014; Jim Garamone, “Readiness, Modernization in Flux, Air Force Secretary Says,” American Forces Press Service, April 23, 2013; and Secretary of the Navy Ray Mabus, testimony to the House Appropriations Defense Subcommittee, March 25, 2014.

(especially research and development); space, cyber, and communications;⁸ SOF capabilities; and big-deck amphibious ships.

These reversals suggests that the budget caps are structured in a way that promotes poor strategic choices: it wastes time, resources, and especially human capital to make painful cuts to end strength and capabilities only to reverse them a few years later.

Scenario 2: Strategic Choices Under The Half BCA Budget Caps

The second scenario assumed that Congress passed legislation increasing the budget caps to about half of the BCA amount. This enabled us to make far better choices about where to allocate cuts and strategic investments – particularly during the second FYDP, when the downstream savings once again gave us much more budget flexibility. **The ability to preserve critical military capabilities under these modified budget caps is very significant.**

In accordance with the strategic principles identified above, we invested most of the additional funds available in this scenario into two key areas. First, we greatly increased funding for space, cyber, and communications. We added \$32.6 billion to this category in the first FYDP and \$101 billion in the second FYDP (compared to \$1.3 billion and respectively in the full sequestration scenario). Most of these funds were spent on offensive and defensive cyber capabilities, satellites, and communications technologies.

Second, we also boosted spending science and technology to \$48.8 billion in the first FYDP (compared to \$14.5 billion in the full sequestration scenario). We invested most of this additional money in basic research, applied research, and advanced technology development, reflecting our view that DOD must avoid locking itself into current technologies and must instead develop and field next-generation technologies wherever possible. Interestingly, we spent less money on this category during the second FYDP than we did in the full sequestration scenario (\$32.4 billion compared to \$43.9 billion). That was largely because this scenario gave us enough additional funds to buy the capabilities we wanted in the first FYDP, instead of having to delay them into the second FYDP in order to meet the more stringent budget caps.

We only made two other notable changes. We restored modest amounts of ground force structure – preserving two more active infantry BCTs in the first FYDP, and adding one additional Guard or reserve armored BCT and one additional Marine artillery battalion in the second FYDP. We also invested more in special operations forces, including an additional Army special forces battalion in the first FYDP, and a wide range of specialized SOF transport capabilities and additional language training in the second FYDP. Almost all of our other budget choices remained the same as in the full sequestration scenario.

⁸ Space, cyber, and communications constituted a single budget category in the exercise, though there were many specific choices within each of these three categories.

Implications for the FY 2016 Defense Budget

Exercises of this type have to simplify some extremely difficult real-world choices. The 800 choices available in the CSBA budget tool pale in comparison to the number of line items in the defense budget each year. Nevertheless, the strategic choices exercise succeeded at illuminating some of the biggest strategic choices and trade-offs facing DOD as it continues to transition from 13 years of war into a new environment of strategic uncertainty and budget constraints. We drew four important conclusions from this exercise that should inform members of Congress as they assess the administration's defense budget request for Fiscal Year 2016 and the services' annual posture statements.

1. **DOD is not investing in the right things for the future.** The exercise was not simply a budget cutting drill about meeting the spending caps. Instead, all four teams decided to rebalance the defense budget by reducing spending on many current priorities and reinvesting the newly-freed funds into other parts of the defense budget. Our team cut the planned defense budget by \$716 billion over 10 years – far more than required for the spending caps – but added \$384 billion in new spending in the full BCA scenario, and added \$509 billion in the half BCA scenario.⁹ This suggests that the planned DOD budget is overinvested in some key areas and underinvested in others.

Even though each team selected different guiding principles and strategies, all four teams independently chose to:

- Add investments in space, cyber, and communications
- Cut some non-stealthy fighter aircraft (and three of the four teams also cut some stealthy fighters)
- Retire F/A-18C/Ds, A-10s and U-2s
- Cut some armored and infantry BCTs (from both the Active Component and the National Guard)
- Cut some Marine tank battalions
- Cut some Navy carriers and destroyers
- Cut the number of DOD civilians and service support contractors
- Reduce military end strength
- Reduce readiness

2. **BRAC is essential.** A “clean kill” BRAC, as proposed in the exercise, offers significant rapid savings and avoids many of the pitfalls of the 2005 BRAC effort. Excess infrastructure is a cancer eating away at U.S. military capabilities and reduces the nation's essential warfighting strength due to the tradeoffs it imposes.

⁹ In the full BCA scenario, the team from the American Enterprise Institute (AEI) cut \$593 billion and added \$263 billion; the team from CSBA cut \$683 billion and added \$352 billion; and the team from the Center for Strategic and International Studies (CSIS) cut \$643 billion and added \$311 billion. In the half BCA scenario, the AEI team cut \$521 billion and added \$322 billion; the CSBA team cut \$609 billion and added \$410 billion; and the CSIS team cut \$517 billion and added \$318 billion.

3. **DOD must shed unneeded civilians and contractors.** Since September 2001, the number of DOD civilians and contractors has ballooned. Their numbers need to be reduced before cutting active and reserve uniformed manpower. Deployable fighting power must be protected and overhead and staffs – often densely populated with civilians and contractors – must be slashed to save needed money and restore balance to the force.

4. **Military compensation must be reformed.** This is a hard but necessary choice. Pay, benefits and health care for the All Volunteer Force are eating an ever-larger share of the defense budget. The recent Military Compensation and Retirement Commission report gets offers good recommendations on how to do so while grandfathering all currently serving members of the military, both active and reserve. The commission estimates that its proposals would save \$15 billion a year. If we had been able to include such savings in the exercise (which did not include an option for compensation reform), we would have reinvested those saved funds in needed military capabilities, much as we did in the half BCA scenario. Yet, cost savings is not the only reason to pursue these reforms. They may also improve retention, by offering military personnel more flexible options for the benefits that they care about the most, and by pushing the services to pursue a broader talent management approach to the personnel system.¹⁰

¹⁰ See Katherine Kidder, “How Should Military Leadership Respond to Calls for Compensation Reform?” Task and Purpose blog, February 2, 2015, <http://taskandpurpose.com/military-leadership-respond-calls-compensation-reform/>.