

FEBRUARY 2011

The Sacrifice Ahead *The 2012 Defense Budget*

POLICY BRIEF



By Travis Sharp

For the first time since the U.S. invasion of Iraq in 2003, the Department of Defense (DOD) has requested less funding for its new base budget than it did the year before. At 553 billion dollars, the fiscal year (FY) 2012 base budget request, which excludes supplemental war costs, is 1.2 percent smaller in real terms than the FY 2011 request. This decline signals a departure from the pattern over the last 10 years, when the base budget request grew an average of 3.7 percent in real terms each year as the Pentagon worked to support tens of thousands of U.S. troops serving overseas.¹ Defense Secretary Robert Gates also announced last month that DOD will reduce its planned expenditures by 78 billion dollars over the next five years. These funds, identified through DOD's ongoing efficiencies initiative, will return to federal coffers to help reduce America's yawning budget deficits.

While these changes are a good first step, the FY 2012 defense budget request does not go far enough to rebalance DOD and federal spending priorities given the fiscal pressures and unconventional threats facing the United States today. Since the politics of defense spending may paralyze Congress and the White House over the next 22 months, the impetus for further reform must come from DOD. Pentagon leaders – including the next secretary of defense – should do more in the months ahead to address two budgetary challenges that threaten U.S. national security: the Pentagon's need to further streamline its operations and America's growing debt.

Although DOD has proposed the reallocation of billions of dollars in expenses over the coming year, it should continue to produce additional savings by making force structure tradeoffs among the military services and by instituting the efficiencies initiative as a regular part of the defense budget process. Taking these steps will help guard against the likelihood that political and bureaucratic resistance, unintended market adjustments, and internal DOD cost growth will cannibalize a significant portion of the savings already generated through the efficiencies initiative.

The FY 2012 budget requested by DOD will enable the U.S. military to defend the nation against

many perils. But it will do little to stymie a threat that may ultimately prove more dangerous: America's growing debt. Over time, the economic consequences of indebtedness may crowd out investments in a U.S. military that undergirds international security; render the United States more vulnerable to economic coercion; and erode America's global stature and soft power. Relieving U.S. indebtedness demands preventive action by American society and government – including DOD.

The Pentagon has borne the costs of war heroically over the last decade. Now it needs to make a modest budgetary sacrifice for the sake of the nation's long-term security. DOD should modestly decrease its base budget over the next few years so the savings can be used to reduce the threat posed by federal indebtedness. Such a sacrifice will assuredly not cure all America's fiscal woes. But it will help to shore up the U.S. economy, the engine of America's military power. In this way, defense budget reductions will enhance national security through other means.

The 2012 Request in Context

After Secretary Gates' January 6 press conference on the FY 2012 budget, top national newspapers ran headlines proclaiming that the Pentagon "Faces the Knife" as a "New Budget Reality" forces it to "Slash Troops" amid the "Biggest Military Cuts Since Before 9/11."² The coverage was a public relations coup for DOD, which needed to demonstrate a bigger commitment to fiscal austerity in order to preempt members of Congress who are increasingly vocal about deficit reduction.

However, the widely reported bottom line – that the Pentagon will cut 78 billion dollars in spending from its future years defense program (FYDP), the multiyear blueprint used for U.S. military planning – does not tell the whole story. The FY 2012 request will reduce *planned* future expenditures, but it will

TABLE 1: FISCAL YEAR (FY) 2012 BASE BUDGET REQUEST IN CONTEXT
(all comparisons in constant dollars)

FY 2012 REQUEST (\$553B) COMPARED TO:	
FY 2011 request	-1.2%
FY 2002	+29.1%
Reagan-era peak	-5.5%
Vietnam-era peak	+36.0%

FY 2012 REQUEST (\$553B) AS A PERCENTAGE OF:	
U.S. gross domestic product (GDP)	3.6%
Total world military spending	34.1%

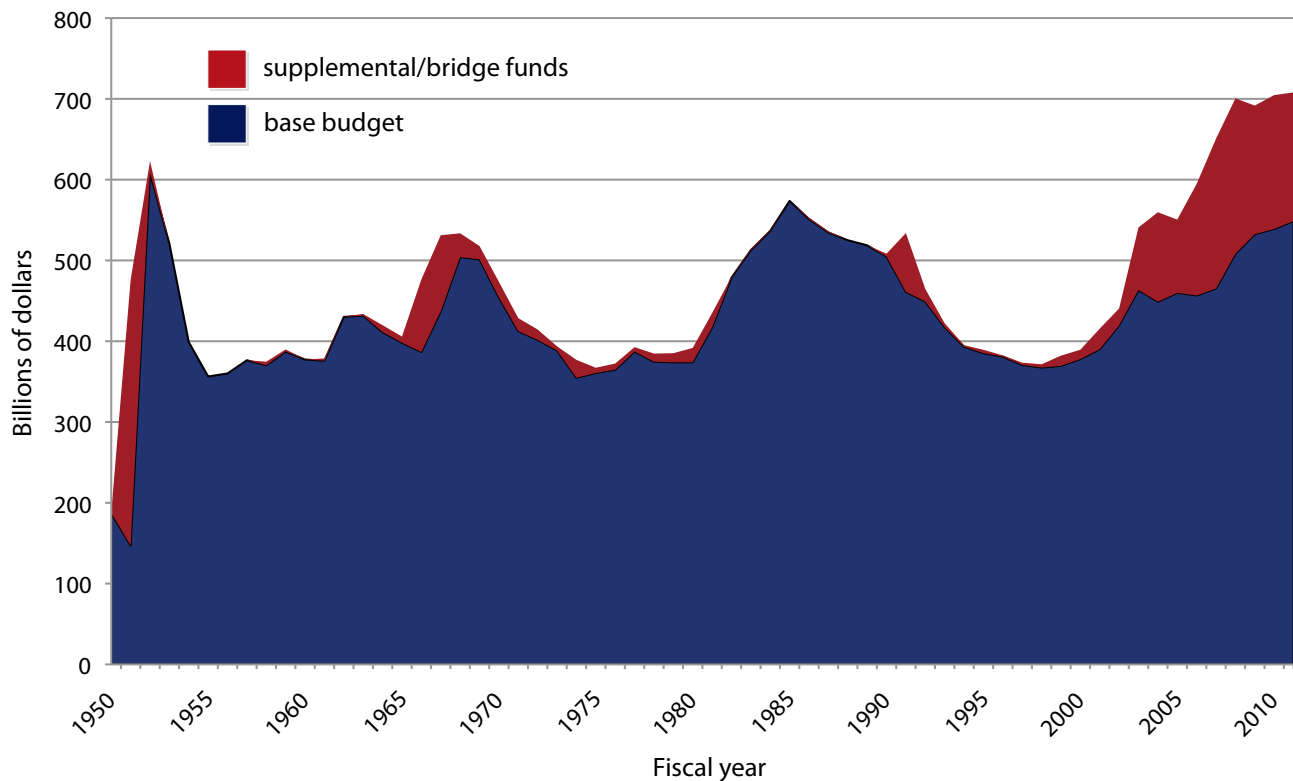
Source: Data from Congressional Research Service, Congressional Budget Office (CBO), Department of Defense (DOD) and Stockholm International Peace Research Institute.

Notes: Prior year DOD spending is enacted discretionary budget authority, except where noted as a request. Base/non-war and supplemental/war budgets were kept separate to the degree possible. GDP figure is CBO's projection for calendar year 2011. Estimated total world military spending figure is for 2009, the most recent year for which data is available.

not cut *actual* future spending. Indeed, the defense budget will continue to grow each year, albeit more slowly than DOD previously had hoped.³

Furthermore, FYDPs are speculative, rely on shifting economic assumptions and tend to understate future costs. As the Congressional Budget Office (CBO) noted last year, "the projections in the FYDP are problematic in assuming that the administration's defense plans can be conducted at the costs or prices that DOD has assumed."⁴

CHART 1: DEPARTMENT OF DEFENSE'S BASE AND SUPPLEMENTAL BUDGETS SINCE 1950
(discretionary budget authority in constant dollars)



Source: Congressional Research Service

Put simply, there is no way to guarantee that a 78 billion dollar cut will actually produce 78 billion dollars in future savings.

Secretary Gates called the FY 2012 request, which will keep the base budget bigger than at any time since President Reagan's Cold War buildup, "*the minimum level* of defense spending that is necessary given the complex and unpredictable array of security challenges the United States faces around the globe" (emphasis added).⁵ He also portrayed it as a prudent middle course. "You've got two ends to this debate," Secretary Gates said. "Those who feel we've already gone too far, and those who feel like we haven't gone nearly far enough. My view is that we've got it about right."⁶

Despite this attempt to frame the request in terms favorable to DOD, there is currently a chasm between the Pentagon's stated needs and Congress' willingness to fund them. Projected over the FY 2012-16 timeframe, the difference between DOD's FY 2012 request and Congress' current continuing resolution, which is funding the government at FY 2010 spending levels, equals well over 100 billion dollars. Bridging this gap between plans and resources will be no small task.

By arguing that DOD's FY 2012 request was the minimum spending level required for national security, Secretary Gates implied that every dollar in the request was indispensable, and that the requested level of spending will protect

the United States from emerging national security threats. Though forcefully presented, these propositions should not obscure the urgent need for DOD to generate more efficiencies savings and for the U.S. government to further rebalance its spending priorities to relieve federal indebtedness.

More Savings Needed

In light of the fiscal pressures facing the United States, DOD should pursue additional efficiencies savings in such areas as the military services' capabilities and DOD's logistics, supply chain management, and military personnel policies on retirement, benefits and health care.

DOD should pursue additional efficiencies savings in such areas as the military services' capabilities and DOD's logistics, supply chain management, and military personnel policies on retirement, benefits and health care.

Over the last year, DOD leaders have spearheaded an initiative to trim extraneous operating expenses and reinvest the savings into the military services. This so-called efficiencies initiative was designed to free up additional modernization funding for new high-tech aircraft; intelligence, surveillance and reconnaissance assets; versatile naval vessels; and much more.

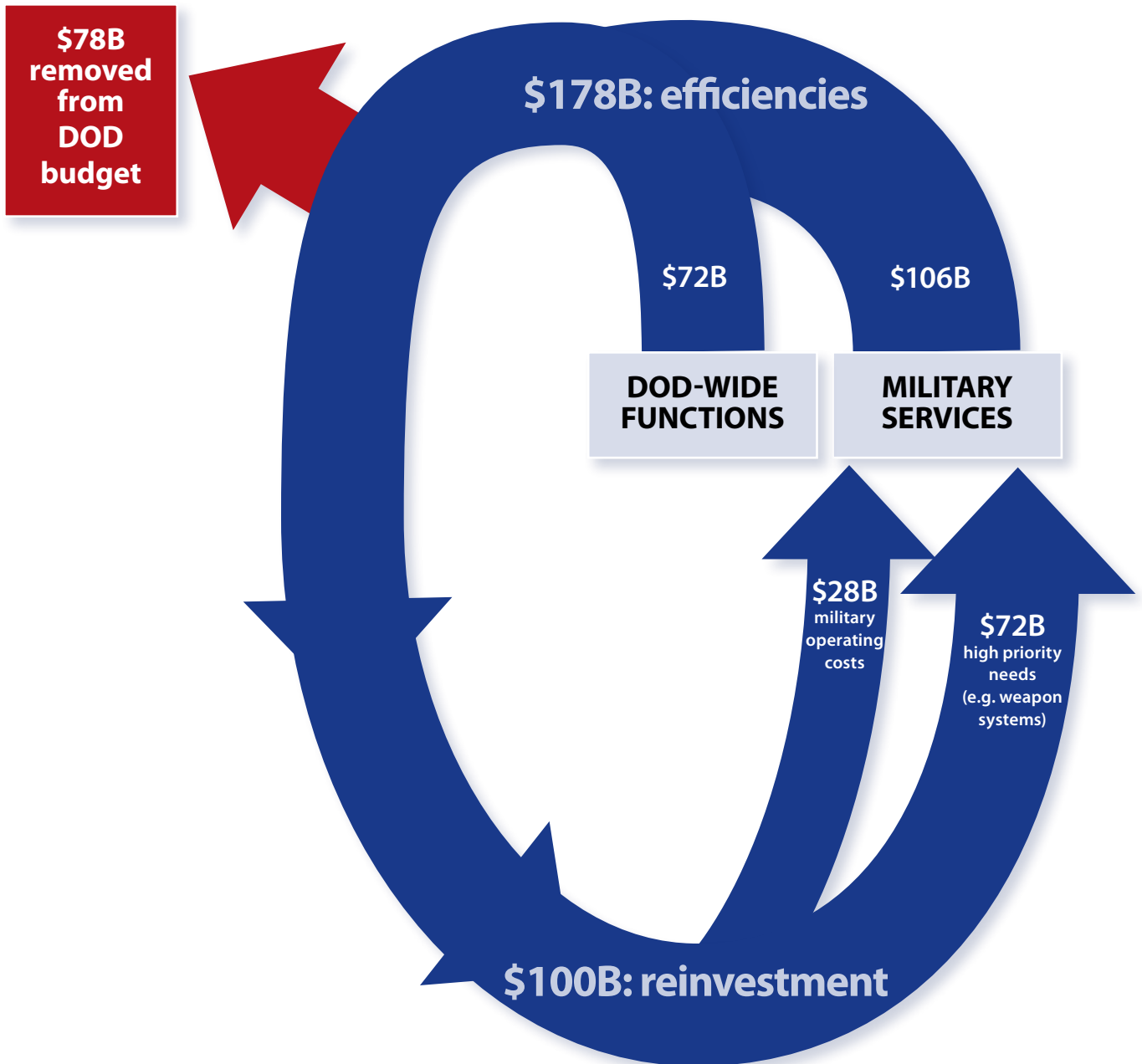
Taken as a whole, the efficiencies initiative is designed to allow DOD to pursue what one might call a "High-Low-New" modernization strategy.⁷ Under this strategy, DOD will purchase some *high*-tech weapons systems to replace older platforms, some *lower*-tech (but still quite sophisticated) upgrades to existing systems, and some

new technologies to provide innovative solutions. The "High-Low-New" paradigm comports with Secretary Gates' belief that balance should be the defining principle of U.S. defense strategy. It also aligns with the 2010 Quadrennial Defense Review's conclusion that the U.S. military must remain capable against a wide range of security challenges and cannot fixate on any specific threat in any specific place.⁸

While explaining the efficiencies initiative's results on January 6 (Table 2), Secretary Gates announced that DOD would reinvest 72 billion dollars of the savings – not the full amount – in high priority needs. He explained that DOD had no choice but to reallocate 28 billion dollars of the savings toward essential military operating costs and to send the remaining 54 billion dollars out of the FYDP and back to federal coffers to help with deficit reduction. (Changes in certain economic assumptions, restructuring the F-35 Joint Strike Fighter program, and reducing the end strength size of the Army and Marine Corps generated an additional 24 billion dollars in savings that also will migrate out of the FYDP, adding up to the aforementioned total of 78 billion dollars).

In other words, the efficiencies initiative already has not generated as much funding for defense modernization as DOD had hoped. Furthermore, political and bureaucratic resistance, unintended market adjustments and persistent cost growth within the defense budget threaten to further cannibalize the efficiency savings generated by DOD.⁹ These three factors could prevent DOD from fulfilling its high priority needs unless it asks Congress for additional funding equal to more than zero percent annual real growth. Since such funding may not be available because of other vital spending priorities, DOD should act now to free up additional funding for modernization through internal efficiencies savings.

TABLE 2: PROPOSED REALLOCATION OF FUNDING UNDER THE DEPARTMENT OF DEFENSE'S (DOD) EFFICIENCIES INITIATIVE
(in billions)



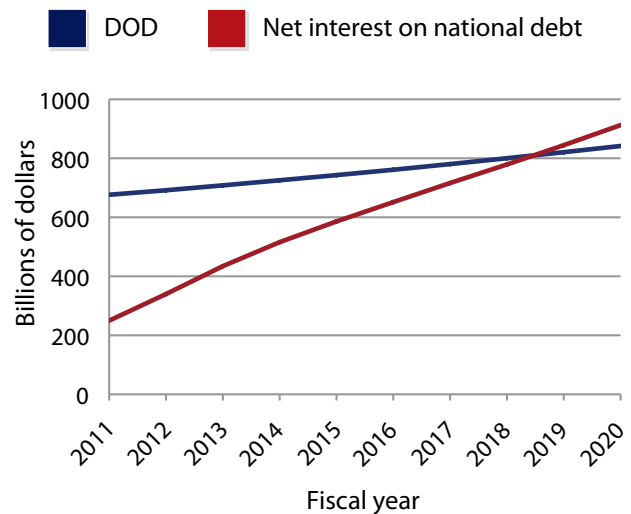
Graphic by LIZ FONTAINE/Center for a New American Security

Source: Department of Defense

First, DOD should streamline its operations by making force structure tradeoffs among the military services.¹⁰ Regrettably, DOD's major defense planning documents continue to shy away from such tradeoffs. A major contributing factor is the Pentagon's golden ratio: the near equal division of its budget among the military services. Since FY 1948, the Army, Navy and Air Force have on average received 28 percent, 31 percent and 33 percent, respectively, of DOD's annual budget.¹¹ Hot war, cold war or no war – the allotment of the services' budgets has remained relatively constant over time.¹² While a full complement of ground, naval and air forces are needed to defend America's global interests, the tripartite apportionment of the services' budgets also represents “mere math, and very political math at that,” as columnist Fred Kaplan observed.¹³ In an era of increasing fiscal pressure, decisions about the services' capabilities should be based on tailoring investments to national security requirements, not simply ensuring that everybody gets an equal share.

Second, DOD should make the efficiencies initiative a regular part of the defense budget process in order to help identify additional savings in such areas as logistics, supply chain management and reforming military personnel policies.¹⁴ Such a move would add year-to-year predictability to one of the initiative's best qualities – the way it incentivizes DOD stakeholders by allowing them to “keep what they catch” (i.e. reinvest their identified savings back into their own high priority needs). If performance were to erode over time, as might happen as efficiencies became harder to find, DOD could convene a panel of bipartisan experts to offer recommendations in a Base Realignment and Closure (BRAC)-style process. By institutionalizing the efficiencies initiative, DOD would make the trimming and reinvestment of resource-devouring fiscal underbrush an ingrained part of its planning for future national security challenges.

CHART 2: PROJECTED FUTURE SPENDING ON DEPARTMENT OF DEFENSE (DOD) VS. NET INTEREST ON NATIONAL DEBT
(discretionary budget authority baselines)



Source: Office of Management and Budget

The Debt Threat

“The single-biggest threat to our national security is our debt,” Admiral Michael Mullen, chairman of the Joint Chiefs of Staff, said last year.¹⁵ It was a powerful acknowledgment from the high-spending Pentagon. Over the last two years, the federal debt increased to 9 trillion dollars (62 percent of GDP) from 6 trillion dollars (40 percent of GDP). By the end of 2021, it is projected to reach 18 trillion dollars (77 percent of GDP), the largest debt-to-GDP ratio since 1950.¹⁶ Foreign investors now own 47 percent (4.3 trillion dollars) of U.S. debt, with financiers in China and Japan combined possessing approximately 20 percent of America's total.¹⁷ By the end of the decade, U.S. spending on net interest related to the debt is expected to surpass spending on national security (Chart 2).¹⁸

Since U.S. economic prowess has long fueled America's global influence and military power,

policymakers must understand the strategic risks this situation presents:

- Long-term indebtedness could gradually crowd out investments in the U.S. military, which protects American interests and promotes international stability and peace.¹⁹
- Increased indebtedness could leave the United States more vulnerable to economic coercion, which might take the form of another nation withholding valuable natural resources or militarily sensitive goods during a conflict over repayment, cutting back purposefully on its holdings of U.S. dollars to inflict economic damage, or interfering directly or indirectly in U.S. attempts to finance its debt.²⁰
- The cost of servicing the debt could harm the long-term health of the U.S. economy and put pressure on investments in America's soft power. Washington would become less able to exert influence in multilateral fora, less able to borrow at affordable rates, less able to head off financial crises and less able to convince rising powers of the comparative merits of market-based capitalism.²¹

Relieving indebtedness today deserves increased investment at modest expense to the U.S. military, which will remain more than capable of protecting America's global interests for the foreseeable future. To do this, policymakers should modestly decrease DOD's base budget over the next few years and redirect the savings toward deficit reduction in order to help shore up America's vulnerability to the threat posed by its growing federal debt.

Policymakers should not set an exact numerical target for budget reductions without first conducting a strategic analysis of security risks and tradeoffs. A base budget reduction of approximately 10-15 percent over the FYDP would serve as a

Policymakers should modestly decrease DOD's base budget over the next few years and redirect the savings toward deficit reduction in order to help shore up America's vulnerability to the threat posed by its growing federal debt.

benchmark because it corresponds with DOD's approximate share of total federal spending.²²

Other U.S. government agencies and American society also must do their part to reduce the federal debt. This means all options belong on the table, including non-defense spending cuts, tax increases and entitlement reform.

Political Obstacles Ahead

Over the next 22 months, political conflict over national security will likely intensify as leaders in Congress, on the campaign trail and within DOD jockey for power. The high political stakes may deter leaders in Congress and the White House from confronting the need to transform the defense budget status quo. As a result, DOD should assume responsibility for rebalancing U.S. spending priorities. The Pentagon should offer to relinquish some base budget funding so that it can be used to shore up the U.S. economy, the source of America's global influence and military power.

Despite speculation that newly-elected Republicans might endorse significant reductions in defense spending, the Republican Party as a whole will find it difficult to support even modest cuts. A recent Cato Institute study found that only 5 percent of freshman Republicans in Congress have supported defense budget cuts publicly.²³ Because many GOP freshmen did not campaign on national security issues and may still be developing their positions, Republican congressional leaders with direct

institutional authority over military affairs, most notably Rep. Howard “Buck” McKeon of California, the new chairman of the House Armed Services Committee, are now lobbying them to support large defense budgets.²⁴ With House Republicans in past Congresses representing about two-thirds of the districts that relied most heavily on the defense industry, Representative McKeon and his like-minded colleagues will hold significant leverage during intraparty negotiations over Republicans’ stance on the size of the defense budget.²⁵

Additionally, public opinion polls show that few Republicans (23 percent) support weapons systems cuts, and that Americans increasingly believe that U.S. national defense is not strong enough and will wane relative to other nations over the next two decades.²⁶ These public opinion trends offer a strong incentive for the Republican Party as a whole to continue its decades-long support for high levels of defense spending.

Diverging from the defense budget status quo will be no easier for the Democratic Party. As the 2012 election heats up, President Obama may become reluctant to pare back Pentagon spending if doing so exposes him to political attacks from Republican presidential candidates. Mitt Romney, Sarah Palin, Newt Gingrich and other potential Republican presidential candidates have already expressed skepticism about any reduction in the defense budget.²⁷ Furthermore, some congressional Democrats continue to oppose commonsense DOD reforms such as eliminating the alternate engine for the F-35 Joint Strike Fighter. Their opposition hinders the conservation of precious defense dollars.

DOD’s FY 2012 budget request further heightened the political risk Democrats face. By arguing that the request and its accompanying FYDP were “the minimum level of defense spending that is necessary,” Secretary Gates created a litmus test for lawmakers, the White House and his successor. If

President Obama and the next secretary of defense decide that the FY 2013 DOD budget should decline modestly in order to advance other spending priorities, critics of the decision will be able to invoke Secretary Gates’ FY 2012 plan to accuse Democrats of skimping on military needs. These political considerations may push Democrats to stick to the defense budget status quo at least until the 2012 election cycle is over.

Conclusion

Though it may seem idealistic to think that the Pentagon would ever willingly give up its own budgetary resources, Americans depend on DOD to provide leadership that transcends bureaucratic self-interest. Secretary Gates and Admiral Mullen have regularly provided this exact type of leadership. For instance, they have emphasized the importance of enhancing America’s national security capacity beyond DOD.

DOD knows firsthand the importance of sacrifice for the greater good. This tireless commitment to U.S. national security helps explain why the Pentagon exerts such great influence over the defense policy preferences of Congress, the White House and the American public. If DOD leads by generating additional efficiencies savings and proposing modest reductions in its base budget, political leaders are more likely to follow.

Travis Sharp is a Research Associate at CNAS.

ENDNOTES

1. Author's analysis of annual discretionary budget authority requests since fiscal year (FY) 1996. (Calculations not based on the amounts actually enacted by Congress that are included in Office of Management and Budget and Department of Defense (DOD) data sources). The dataset was adjusted for inflation using DOD, *National Defense Budget Estimates for FY 2011* (March 2010): Table 5-6.
2. So read the headlines from the *The Wall Street Journal*, *The Washington Post*, *Reuters*, and *The New York Times*, respectively. See Nathan Hodge and Julian E. Barnes, "Pentagon Faces The Knife," *The Wall Street Journal* (7 January 2011); Craig Whitlock and William Branigin, "Pentagon Faces New Budget Reality," *The Washington Post* (7 January 2011); Andrea Shalal-Esa and Phil Stewart, "U.S. Aims to Cut Defense Budget and Slash Troops," *Reuters* (7 January 2011); and Thom Shanker and Christopher Drew, "Pentagon Seeks Biggest Military Cuts Since Before 9/11," *The New York Times* (7 January 2011).
3. Defense Secretary Robert Gates, "Statement on Department Budget and Efficiencies" (6 January 2011).
4. Congressional Budget Office (CBO), *Long-Term Implications of the Fiscal Year 2010 Defense Budget* (January 2010): 6-7.
5. The comparison to Reagan administration-era base budgets is derived from the dataset constructed by Stephen Daggett, "Resourcing the National Defense Strategy: Implications of Long-Term Defense Budgets Trends," submitted testimony to the House Armed Services Committee (18 November 2009): 24-26. For the quotation, see Secretary Gates, "Statement on Department Budget and Efficiencies."
6. Secretary Gates, question and answer period following his speech on January 6, 2011.
7. The "High-Low-New" framework evolved over several years. For key contributions by Secretary Gates to its development, see his Landon Lecture at Kansas State University (26 November 2007); remarks at National Defense University (29 September 2008); "A Balanced Strategy: Reprogramming the Pentagon for a New Age," *Foreign Affairs* 88:1 (January/February 2009); remarks at the Navy League Sea-Air-Space Exposition (3 May 2010); and remarks at the Eisenhower Library (8 May 2010).
8. Kathleen Hicks and Samuel Brannen, "Force Planning in the 2010 QDR," *Joint Force Quarterly* 59 (4th Quarter 2010): 139.
9. Experienced defense analysts have long cast a skeptical eye on DOD's efforts to generate efficiencies savings. Indeed, excessive reliance on such efforts has been described variously as "foolish," "a cherished quixotism," and a "charade [...] for the rubes." Prior to becoming Pentagon comptroller, Robert Hale urged DOD to "keep trying, but be realistic" when it comes to efficiency savings. His advice was apt then and remains so today. For a flavor of the debate – and the quotations cited here – see, respectively, Andrew F. Krepinevich, Jr., *National Security Strategy in an Era of Growing Challenges and Resource Constraints* (Washington: Center for Strategic and Budgetary Assessments, June 2010): 7; Gregory F. Treverton, "The Defense Debate," *Foreign Affairs* 69:1 (1990): 188; Harvey Sapolsky, "Let's Skip Acquisition Reform This Time," *Defense News* (8 February 2009); and Robert F. Hale, *Promoting Efficiency in the Department of Defense: Keep Trying, But Be Realistic* (Washington: Center for Strategic and Budgetary Assessments, January 2002).
10. For recommendations about how to make such tradeoffs, see Andrew R. Hoehn et al., *A New Division of Labor: Meeting America's Security Challenges Beyond Iraq* (Santa Monica, CA: RAND Corporation, 2007).
11. Calculation derived from data in DOD, *National Defense Budget Estimates for FY 2011*: Table 6-10.
12. "Hot war, cold war or no war" was shared with the author during email correspondence with a Senate staffer (17 December 2010). An academic database search uncovered only one other instance of its use, albeit in a different context, in Victor Lowe, "A Resurgence of 'Vicious Intellectualism,'" *The Journal of Philosophy* 48:14 (July 1951): 438.
13. Fred Kaplan, "Trimming the Pentagon's Sails," *Slate* (6 January 2011).
14. For ideas on additional savings, see Defense Business Board, "Reducing Overhead and Improving Business Operations: Initial Observations" (22 July 2010); Amy Belasco, "The President's Fiscal Commission and Potential Savings in Defense Spending" (15 December 2010); and Debt Reduction Task Force, *Restoring America's Future* (Washington: Bipartisan Policy Center, November 2010): 96-107.
15. Admiral Michael Mullen, "Detroit Economic Club Luncheon" (26 August 2010).
16. CBO, *The Budget and Economic Outlook: Fiscal Years 2011 to 2021* (January 2011): xiv, 14.
17. *Ibid.*: 19.
18. Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2011* (2010): Table 26-14.
19. Michael Mandelbaum, *The Frugal Superpower* (New York: Public Affairs, 2010): 54-58, 92.
20. See Roger Altman and Richard Haass, "America Profligacy and American Power: The Consequences of Fiscal Irresponsibility," *Foreign Affairs* 89:6 (November/December 2010); and Aaron Friedberg, "The Changing Relationship Between Economics and National Security," *Political Science Quarterly* 106:2 (Summer 1991): 272.
21. See Brad DeLong and Stephen Cohen, "The End of Influence," *ForeignPolicy.com* (23 December 2009); and Roger Altman and Richard Haass, "America Profligacy and American Power."
22. Michael O'Hanlon, "Defense Budgets and American Power," Brookings Institution, Policy Paper No. 24 (December 2010): 11.

23. Benjamin H. Friedman, "New Republicans, Same Old Militarism," *The Philadelphia Inquirer* (24 January 2011).
24. Elisabeth Bumiller and Thom Shanker, "G.O.P. Splits Over Plans to Cut Defense Budget," *The New York Times* (26 January 2011).
25. Rebecca U. Thorpe, "The Role of Economic Reliance in Defense Procurement Contracting," *American Politics Research* 38:4 (June 2010): 648.
26. See Pew Research Center, "Deficit Solutions Meet With Public Skepticism" (9 December 2010); Jeffrey M. Jones, "Americans More Divided on Strength of National Defense," Gallup.com (18 February 2010); and Frank Newport, "Americans See U.S. Military as No. 1 Now, but Not in 20 Yrs.," Gallup.com (26 February 2010).
27. See Mitt Romney, remarks at the Heritage Foundation (3 June 2009); Sarah Palin, "Peace Through Strength and American Pride vs. 'Enemy-Centric' Policy," Facebook.com (30 June 2010); and Newt Gingrich, interview with *Financial Times* (23 May 2010).

About the Center for a New American Security



The Center for a New American Security (CNAS) develops strong, pragmatic and principled national security and defense policies that promote and protect American interests and values. Building on the deep expertise and broad experience of its staff and advisors, CNAS engages policymakers, experts and the public with innovative fact-based research, ideas and analysis to shape and elevate the national security debate. As an independent and nonpartisan research institution, CNAS leads efforts to help inform and prepare the national security leaders of today and tomorrow.

CNAS is located in Washington, D.C., and was established in February 2007 by Co-founders Kurt Campbell and Michèle Flournoy. CNAS is a 501(c)3 tax-exempt nonprofit organization. Its research is nonpartisan; CNAS does not take specific policy positions. The views expressed in this report are those of the authors and do not represent the official policy or position of the Department of Defense or the U.S. government.

© 2011 Center for a New American Security.
All rights reserved.

Center for a New American Security
1301 Pennsylvania Avenue, NW
Suite 403
Washington, DC 20004

TEL 202.457.9400
FAX 202.457.9401
EMAIL info@cnas.org
www.cnas.org

Press Contacts
Shannon O'Reilly
Director of External Relations
soreilly@cnas.org
202.457.9408

Ashley Hoffman
Deputy Director of External Relations
ahoffman@cnas.org
202.457.9414

Defense Secretary Robert M. Gates and
Chairman, Joint Chiefs of Staff Adm. Michael
Mullen, hold a press briefing on "DOD
Efficiencies" that mark the next major step in
the Defense Departments reform agenda at
the Pentagon in Arlington on January 6, 2011.

(AIR FORCE MASTER SGT. JERRY
MORRISON/DOD)