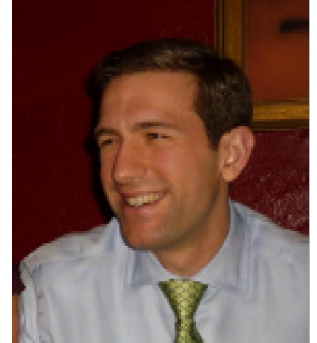




Public Finance and National Security: Deficit Reduction and the American Military in a Time of Diminished Resources



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Summary

The United States faces a budget crisis of proportions with no precedent in its recent history. The country's economic dominance since the end of World War II has supported a military posture with global reach and influence. As such, the U.S. has been able to affect international relations to its advantage and underwrite global security to the economic benefit of other countries which partake in the international trading system. This would be impossible without robust American military power. A confluence of political forces, primarily the need to cut federal spending, will require reductions to the defense budget that, in tandem with other geopolitical exigencies, will accelerate a shift in the U.S. military's strategic and geographic priorities. Sustaining its global reach and influence will demand that the U.S. reorient its political-military strategy and international engagements.

Introduction

The United States faces a budget crisis of proportions with no precedent in its recent history. The country's economic dominance since the end of World War II has supported a military posture with global reach and influence. As such, the U.S. has been able to affect international relations to its advantage and underwrite global security to the economic benefit of other countries which partake in the international trading system. This would be impossible without robust American military power. A confluence of political forces, primarily the need to cut federal spending, will require reductions to the defense budget that, in tandem with other geopolitical exigencies, will accelerate a shift in the U.S. military's strategic and geographic priorities. Sustaining its global reach and influence will demand that the U.S. reorient its political-military strategy and international engagements.

The purpose of this paper is to explore the nexus of public finance and national security. National security analysts traditionally focus on issues related to defense forces and posture, the military balance of power, intelligence, and strategic intent when investigating international relations. Many analysts have had the luxury to ignore the impact of national and global economic issues when conducting assessments of U.S. military power. This was possible due to both the country's relative economic health and its global military predominance since the end of the Cold War. However, the 2008-2009 recession and its consequences for American power have highlighted the need to expand the assessment of security issues to include the field of public finance. As such, this writing is targeted to national security analysts who seek a broader familiarity with the interplay between public finance, defense budgeting, and strategy.

This paper will first summarize the depth of problems in U.S. public finance, taking care to explain the various aspects of the federal budget and current trends. This context provides a baseline justification for why comprehensive deficit reduction and, therefore, a future decrease in the defense budget, is inescapable if the federal government is to remain solvent. The paper will then outline the connection between public finance and power projection in the American context. Subsequently, it will describe the politics of deficit reduction and military spending in the United States before reviewing different proposals to cut defense spending. Lastly, the paper will assess recent developments in military procurement and demonstrate that the Department of Defense is not currently positioned to sustain its current mission portfolio given the likelihood of future spending reductions. In sum, this paper seeks to explain the statement by Admiral Michael Mullen, Chairman of the Joint Chiefs of Staff, that "the national debt is the single most important threat to national security."¹

1 Michael J. Carden, "National Debt Poses Security Threat, Mullen Says," *Joint Chiefs of Staff News*, 26 August 2010, <http://www.jcs.mil/newsarticle.aspx?ID=360>

The National Budget Problem

On December 1, 2010 the bipartisan U.S. National Commission on Fiscal Responsibility and Reform offered its final report to President Obama. The analysis presented recommendations for improving the current fiscal situation of the United States and creating sustainable policies to ensure long-term economic growth. While the commission has no formal authority to implement its recommendations, its report paints a more accurate picture of public finance in the world's largest economy and identifies politically difficult areas for fiscal reform. Needless to say, the picture is not good.

The U.S. national debt – the aggregate total of annual budget deficits – stood at approximately \$14 trillion at the end of 2010. This is 96.5 per cent of the estimated 2010 gross domestic product (GDP). The vast portion of this debt was accumulated over the previous 10 years. From 2001-2007, \$3.4 trillion in federal debt was amassed from tax cuts, the wars in Iraq and Afghanistan, and a prescription drug benefits programme. By the end of 2010, another \$5.5 trillion in debt will have been added due to the consequences of and responses to the 2008-2009 economic recession: a decrease in tax receipts, an increase in unemployment benefit outlays, and unprecedented fiscal stimulus.² The Congressional Budget Office (CBO) estimates that the national debt will account for over 340 per cent of gross domestic product (GDP) by 2050 if corrective measures are not taken.

Issues related to the long-term national debt did not appear overnight and economic policy experts Alan Auerbach and William Gale describe their present urgency concisely:

“First, the medium-term projections have deteriorated significantly. Second, the issues driving the long-term projections...which were several decades away in the 1980s...are now imminent. Third, there are increasing questions about the rest of the world's appetite for U.S. debt, as the United States has changed from a net creditor country in 1980 to a vast net borrower currently. Fourth, many countries around the world and many of the 50 states also face daunting fiscal prospects.”³

America's fiscal predicament is domestic in nature and must be solved through political processes requiring compromise and bipartisan comity where little has existed in recent years. Newly elected legislators of the 112th Congress will struggle to resolve these growing pressures and will draw upon the recommendations of the President's budget commission. In order to reduce the annual deficit and national debt, the political leadership must

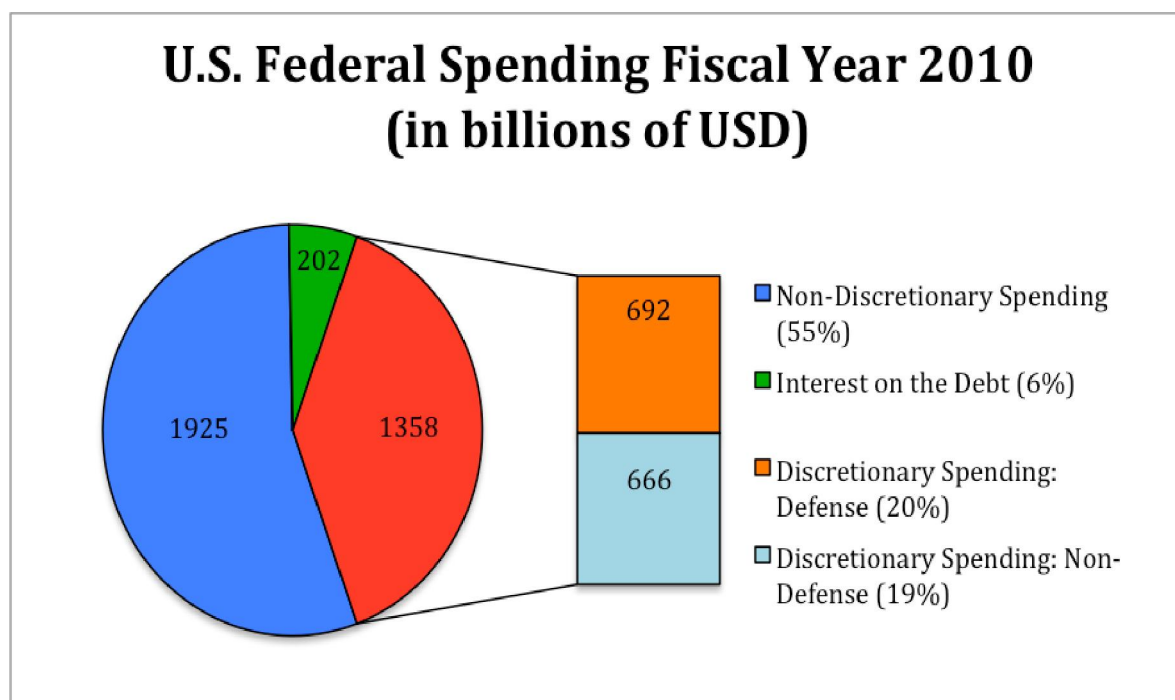
2 Michael Mandelbaum, *Frugal Superpower: America's Global Leadership in a Cash-Strapped Era*, (New York: PublicAffairs, 2010), pp. 12-13.

3 Alan J. Auerbach and William G. Gale, “The Federal Budget Outlook, Chapter 11,” Brookings Institution Press, 15 September 2010, p. 1.

reach agreement on specific areas to reduce discretionary spending, rein in the growing cost of future entitlements, and raise revenues through tax increases. Whether or not this process is managed with prudence will have consequences for America's reach and influence overseas.

Before examining the politics of national debt reduction and the potential impact on U.S. military power, it will be helpful to assess what comprises the federal budget and its trends. An important distinction here is that between non-discretionary and discretionary spending.

Graph 1.1⁴



(1) Non-Discretionary or “Entitlement” Spending

In Fiscal Year 2010, the U.S. federal budget was almost \$3.5 trillion. Government revenues during this same period are estimated to be \$2.4 trillion. This means that the U.S. government had to borrow over \$1 trillion in just one year, relying upon foreign governments and investors to lend it approximately \$3.7 billion per day in the first half of the year alone.⁵ Granted, the immediacy and depth of the recession induced America's political leadership to commit vast amounts of federal funds to support an economy that

4 Data from Office of Management and Budget, “Current Budget Projections: Selected Tables from the CBO’s Budget and Economic Outlook: An Update,” August 2010, p. 2.

5 Frances E. Warnock, “Two Myths About the U.S. Dollar,” *Capital Flows Quarterly*, 2010 Q3, Council on Foreign Relations, September 2010, p. 3.

was teetering on the brink of collapse. However, even “after the economy recovers, after unemployment is down, after the wars are over, and long after the financial services and housing crises have past, we face large known structural deficits driven primarily by known demographic trends.”⁶

These well understood and enduring structural deficits are what Michael Mandelbaum refers to as “Entitlement Overstretch.” As the baby boomer generation begins to retire, federal outlays for Social Security, Medicare, Medicaid and servicing the national debt will vastly increase. The U.S. Census Bureau predicts that by 2050 there will be only 2.7 workers for every retiree. This is down from a ratio of 4.7 in 2008, a 42 per cent decrease which includes estimated immigration trends. Non-discretionary spending in these areas already accounts 55 per cent of the federal budget. In 2009 outlays for the Medicare Hospital Insurance Fund exceeded its income. In 2015 the number of people contributing to the Social Security Trust Fund will outnumber those paying into it. Barring reform, the two trust funds will be exhausted in 2029 and 2037 respectively.⁷ As unfunded liabilities of the federal government, any spread between the programmes’ income and outlays must be paid through the issuance of more federal debt.

The growing costs of social health care programmes like Medicare and Medicaid are only aggravated by the rising expenses of hospital care in the United States. New medical technologies, drugs, and procedures are more widely accessible and used with more frequency in the U.S. than in other industrialized nations. Due to this, the United States spends more than any other country in the world on medical expenses both on a per capita basis and as a portion of GDP. By 2050 each programme combined will amount to 48 per cent of the national budget, about \$4.8 trillion in 2010 dollars. And while the CBO estimates that the new 2010 health care reform laws will reduce costs by \$1.1 trillion during the same time period, in the aggregate it will account for only a 0.5 per cent reduction in total health expenditures as a portion of GDP.⁸

Then there is the need to pay back America’s creditors by servicing the debt. At present rates of growth, the cost to pay interest on the debt will reach 17 per cent of total government revenue by 2019. If deficits are not brought under control, by 2030 “the cost to American taxpayers for servicing the national debt is scheduled to exceed the entire defense budget.”⁹

6 David M. Walker, “The Debt, Deficit, and America’s Role in the World,” Foreign Policy Research Institute E-Note, 8 October 2010, <http://www.fpri.org/enotes/201010.walker.budget.html>.

7 Douglas J. Besharov and Douglas M. Call, “The Global Budget Race,” *Wilson Quarterly*, Autumn 2010, pp. 38-50.

8 Ibid, p. 46.

9 Mandelbaum, p. 48.

This also assumes that, by 2030, international markets will not respond to America's increasingly heavy debt load by pushing up yields on bills, bonds, and notes issued by the Treasury Department. If credit rating agencies determine that the U.S. government is no longer fiscally healthy enough to warrant its triple A rating, then debt yields will rise, the rate at which debt is accumulated will be compounded, and the entire process accelerated.

(2) Discretionary (and specifically Defense) Spending

Discretionary spending is almost equally divided into two portions: one subset allocated for the Department of Defense (DOD) and another for all other federal spending not appropriated for non-discretionary entitlements and defense.¹⁰ Non-defense discretionary spending is dedicated towards a variety of domestic activities like education, poverty reduction, housing, research, and law enforcement, among others. Since such a large portion of discretionary spending is allocated to one department, the Defense Department, and considering the national security focus of this paper, we are primarily concerned with the trends in spending and cost growth in the defense subset of discretionary spending.

The United States is able to provide for the security of its citizens, the defense of its national interests, and other global services of international value through military forces characterized by sophisticated technology, competent personnel, and broad geographic reach. Maintaining these attributes, however, is highly cost-intensive. Defense spending amounts to nearly 5 per cent of gross domestic product, 20 per cent of the federal budget, and just over 50 per cent of discretionary expenditures – outlays to which the federal government is *not committed* and to which the American population is *not entitled* over the longer-term.¹¹

10 Some studies prefer to divide discretionary spending into “security” and “non-security” spending. Security outlays in this context would include the budgets for all departments directly responsible for the safety of the country: Defense, Homeland Security, State (international affairs), Veterans Affairs, and portions of Energy (nuclear weapons). Using this definition, security-related outlays make up nearly 63 per cent of the discretionary spending. This distinction gained prominence after the Obama Administration exempted “security agencies” from his pledge to freeze federal budgets for a temporary period. However, since the purpose of this paper is to examine the impact of the national debt and deficits on military spending in particular, I will continue using the same distinction between defense and non-defense discretionary spending as that employed by the CBO.

11 The word “entitled” is used here in an accounting sense. An argument can easily be made that Americans are entitled to the provision of common defense as outlined in the Constitution. However, funds for ongoing overseas military operations and programmes must be authorized annually by the U.S. Congress, as opposed to those for non-discretionary spending.

Contrary to the long-term national debt, David M. Walker, President of the Peter G. Peterson Foundation, explains that the current, short-term budget deficit is the result “primarily, but not exclusively, of temporary factors.”¹² The wars in Iraq and Afghanistan are two of the most important of these factors. While temporary, Noble Laureate in economics Joseph Stiglitz and Harvard professor Linda Bilmes estimate that the war in Iraq alone has cost \$3 trillion when externalities and opportunity cost are taken into account.¹³ This figure does not include costs associated with the war in Afghanistan and recent estimates that health care and disability payments for American troops who have served in both wars – which “rise for several decades and peak in 30-40 years or more after a conflict” – will total upwards of \$950 billion.¹⁴

The money used to undertake America’s wars in Iraq and Afghanistan is called Overseas Contingency Operations (OCO) funding and is separate from DOD’s permanent base budget. The base budget pays for military personnel, operations and maintenance, procurement, research and development, military construction, and family housing. In FY2010, DOD’s base budget was \$531 billion, OCO funding \$130 billion, and an OCO supplemental request cost \$32 billion for a combined total of almost \$692 billion. Importantly, the base budget (for emphasis, the budget for all defense expenditures which do not include operations in Afghanistan and Iraq) has expanded by \$234 billion since FY2001, a 44 per cent increase in just nine years when adjusted for inflation.¹⁵

Defense economist Winslow Wheeler makes the case that, even with this relative windfall to the base budget, the armed services have little to show for it. The size of the Navy’s combat fleet has declined 10 per cent and each ship is, on average, four years older than it was in 2000. The number of active and reserve fighter and bomber squadrons in the Air Force has declined 51 per cent and each plane is, on average, nine years older than it was in 2000. The Army, which received a 53 per cent increase in funding from 2000 to 2010 has seen only a 5 per cent increase in its number of brigade combat teams. “In sum, an extra trillion dollars for the Pentagon has been processed into forces that are, with minor exceptions, smaller, older, and less ready to fight.”¹⁶

12 Walker, “The Debt, Deficit, and America’s Role in the World.”

13 See Joseph Stiglitz and Linda Bilmes, *The Three Trillion Dollar War: The True Cost of Conflict in Iraq*, (New York: WW Norton & Co. Inc., 2008).

14 Joseph Stiglitz, “Prepared Statement to the U.S. House of Representative Committee on Veteran’s Affairs,” September 30, 2010.

15 Department of Defense, “Briefing on the FY2011 Budget Request,” February 2010, http://comptroller.defense.gov/defbudget/fy2011/fy2011_BudgetBriefing.pdf.

16 Winslow Wheeler, “Smaller, Older, Less Prepared,” *Defense News*, 11 October 2010.

The Need for and Politics of Deficit Reduction

Deficit reduction will be initiated either on policymakers' own terms or thrust upon them by the global capital markets. Richard Haass and Roger Altman write in *Foreign Affairs* that while "there is no evidence of an advancing storm today," policymakers have a 2-to-3 year window to define a fiscal consolidation programme before international markets begin to impose higher rates on U.S. treasuries, all else being equal.¹⁷ In more modest phrasing, the CBO explains that while "there is no identifiable tipping point of debt relative to GDP indicating that a crisis is likely or imminent," the debt-to-GDP ratio is "climbing into unfamiliar territory," and "the higher the debt, the greater the risk of such a crisis."¹⁸

Four future events could trigger such a crisis. First is the potential of a poorly received Treasury auction. International investors, concerned with the stability of U.S. sovereign debt, may balk at pre-determined prices set by the Treasury before a debt offering. Second is the possibility of an internationally-recognized credit rating agency downgrading U.S. sovereign debt from its current "Aaa" status.¹⁹ A third, unlikely though still possible, trigger would occur if the U.S. Congress, due to bipartisan discord, does not approve raising the federal debt ceiling, with the Treasury then prioritizing entitlement payments over interest payments, thus leading to sovereign default.²⁰ Fourth is the threat of an unforeseen, external shock to the international financial system which has a contagion effect, further weakening America's economic standing. Any of these events could lead markets to demand a higher risk premium on government debt. Moreover, one event could easily catalyze another, thus commencing a chain reaction and compounding difficulties in credit repayment.

As can be seen from the above, demographic trends and the bloated nature of social welfare programmes are the overwhelming drivers which contribute to the national debt. Nonetheless, DOD's budget has increased greatly in the past decade and it has done so without relative scrutiny from the executive and congressional branches – a symptom of the post-9/11 era of global threat assessment. Economists, policymakers, and former politicians understand the pressing need for spending reductions across all portions of

17 Roger C. Altman and Richard N. Haass, "American Profligacy and American Power," *Foreign Affairs*, November/December 2010, p. 29.

18 Congressional Budget Office, "Federal Debt and the Risk of a Fiscal Crisis," 27 July 2010, p. 1.

19 In January 2011, the credit rating firms Moody's and Standard & Poor's both issued official statements alerting this possibility. See Mark Gongloff, Mark Brown, and Nathalie Boschat, "S&P, Moody's Warn on U.S. Credit Rating," *Wall Street Journal*, 14 January 2011.

20 *The Economist*, "Dancing on the Ceiling," 13 January 2011, <http://www.economist.com/node/17906039>.

the federal budget. Yet agreement on how to do so remains fleeting. This is due mainly to the contemporary domestic political discord in Washington, D.C. The real danger, therefore, is that political actors in the legislative branch will not reach agreement on a well-organized, methodical deficit reduction plan before global financial markets begin exerting their own pressure on the U.S. economy.

The United States is in an enormously advantageous position vis-à-vis other developed economies. The dollar is used as a global currency and U.S. Treasury debt continues to be in high demand. These factors provide breathing space for the country to get its fiscal house in order, unlike a substantial number of European economies which are presently undergoing painful austerity measures, measures which while politically enacted were in actuality forced upon these countries by unforgiving bond markets. That said, America's room for manoeuvre will not last indefinitely. One could argue that a 96.5 per cent debt-to-GDP ratio, especially compared to other countries, is manageable and not a cause for concern.²¹ But the real danger lies in the trajectory of debt accumulation and the potential for it to be exacerbated by any of the above triggers.

The Role of Congress

Congress is ultimately responsible for authorizing and appropriating federal funds requested by the President of the United States. As such, it is also accountable for either producing a plan from within to diminish the deficit or for rubberstamping one furnished by an outside actor. However, the meaningful bipartisanship needed to do so remains in short supply. Multiple layers of tension – shaped by contrasting economic beliefs, competing visions of the role of government in society, and a volatile political climate – could potentially lead to legislative gridlock. The outcome of the 2010 mid-term congressional elections has exacerbated this potential. Specifically, disagreements within the Republican Party and between Congressional leadership and the Executive branch could delay needed deficit reduction efforts. Much of this debate revolves around both defense and non-defense discretionary spending.

Now in control of the House of Representatives, the Republican Party has the challenge of resolving the internal friction between recently elected legislators backed by the Tea

21 Economists Kenneth Rogoff and Carmen Reinhart have conducted analyses which suggest that a debt-to-GDP ratio over 90 per cent will drag down median economic growth rates by 1 per cent. While the country's solvency may not be called into question, the economists have found "no comparable evidence to suggest that the consequences of higher debt levels for growth will be different for the US than in other advanced economies." See Kenneth Rogoff and Carmen Reinhart, "Debt and Growth Revisited," Center for Economic Policy Research, 11 August 2010, <http://www.voxeu.eu/index.php?q=node/5395#fn1>.

Party movement and old-guard Republicans. The former group is relatively inexperienced in federal government, holds few leadership positions within Congress, and is deeply committed to reducing the budget deficit. Old-guard Republicans are also fiscal hawks but, unlike the Tea Party, they will seek to protect, and even expand, the defense budget at all costs. Signs of fissure between these two Republican groups are exemplified in their divergent proposals for general deficit reduction and treatment of defense spending.²² Continued intra-party discord will limit the prospect for inter-party compromise on broader fiscal consolidation.

Any piece of law to reduce the deficit must be approved by both chambers of Congress, each of which is now held by a different party. In yet another sign of political gridlock in Washington, disagreements between the Republicans and Democrats and, more generally, between the legislative and executive branches have muddled the discussion on critical issues of national import. First, political hostility threatened to derail the 2011 Defense Authorization Bill, something which has received regular bipartisan support and seen easy, unobstructed passage for decades.²³ Second, the unofficial, draft Co-Chair recommendations of President Obama's National Commission on Fiscal Responsibility and Reform (the Bowles-Simpson Commission) were met with stiff resistance from influential members of both the Republican and Democratic congressional leadership.²⁴ The purpose of the Bowles-Simpson Commission, comprised of liberal and conservative thought leaders from Congress, academia, and business, was to identify concrete measures to reduce the long-term national debt that both parties could agree upon. Opposition to even unofficial steps makes this end result unlikely. Third, the Commission's official report suggests measures to balance the budget by 2035, adding to the national debt in absolute terms until that time though gradually lowering debt as a portion of GDP.²⁵ However "although it contains a number of proposals that budget analysts have long advocated, it sets unnecessarily strict targets that make needed political agreement needlessly difficult."²⁶ Congressional resistance to presidentially-initiated proposals in these three areas does not bode well for future inter-party accommodation on budgetary and defense issues.

22 Lori Montgomery, "House GOP Group Proposes Deep Spending Cuts Over Next Decade," *Washington Post*, 21 January 2011.

23 Kay King, "Congress and National Security," Council on Foreign Relations, Council Special Report No. 58, November 2010, pp. 16-17.

24 Jackie Calmes, "Debt Plan Ideas Draw Scorn of Liberals and the Tea Party," *New York Times*, 11 November 2010; and, William Galston "Deficit Reduction Depends on a Bipartisan Effort," in *Around the Halls: Reducing the Budget Deficit*, Brookings Institution, 16 November 2010.

25 National Commission on Fiscal Responsibility and Reform, "The Moment of Truth," December 2010.

26 Henry J. Aaron, "A Deficit-Reduction Plan Rife with Problems," *The Fiscal Times*, 12 November 2010.

Since the November 2010 mid-term elections there has been some effort to at least exhibit bipartisan comity in Washington. Bucking Hill tradition, several notable Congressional leaders chose to sit with their political counterparts across the aisle during President Obama's January 2011 State of the Union Address.²⁷ Moreover, in December 2010, House Republicans and the White House agreed on a \$900 billion tax deal, what one would assume to be a significant moment of political comity.²⁸ However, neither of these measures required any hard decisions or compromise on the part of lawmakers. Particularly notable is the tax package, which temporarily extend the Bush-era tax cuts, financed solely by deficit spending, and requiring no fiscal sacrifice.

Neel Kashkari, Managing Director at PIMCO, notes that bipartisan coordination to address extreme national economic distress has some historical precedent. As recently as 2008, lawmakers came together in the wake of the collapse of Lehman Brothers to pass the Troubled Asset Relief Programme (TARP) and bail out the banking system. Nonetheless, he warns that entitlement reform, without which long-term budgetary solvency in unrealistic, faces far higher impediments due to American cultural norms and timing:

"TARP was possible only once people could feel the crisis. The House passed that legislation only after the Dow Jones industrial Average dropped 700 points immediately after lawmakers voted it down the first time. If we wait until the bond market shuns Treasuries, the economic consequences could be dire. Virtually overnight, we could have far less money to spend on priorities such as defense, education and research. Once confidence in US Treasury bonds is lost, it could take years to return. Second, bailing out the financial system went directly against our shared beliefs in free markets and fair play. While the vast majority of Americans did not cause the financial crisis, we all had to sacrifice to stop it. Such a cultural violation has angered people nationwide, which makes cutting entitlements more difficult because it will again betray our sense of fairness."²⁹

Recent polling data reflects this sentiment. In a study done by the *New York Times* and *CBS*, 7 out of 10 Americans consider the budget deficit to be a "very serious problem" and do not believe that they should have to pay higher taxes to cover the shortfall between revenue and outlays. However, nearly two-thirds of Americans would prefer paying higher

27 Carlos Lozada, "Will bipartisan seating at the State of the Union make lawmakers more civil?" *Washington Post*, 21 January 2011, <http://www.washingtonpost.com/wp-dyn/content/article/2011/01/21/AR2011012102936.html>.

28 David M. Herszenhorn and Jackie Calmes, "Tax Deal Suggests New Path for Obama," *New York Times*, 6 December 2010, <http://www.nytimes.com/2010/12/07/us/politics/07cong.html>.

29 Neel Kashkari, "The Cultural Challenges of Entitlement Reform," *PIMCO Viewpoints*, July 2010.

taxes for Medicare and Social Security before reducing benefits in their entitlements.³⁰ Understanding this, the tensions within Congress and between the Hill and the White House can be seen as a reflection of the contradictory impulses on display among the populace.

As explained by Neil Kashkari, spending cuts and tax hikes can be undertaken through politicians' own volition or be forced upon the U.S. economy by the bond market. The latter, while not a certainty, is more likely given the potential for political gridlock in Washington as highlighted by the confusion in American public opinion and in the ardent cross-party opposition to initial proposals for deficit reduction. Either way, when the time comes to alleviate the debt burden, defense budgets will be slashed heavily; as the largest share of discretionary spending, and due to popular resistance to entitlement reductions, this is unavoidable. "For America's roles beyond its borders, the money – the serious money – is to be found in the defense budget."³¹ Many analysts argue, therefore, that "the need for serious deficit reduction and a loss of political support for high defense spending make cuts inevitable."³²

Impact of the Budget on Global Commitments

Policymakers and scholars like David Walker and Michael Mandelbaum are primarily concerned with how these future budget constraints will impact U.S. national security in the coming decades and, more broadly, how they may redefine America's role in the world. Global missions historically undertaken by the U.S. – to include patrolling the global commons, restricting the spread of weapons of mass destruction, combating transnational terrorism, providing regional security assurance to friends and allies, and contributing to international humanitarian aid and disaster relief programmes – will all come under strain in an era of financial austerity.

Strategists conduct end-ways-means analyses to assess the impact of policies and their potential consequences. Common in almost all of the above global missions is that they have been fulfilled through the use of military resources (America's "means"). This is not a disposition unique to the United States; great powers throughout history have used their armies and navies to effect realities outside of their sovereign territory, not to merely defend it. What *is* unique is that since the end of the Cold War, the U.S. has used its armed forces not for territorial acquisition, but rather in an attempt to provide the stability

30 Jackie Calmes and Dalia Sussman, "Poll Finds Wariness About Cutting Entitlements," *New York Times*, 20 January 2011, <http://www.nytimes.com/2011/01/21/us/politics/21poll.html>.

31 Mandelbaum, p. 82.

32 David R. Francis, "Cuts to US defense budget look inevitable," *Christian Science Monitor*, 28 June 2010.

necessary to sustain a global economic system and open trading regime with great relative benefit to all countries which partake in that system.³³

President Emeritus of the Council on Foreign Relations Leslie Gelb suggests that the U.S. will need to reorient its strategy for global engagement in order to remain influential abroad. "To be sure, leaders throughout history have pursued economic strength as the foundation of state power, but power itself was equated with military might. Today, the prevailing idea is that economic strength should be applied primarily toward achieving economic – not military – ends."³⁴ Gelb's thesis, however, is a general misreading of the positive use of military means to support economic ends.

Domestic economic strength has been the foundation of American state power, providing surplus financial resources which in turn support defense initiatives in faraway regions. In a globalized world where capital, labour, goods, and services cross political boundaries with ever greater ease, the U.S. has employed its military to promote a stable global trading system. This has produced a mutually-reinforcing cycle where the use of military assets to patrol the global commons, deter revisionist powers, and provide security reassurance to allies and partners further bolsters cross-border economic relations.³⁵

As Gelb himself contends, "Today the United States continues to be the world's power balancer of choice. It is the only regional balancer against China in Asia, Russia in eastern Europe, and Iran in the Middle East."³⁶ Without the U.S. acting as a guarantor of strategic stability in areas of critical economic activity, and with no other country (or concert of states) able or willing to provide a similar security net, enforcing broadly accepted norms of free and transparent trade and financial transaction will become increasingly difficult. The current dilemma is that the military "means" the U.S. uses to safeguard this liberal international economic regime – one which, more often than not, supports mutually beneficial trade relationships – have become too expensive in light of future national budget commitments.³⁷

33 Mandelbaum, pp. 101-106.

34 Leslie H. Gelb, "GDP Now Matters More Than Force," *Foreign Affairs*, November/December 2010, p. 37.

35 For more information on this mutual-reinforcing cycle, see Abraham M. Denmark, "Asia's Security and the Contested Global Commons," in *Strategic Asia 2010-2011: Asia's Rising Power and America's Continued Purpose*, (Seattle and Washington, DC, National Bureau of Asian Research, 2010).

36 Gelb, p. 41.

37 For a thoughtful, prescient, and sober treatment of the impact of economic pressures on America's ability to project power overseas, see Aaron L. Friedberg, "The Strategic Implications of Relative Economic Decline," *Political Science Quarterly*, Vol. 104, No. 3 (1989): pp. 401-431. In many, though not all portions of Friedberg's analysis, one can easily replace "Japan" with "China" as the potential rising peer competitor in international political and economic weight for the contemporary era.

Another strategic analyst observes that within the American military, “strength is hobbled by serious challenges...budgetary constraints, unacceptable weapons cost growth, rising personnel costs, strained procurement and research and development budgets, difficult force structure dilemmas, and wily asymmetric threats, all of which – if left unaddressed – could undermine the current security environment that sustains globalization.”³⁸ While the financial stresses outlined here are a cause for concern, the biggest impact on America’s military will be when national budgetary problems, external to the Defense Department, force essential cuts to defense appropriations.

Cognizant of this budgetary and political environment, national security analysts have shaped their own proposals to reduce the military budget in a meaningful way. Given the above political and economic forces, defense spending will be sharply curtailed with implications for procurement, force posture, and military strategy. The common themes of their proposals act as a blueprint for the U.S. military’s strategic repositioning, one which it has already begun to undertake.

Plans for Defense Savings

The Department of Defense is the only agency in the U.S. government which cannot pass a financial audit. In fact, its financial records are so mismanaged that the department is unable to even stand for an audit. Proposals for internal reform of the weapons acquisition system, supply chain management, contractor hiring and regulation, business transformation and financial management have been tried in the past, but with mixed results and little overall impact on savings.³⁹ However, three recent independent reports by policy analysts and budget experts have put forth a variety of robust options to slim the American defense bureaucracy and prepare it to operate efficiently in an era of economic austerity. Taken together, these reports by the Sustainable Defense Task Force (SDTF), Benjamin Friedman and Christopher Preble of the Cato Institute, and Michael O’Hanlon of the Brookings Institution portend distinct changes to the make-up of the

38 Ashley J. Tellis, “Power Shift: How the West Can Adapt and Thrive in an Asian Century,” Asia Paper Series, George Marshall Fund of the United States, January 2010.

39 Andrew Krepinevich references Ronald Kadish, et. al., “The Defense Acquisition Performance Assessment Report” (January 2006) which notes that more than 123 studies have been performed to address perceived issues with fraud, waste, and abuse in defense acquisitions. In Andrew F. Krepinevich Jr., “National Security Strategy in an Era of Growing Challenges and Resource Constraints,” *CSBA Perspective*, June 2010, p. 7.

40 See Carl Conetta, “Debt, Deficits, and Defense: A Way Forward,” Report of the Sustainable Defense Task Force, (11 June 2010); Benjamin H. Friedman and Christopher Preble, “Budgetary Savings from Military Restraint,” Cato Institute, Policy Analysis, No. 667, (23 September 2010); Michael O’Hanlon, “Defense Budgets and American Power,” Brookings Institution, Policy Paper, No. 24, (December 2010).

U.S. armed forces.⁴⁰ It is useful to take stock of their separate recommendations, the different strategies they pursue, how their suggestions conform with those of the official Simpson-Bowles bipartisan committee, and to what extent they align with current DOD cost-reduction efforts. Analyzing their commonalities and strategic implications will provide metrics for any future deficit reduction undertaken by the Obama administration and U.S. Congress.

Independent Assessments

Fundamentally, “arguments about defense spending are arguments about defense strategy. Substantially reducing military spending requires reducing the ambitions it serves.”⁴¹ Benjamin Friedman and Christopher Preble of the Cato Institute therefore argue for a sober reassessment of U.S. national interests, international threats to those interests, and security strategy to contain these threats characterized first and foremost by strategic restraint. “A policy of restraint that discourages state-building and permanent alliances would allow us to plan for fewer military actions and cut the size and cost of the military.”⁴²

They and others contend that defeating transnational terrorism is better accomplished through improved police capacity and enhanced international intelligence coordination as opposed to military intervention and counterinsurgency to deny safe haven to terrorist organizations. Moreover, they suggest that the U.S. military need not provide security reassurance in Eurasia; U.S. disengagement would prompt allies to pay for the cost of balancing regional agitators and end decades of free-riding behaviour. With these considerations in mind, Friedman and Preble believe that the U.S. can drastically reduce the absolute number of its military personnel and weapons systems, equip remaining hardware with advanced technology, and expand the military in absolute terms on short notice should the need arise. Their recommendations would reap \$1.2 trillion in savings over 10 years.

A more nuanced analysis by the SDTF identifies \$960 billion in savings over the same period. Achieving this would entail reductions in strategic capabilities, conventional forces, procurement, research and development, personnel costs, and command, support, and infrastructure. In the aggregate, these savings options “provide immediate fiscal relief” and “would help bring the goal of meaningful deficit reduction within reach.”⁴³ Yet they will also require U.S. political leadership to rethink national security commitments, devise a more cost-efficient security strategy with more limited scope, and reform Defense

41 Friedman and Preble, p. 2

42 Ibid, p. 12.

43 Conetta, p. ix.

acquisition processes to provide only the most needed goods at more affordable prices.

The SDTF identifies the danger of another terrorist attack or the use of weapons of mass destruction (and, most likely, a combination of the two) on the U.S. homeland as the most serious threats to national security. However, “dedicated counterterrorism and counter-proliferation capabilities have claimed relatively little of the Pentagon’s burgeoning budget.” And this is at a time when the U.S. appropriates to defence two and a half times as much as its potential nation-state adversaries, to include Russia and China, while lacking a peer competitor.⁴⁴ The SDTF recommends a fundamental reprioritization of resources to contend with these two threats in particular.

Unlike the SDTF and Cato Institute reports, Michael O’Hanlon does not claim that defence spending is too high. Rather, he assesses that, given current national fiscal conditions, it is only appropriate that the military take part in what will be the necessary shared sacrifice of deficit reduction. Understanding that the U.S. informally leads “a global alliance system of 60 partner states that collectively account for almost 80 percent of global GDP and more than 80 percent of total global military spending,” he proposes that the country is capable of reducing defence expenditures by 10 per cent - about \$60 billion in real-dollar, non-war spending.⁴⁵

O’Hanlon proposes three specific areas in which to realize these savings: tougher management policies within the Department of Defense, smaller ground forces once the wars in Iraq and Afghanistan have been completed, and a more selective prioritization of weapons system modernization efforts.⁴⁶ With these reforms, the basic nature of the U.S. armed forces would remain unchanged with limited strategic consequences for current mission priorities. However, the U.S. military would no longer be globally predominant, even while many argue that this is already the case. A smaller Army and Marine Corps would still be able to deter enemies and overthrow regimes, though without alliance support they would be insufficient to occupy countries like Iran, Pakistan, or North Korea should the need arise.⁴⁷

These three reports should be assessed within the context of the only official, government-sponsored effort so far to draft a bipartisan plan for deficit reduction. The report from the Bowles-Simpson Commission merely suggests that a cap be placed on discretionary spending through 2013, to divide this cap equally between “security” and “non-security” discretionary spending, and to limit future spending growth to half the projected inflation

44 Conetta, pp. 6-7.

45 O’Hanlon p. 6.

46 Ibid, pp. 13-21.

47 Ibid, p. 16.

rate through 2020.⁴⁸ There are no cuts to spending, only to the growth of that spending, and the report doesn't include any specific recommendations for doing so.

Previously, though, the Commission Co-Chairs put forth their own ideas for cuts specific to defence outlays. Their draft proposal would save \$100 billion by 2015, shifting Secretary Gates' overhead cuts (discussed below) to pay down the debt rather than reallocating the money within the Pentagon. It would also reduce procurement by 15 per cent, lower the number of military personnel stationed at overseas bases in Europe and Asia by one-third, and modernize DOD health care system, known as TRICARE.⁴⁹

The Bowles-Simpson Commission's and O'Hanlon's suggestions are not accompanied by an overarching reconsideration of security strategy. They are primarily driven by the need to reduce the national deficit. The reports by the Cato Institute and the SDTF take the opposite approach, relying upon the need for deficit and debt reduction to support reoriented national security strategies which they consider to better advance the national interest. While the latter two plans advocate cuts which, in absolute terms, are 5 to 6 times as deep as those of the former, together the four proposals highlight both the interconnection between military capacity and strategy and the need to assess all portions of the Defense Department budget for downsizing. No military service is spared reductions to its armed forces and civilian bureaucracy personnel, weapons systems procurement, and research and development. What these assessments also have in common is that they more accurately reflect the nature, if not necessarily the extent, of the budget cuts required in order to balance annual deficits and rein in growth of the national debt.

By examining current DOD efforts to rein in spending, national security analysts are given a small insight into the emerging priorities of a U.S. military which will operate in a future environment of diminished resources. The previously outlined independent assessments have helped to frame the discussion and will provide a template for the defence portion of a comprehensive deficit reduction package once mandated by Congress. Yet while the U.S. Congress continues to drag its feet on any meaningful progress towards fiscal consolidation, the Defense Department leadership has already commenced spending reforms of its own volition. Importantly, these first steps closely mirror the scope and nature of Michael O'Hanlon's proposals. This being the case, it is likely that any further cost-reduction initiatives, catalyzed by legislation from Capitol Hill, will draw upon the recommendations for even deeper cuts proffered by the SDTF and Cato Institute.

48 National Commission on Fiscal Responsibility and Reform, "The Moment of Truth," December 2010, pp. 20-23.

49 Erskine Bowles and Alan Simpson, "\$200 Billion in Illustrative Savings," 12 November 2010, http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/Illustrative_List_11.10.2010.pdf.

Defense Department Savings

Secretary of Defense Robert Gates has made a cursory attempt to rectify financial accounting, control wasteful spending, and re-emphasize priority defence programmes. He is adamant that “given America’s difficult economic circumstances and parlous fiscal condition, military spending on things large and small can and should expect closer, harsher scrutiny. The gusher has been turned off, and will stay off for a good period of time.”⁵⁰

Towards this end, in May 2010 Secretary Gates convened meetings with the military service chiefs and sought to identify \$100 billion in savings from within each branch over the subsequent five years. In a commendable display of consensus-building, the civilian leadership and military heads agreed to consolidate branch operations centres and staffs, reduce manpower, rein in construction costs, and streamline supply chain processes, among other initiatives. Savings generated from “cutting overhead and other inefficient costs of weapons programs will go toward modernizing and recapitalizing military equipment and sustaining troops.”⁵¹ To be clear, these are not cuts to the defence budget. Instead, all funds will be reinvested into the military services. Over the next five years, \$28 billion of this will be used to deal with higher than expected operating costs across a series of military requirements. The remaining \$72 billion in savings will be directed towards higher priority military capabilities, described in detail in the section below.

Also over the course of 2010, the Department of Defense identified \$54 billion in cuts on a department-wide basis which are not directly related to the individual military branches. These savings are to be realized over the next five years through: consolidating data centres and reforming information technology systems; reducing contractor support staff by 10 per cent per year over three years; freezing DOD workforce levels for three years; downsizing and consolidating military intelligence operations focused on counter-terrorism and terrorism financing into two Defense Intelligence Agency task forces; eliminating 100 of 900 general and flag officer billets; disestablishing the Joint Forces Command, the Business Transformation Agency, and an assistant secretary-level office for network intelligence and information; reducing each of the military service’s European commands to the three-star level; and eliminating 400 internal DOD reporting requirements. These efforts will reduce redundancy, make support operations more efficient, and be a direct cut to defence outlays.

50 Robert Gates, “Speech at the Eisenhower Library,” Abilene, TX, 8 May 2010.

51 Dana Hedgepeth, “Gates starts outlining cuts to save \$100 billion for defense,” *Washington Post*, 14 September 2010.

On January 6, 2011 Secretary Gates announced that the above \$54 billion in cost savings over five years would be one tranche of a larger \$78 billion total reduction in the defence budget compared to that outlined in the 2009 Five Year Defense Plan. The other tranches include \$14 billion due to revised economic assumptions (decreases in inflation and projected pay raises) and \$4 billion from re-pricing and re-evaluating the Joint Strike Fighter production schedule. Notably, the remaining \$6 billion will be realized through a roughly 6 per cent reduction in the size of the active duty Army and Marine Corps beginning in FY2015. Permanent end strength will decline by approximately 27,000 soldiers and 20,000 marines as a result.⁵²

To clarify, the \$100 billion in administrative and efficiency savings is an attempt to re-prioritize and direct funding towards more mission-critical national security programmes. The \$78 billion reduction in the defence budget over five years is an actual cut, but only to projected spending. Even still, "adjusted for inflation, the requested FY2011 base budget would be DOD's third largest since the end of the Korean War."⁵³ Moreover, the Pentagon's proposed base (non-war) budget for FY2012 of \$553 billion amounts to a 3 per cent real growth over that appropriated for FY2011 under the current continuing resolution.⁵⁴ Gates' new budget plan will see a gradually reduced real growth rate through FY2014 and there will be zero real growth in FY2015 and FY2016.

These measures will not significantly alleviate the national debt. Rather, as Former Secretary of Defense William Cohen explains, "Gates is trying to shape the nature of the cuts that are coming so that he is at least taking the lead effort...He is trying to shape the debate. But Congress will make the ultimate decision [on defence appropriations]."⁵⁵ By undertaking these efforts on the DOD's own volition, Gates will be able to make the case to Congress that a smaller percentage of the military budget will have to be cut relative to other discretionary spending programmes, even though the new budget plan outlined on January 6 is only a reduction in its rate of growth, not in absolute terms.

52 Robert Gates, "Statement on Department Budget and Efficiencies," 6 January 2011, <http://www.defense.gov/speeches/speech.aspx?speechid=1527>.

53 Pat Towell, "Defense: FY2011 Authorization and Appropriations," Congressional Research Service, 17 September 2010, pp. 8, 10.

54 The federal budget calendar runs from October 1 through September 30. At the end of FY2010, the U.S. Congress was unable to agree upon and pass a formal budget for FY2011, mainly due to the redirected focus of attention and energy on the mid-term elections. In the lame duck session of Congress which followed, a series of stop-gap measures, known as continuing resolutions, were passed so as not to impede normal government operations. At the time of this writing, a continuing resolution had been passed to fund the federal government at FY2010 levels through 4 March 2010.

55 William Cohen, InBusiness Interview, Bloomberg Television, 11 August 2010.

It is perhaps noteworthy that this new course of action contains budget cuts that were “just big enough to outrage many pro-military lawmakers and just small enough to anger deficit hawks pressing for much deeper cuts.”⁵⁶ Congress already pushed back in opposition against the first round of \$100 billion in reforms.⁵⁷ Moreover, both the former and current chairmen of the House Armed Services Committee are adamantly opposed to trimming military budgets, especially when the country is at war.⁵⁸ Congress is where the real battle of defence cuts will be fought.

Internal DOD reforms must be seen within the context of contemporary mission commitments. While U.S. military forces are still stationed in Iraq, they maintain a non-combat role and their ranks will thin as progress is made in training the Iraqi army and police. The “surge” in Afghanistan has just peaked, President Obama has decided to begin a drawdown of American troops in July 2011, and the administration has clearly articulated plans to transition lead control of security in all Afghan provinces to local forces by the end of 2014.⁵⁹ These plans reinforce the trend that the United States has begun to disengage from two long-term and costly land wars.

Demand for military goods fell by 45 per cent after the Vietnam War and by nearly 55 per cent after the end of the Cold War.⁶⁰ If historical precedents are any indicator, defence budget tightening will soon follow the end of these wars as well, a process which will only be accelerated by poor domestic economic conditions and the need for comprehensive deficit reduction. DOD leadership understands this and is attempting to get ahead of the curve. A more nuanced analysis of DOD reforms and acquisition trends shows that the wars in Iraq and Afghanistan are already lesser priorities for the U.S. military. Importantly, defense planners have not completely abrogated their responsibility to provide the equipment and resources necessary for the military’s current conflicts, but they have commenced a methodical effort to piece together the components of a broader strategy for the post-Iraq and Afghanistan security era.

56 Yochi J. Dreazen, “For Gates, Budget Pressures Are a Foe He Cannot Beat,” *National Journal*, 6 January 2011.

57 Stephen Daggett, “Quadrennial Defense Review 2010: Overview and Implications for National Security Planning,” Congressional Research Service, 17 May 2010, p. 36.

58 See William Matthews, “In U.S. Congress, Little Appetite for Defense Cuts – Yet Rising Deficits May Eventually Tip the Balance,” *Defense News*, 11 October 2010; and Laura Shaughnessy, “Likely Chief of Armed Services Panel Opposed to Defense Budget Cuts,” CNN, 16 November 2010.

59 Douglas Lute, “Press Briefing by Senior Administration Officials on the Upcoming NATO and EU Summits in Lisbon, Portugal,” 16 November 2010. This plan was formally articulated one week later in an official NATO communiqué.

60 John T. Bennett, “Cuts Could Surpass Gates’ Proposals,” *Defense News*, 15 November 2010, p. 8.

What Redirecting Savings Mean for Military Priorities

Three important questions remain: How are the \$100 billion in funds from self-imposed savings reform to be reinvested within the Defense Department? What themes are articulated in new defence programmes? And what does this tell us about the future strategic priorities of the U.S. military?

Some service branches received different treatment than others. The Army and Marine Corps were losers in this regard. After nearly a decade of continuous armed conflict, America's cadre of soldiers and marines must be made healthy again and have their materiel modernized. Their ground forces will be shrunk but recapitalized. The Army's fleet of tanks and combat vehicles will be upgraded and the soldier-level, tactical communications piece of the now-defunct Future Combat Systems programme will be fielded. Importantly, soldiers will receive improved suicide prevention and substance abuse counselling, potentially minimizing the projected long-term health care and rehabilitation costs expressed by Joseph Stiglitz and others. While the equipment used by the Marine Corps in theatre will be refurbished, Gates has cancelled the much-troubled Expeditionary Fighting Vehicle programme and placed on two-year probation the Corps' short take-off, vertical landing (STOVL) variant of the Joint Strike Fighter (JSF), placing it as the lowest priority on the JSF production schedule.⁶¹

The obvious winners were the Air Force and Navy, neither of which received significant cuts to major defence acquisition programmes or personnel. Secretary Gates has directed the Air Force to buy additional Reaper unmanned aerial vehicles (UAVs), move priority intelligence, surveillance, and reconnaissance (ISR) programmes from the OCO portion of the defence budget to the permanent base budget, and undertake the development of a new long-range, nuclear capable penetrating bomber. The Department of the Navy will accelerate the development of a new generation of electronic jammers, procure a new generation of sea-borne unmanned strike and surveillance aircraft, buy more and extend the service life of its F-18s as a hedge against potential future JSF schedule delays, and purchase additional ships over the next five years.

The trends of U.S. defence acquisition must be examined within the context of threat assessment and shifting geographic priorities. After the military drawdown in Iraq and Afghanistan, American resources and political attention will no longer be focused on the

61 Some have even suggested that a doctrinal shift was already underway for the Marine Corps prior to the cancellation of the Expeditionary Fighting Vehicle programme. See Christopher Cavas, "Doctrinal Shift Doomed EFV Before Gates' Ax," *Defense News*, 10 January 2011, p. 18; and Robert O. Work and Frank G. Hoffman "Hitting the Beach in the 21st Century," *Proceedings*, Volume 136, November 2010.

Middle East writ large, but rather on the southern and eastern Eurasian rim. This area's energy reserves, traditional and non-traditional threats, and economic vibrancy make it the geographic area of greatest strategic importance for U.S. national interests and, therefore, its military.

American legitimacy and influence in the Persian Gulf will remain of critical import for some time due to its hydrocarbon and natural gas assets. The U.S. military, through its naval presence in the adjacent seas, its bases in smaller regional countries, and its defence cooperation with and arms sales to these countries, has the dual purpose of maintaining the stable flow of energy resources while preventing regional actors from upsetting this arrangement. Iran is the most capable and likely actor to do so. It has modified the force posture of its military to engage in asymmetric warfare against a far more advanced U.S. military and it actively pursues nuclear weapons to bolster its security.⁶² In this sense, an America military presence which is meant to provide one public good (a free and open sea lane through the Strait of Hormuz) ironically complicates the provision of another (global non-proliferation efforts).

America's enduring interests in South and Southeast Asia are based upon the continued threat posed by transnational terrorists in the Afghanistan-Pakistan border region and the economic vibrancy and political influence of strategic partners and traditional allies. Even as NATO forces begin to withdraw from Afghanistan in the summer of 2011, the continued potential for terrorists to find safe haven in Afghanistan proper and Pakistan's North West Frontier Province will necessitate American vigilance to disrupt, dismantle, and defeat their organizations and operational capacity. India, itself a victim of international terrorism, is a global economic powerhouse and political leader. Both the U.S. and India share the values of liberal democracy and have a common interest in producing stability in South Asia for the purpose of continued economic growth.⁶³ The U.S. also remains Southeast Asia's de facto security guarantor, a region of over 450 million people with a combined economic output of almost \$1.5 trillion. Moreover, it receives considerable amounts of U.S. foreign direct investment, twice that of China and six times that of India.⁶⁴

62 Some analysts make the case that, due to the Gulf's energy reserves and the international need for reduced volatility in this region to ensure the continued and timely transit of oil eastwards, the U.S. Army, after the wars in Iraq and Afghanistan wind down, is likely to increase its presence in those smaller Gulf states which require security reassurance vis-à-vis Iran. See Geoffrey Kemp, *The East Moves West: India, China, and Asia's Growing Presence in the Middle East* (Washington, D.C.: Brookings Institution Press, 2010), pp. 174-175.

63 Teresita Schaffer, "The United States and India 10 Years Out," Working Paper, Center for a New American Security, October 2010.

64 Daniel Kilman and Abe Denmark, "How to Get Southeast Asia Right," *The Diplomat*, 2 February 2011.

In the Western Pacific, American interests are driven in large part by the frequently tense yet globally significant economic relationship with China. In the military domain, the U.S. commitment to security reassurance for allies Japan and South Korea will be increasingly complicated by a more bellicose and aggressive People's Liberation Army. This is the geographic area where U.S. naval dominance will be most directly challenged. Developments here will be closely watched by other countries outside of the immediate area, like India and Australia, for a better sense of future Chinese intentions and red lines in their respective neighbourhoods.⁶⁵

The above interests provide the strategic rationale for continued American presence in and engagement with the littoral countries of the Indo-Pacific maritime basin. The themes of U.S. defence acquisition are reflective of this shift in geographic concern and threat assessment. High priority is given to unmanned aerial systems for both attack/strike and ISR purposes. The increased importance of advanced ISR capabilities is reflective of the need to counter asymmetric threats in anti-access environments, especially as posed by China in the Western Pacific and Iran in the Persian Gulf. This trend is further supported with the Air Force's development of a versatile, penetrating bomber that can be remotely controlled and has the option of carrying either conventional or nuclear payloads. Moreover, U.S. Navy investments in electronic jammers will hinder the accuracy of weapons like China's recently operationalized Dong-Feng 21D anti-ship ballistic missile, ensuring that America's aircraft carriers and Aegis-equipped surface warfare ships do not become wasting assets as some have feared.⁶⁶

These unmanned, ISR, and electronic jamming capabilities are not readily suitable for long-term ground combat. One can therefore see a shift in emphasis from land warfare to sea and air warfare which is more applicable to current American interests in anti-access, area-denial environments.⁶⁷ U.S. forces in the Persian Gulf and Western Pacific theatres in particular will benefit from additional Navy destroyers and Littoral Combat Ships outlined in Gates' plan. Land warfare, while still strategically relevant, will take a back seat role in U.S. scenario planning. A reduction of the end strength of the Army and the Marine Corps

65 Andrew Erickson, Ladwig Walter III, and Justin Mikolay, "Diego Garcia and the United States' Emerging Indian Ocean Strategy," *Asian Security*, Vol. 6, No. 3 (2010), pp. 230-233.

66 Andrew F. Krepinevich, "The Pentagon's Wasting Assets," *Foreign Affairs*, July/August 2009.

67 More particularly, new trends in defense acquisitions seem to signal the growing relevance of an integrated air-sea battle concept for U.S. armed forces to operate in anti-access area denial environments. See Andrew F. Krepinevich, "Why AirSea Battle?," Center for Strategic and Budgetary Assessments, Washington, D.C. (2010). Some have argued that this concept, once implemented, can also be adopted by America's partners in the greater Asia-Pacific region, most notably India, with armed forces of similar size and scope. See Iskander Rehman, "Deflecting the Assassin's Mace: The Pentagon's New AirSea Battle Concept and its Strategic Relevance to India," Issue Brief, Institute for Defence Studies and Analyses, 7 July 2010.

is further evidence of this trend. The U.S. "can afford outposts the world over, but not necessarily combined with heavy ground force commitments in a few places."⁶⁸ This new emphasis on advanced technologies will not aid the U.S. military's capacity to conduct counter-insurgency and nation-building operations, though advanced unmanned strike aircraft will be extensively used for counter-terrorism efforts. In the coming post-Iraq and post-Afghanistan era, when the American public has little stomach for further losses in support of nation-building in far-away lands, these technological capabilities will enhance the military's means to deter adversaries.

Europe, with its inherent emphasis on land warfare scenarios, has become a less important strategic imperative, highlighted by DOD's efforts to consolidate operations there and reduce its commands in that theatre from the four to three-star level. Evidence of this trend can also be found in President Obama's decision to make the Navy the primary contributor to and executor of ballistic missile defence for the European continent, scrapping the Bush Administration's plans for missile shield installations in Poland and the Czech Republic.⁶⁹ This geographic shift is buttressed by a new political strategy in the U.S. Department of State. Secretary of State Hillary Rodham Clinton's "Forward-Deployed" diplomacy is almost exclusively targeted towards countries in the greater Asia-Pacific region, where the U.S. has reengaged in critical multilateral regional forums like ASEAN, the East Asia Summit, and APEC.⁷⁰

The Tension between Missions and Money [and the Need for Strategy]

Analysts are in a difficult position in predicting the rise of other major military powers and, subsequently, dictating the appropriate military responses in terms of weapons acquisitions, defence posture, and strategy. Aaron Friedberg labels this exercise in prediction one of "Triple Uncertainty."⁷¹ First is the problem of estimating economic growth. Second is the issue of determining if the future political posture of any given country will produce a government with the desire to convert economic resources into military power. Last is the uncertainty as to whether or not a country, even with the political will and economic base, has the administrative skill to build, organize, operate, and maintain large armed forces. At a very basic level is the concern that trend lines,

68 Robert D. Kaplan, *Monsoon: The Indian Ocean and the Future of American Power* (New York, NY: Random House, 2010), p. 270.

69 Peter Baker, "White House Scraps Bush's Approach to Missile Shield," *New York Times*, 17 September 2009.

70 See Hillary Rodham Clinton, "America's Engagement in the Asia-Pacific," Remarks Delivered at the Kahala Hotel in Honolulu, Hawaii, 28 October 2010, <http://www.state.gov/secretary/rm/2010/10/150141.htm>.

71 Friedberg, "Strategic Implications of Relative Economic Decline," pp. 426-428.

especially as they relate to national power, are inherently deceptive⁷² and projections into the future are concomitantly problematic.⁷³ For as ubiquitous as the “China threat” remains in contemporary debate, there is no guarantee that China or other rising countries will militarily oppose U.S. national interests.⁷⁴

Defence hawks have nonetheless criticized Gates’ cost cutting measures as ceding ground to the People’s Liberation Army in a prospective arms race between the U.S. and China.⁷⁵ One should be concerned about the potential for a military competition in the Western Pacific, especially given the volatility of the Sino-American relationship.⁷⁶ Moreover, an arms race entails the type of commitment the American people can tolerate: only treasure, not blood. In sum, however, the savings generated from internal reforms, their reinvestment in technologically advanced weaponry with more strategic focus, and the change of defence priorities they portend strike an appropriate balance in the near-term. This round of “austerity” may not be anything like that seen by America’s European allies, but the nature of these cuts is a “reflection of not only greater financial resources here but of the responsibilities that come with being a global superpower.”⁷⁷

Just the same, the U.S. Department of Defense would do well to place the current themes of weapons acquisition and doctrinal shifts in the context of a more thoughtful security strategy. Because revisions to the military services’ capacity will require new force structure and posture, and understanding that cuts to the defence budget will likely deepen in the future, the U.S. will need to develop a different and more holistic strategy or accept greater risk that its strategic priorities will not be accomplished.⁷⁸ When Congressionally-

72 See Nicholas Nassim Taleb, *The Black Swan: The Impact of the Highly Improbable* (New York, NY: Random House, 2007).

73 A valuable attempt to do just this was undertaken by George Friedman, though he conditioned his study with a sober evaluation of the limits of such projections. See George Friedman, *The Next 100 Years: A Forecast for the 21st Century* (New York, NY: Anchor Books, 2010).

74 For contrarian analyses of the potential power of a rising Asia in general see Joshua Kurlantzick, “The Asian Century? Not Quite Yet,” *Current History*, January 2011, pp. 26-31; on China in particular see Kenneth G. Lieberthal, “Is China Catching Up with the United States?” *ETHOS*, Issue 8, August 2010, pp. 12-16, and Prem Shankar Jha, *India and China: The Battle Between Hard and Soft Power* (New Delhi, India: Penguin Books India, 2010).

75 Dan Blumenthal and Mike Mazza, “A One-Sided Arms Race,” *The Weekly Standard*, Vol. 16, No. 18, 24 January 2011.

76 On the potential for a Sino-American arms race, see Robert Kagan’s remarks in “The Defense Budget and American Power,” Brookings Institution event, Washington, D.C., (22 December 2010), pp. 16-19; and Toshi Yoshihara and James Holmes “The Next Arms Race,” *The Diplomat*, 8 January 2010, <http://apac2020.the-diplomat.com/feature/the-next-arms-race/>.

77 James Joyner, “Defense Austerity, American Style,” *The Atlantic Council*, 7 January 2011, http://www.acus.org/new_atlanticist/defense-austerity-american-style.

78 Krepinevich, p. 8.

implemented fiscal austerity descends upon discretionary spending in general and on DOD's budget in particular, attention must be given to how the U.S. military achieves a revised set of missions and how the U.S. will work with other countries to better ensure these missions are accomplished for mutual benefit. Currently, core documents from the White House and Department of Defense ignore the impact of domestic economic conditions on strategic interests and fail to chart a path to remedy structural imbalances.

In contrast to its previous iterations, a special section of the 2010 National Security Strategy articulates the linkage between a robust domestic economy and the success of U.S. national security goals. "Our [economic] prosperity serves as a wellspring for our power. It pays for our military, underwrites our diplomacy and development efforts, and serves as a leading source of our influence in the world...Yet even as we have maintained our military advantage, our competitiveness has been set back in recent years." The official document continues, "That is why we are rebuilding our economy so that it will serve as an engine of opportunity for the American people, and a source of American influence abroad...[Doing so] must include putting ourselves on a fiscally sustainable path."⁷⁹ Yet this just pays lip service to the interconnection between missions and money. It makes no attempt to address the *how* aspect of ensuring that the federal government, and American economy writ large, becomes fiscally sustainable.

The National Security Strategy was published three months after the Quadrennial Defense Review (QDR). As a result, the QDR makes no reference to the global financial crisis or domestic economic recession when it outlines the world's complex strategic environment. "The rise of new powers, the growing influence of non-state actors, the spread of weapons of mass destruction and other destructive enabling technologies, and a series of enduring and emerging trends pose profound challenges to international order."⁸⁰ Absent in this description is an elaboration as to how relative economic shifts have led to new relative power distributions. Moreover, one would assume that when the world's largest economy suffers an extraordinarily deep recession, this would also impact the strategic environment. From the perspective of the QDR, it does not.⁸¹

79 National Security Strategy of the United States, (May 2010): pp. 9-10.

80 Department of Defense, Quadrennial Defense Review Report (February 2010), p. 5.

81 Initially, the QDR planning process was criticized as "little more than a budget drill, designed to justify cuts in programs needed to fit defense plans into a constrained budget, rather than an exercise in strategic planning." Daggett, "Quadrennial Defense Review 2010: Overview and Implications." The Undersecretary of Defense Comptroller has clarified that, in practice, the QDR planning process is not confined by fiscal considerations but instead is "resource-informed." See "Department of Defense Bloggers Roundtable with Undersecretary of Defense (Comptroller) and Chief Financial Officer Robert Hale," 2 February 2010, <http://www.dodlive.mil/files/2010/02/0202hale.pdf>.

The QDR then goes on to profile the U.S. military's enduring defence objectives: prevail in today's wars; prevent and deter conflict; prepare to defeat adversaries and succeed in a wide range of contingencies and; preserve and enhance the force.⁸² Notably, in a departure from previous defence reviews, the 2010 QDR *expands* the range of contingencies for which the U.S. military should be prepared to undertake. It states that the military must be in a position to protect American interests by engaging in not only two concurrent wars with nation-state actors but also for a variety of stabilization, humanitarian assistance, disaster relief, and homeland defence operations.⁸³

This planning document officially expands the potential roles and responsibilities of the armed forces with the purpose of advancing American national interests through military means. While the QDR states that, with limited resources, priorities must be balanced and hard choices made, it also makes the case that the military must be prepared to confront almost every type of potential contingency. Although the QDR asserts the need for flexibility in 23 of its 128 pages, it undertakes no effort to analyze the impact on flexibility or force posture more generally if its military means are reduced. For all of the QDR's risk management and scenario planning,⁸⁴ it is disconcerting that the health of the domestic economy, necessary for funding military endeavours, is never brought into the equation.⁸⁵

The Stress of Countervailing Forces

In this paper I have attempted to highlight a number of countervailing forces, tensions, and stresses at the systemic, domestic, and departmental levels. These include considerations of international economics, public finance, domestic politics, military trends, and defence budgeting. In the aggregate, they predict a comprehensive deficit reduction plan in the coming years that will lead to a slashing of the defence budget beyond that already undertaken by Secretary Gates. Recent statements by politicians and administration cabinet members suggest that, while they are conscious of the probability of a significant reduction in future military spending, there are currently no formal efforts underway to set priorities, adapt missions, and reassess strategy. This is reflected in the most recent National Security Strategy and Quadrennial Defense Review.

What do these countervailing forces mean for the future of American power projection and security commitments? In sum, they augur an era of uncertainty for America's role in

82 Department of Defense, QDR Report, pp. 41-45.

83 Ibid, p. 42.

84 Ibid, pp. 89-95.

85 For an analysis of these trends in the context of the defense review see Daggett, "Quadrennial Defense Review 2010: Overview and Implications for National Security Planning," pp. 59-61.

the world. Simply put, U.S. international activism will be curtailed. In times of economic crisis, the choice for American policymakers is traditionally not one between isolationism and global leadership, but rather “between normal or passive engagement – trade, diplomacy, and cultural exchange – and forceful efforts to control or shape the world environment.”⁸⁶ The urge to be globally active remains regardless of circumstances. Yet the end of America’s unipolar moment, reinforced by the economic recession and inconclusive completion of two major combat operations, is now taking on its full and realizable shape.

The nature of U.S. alliances will also change. The economic crisis is global in nature and has affected the national budgets of traditional partners with equally, if not more, severe consequences. For example, recent cuts to the United Kingdom’s defence budget will impact its ability to partake in a wide variety of multilateral navy missions, creating “a leadership vacuum that only one country can fulfill.”⁸⁷ In the end, “the United States will have to bear an even heavier burden to defend Western interests, at a time when it will have fewer resources enabling it to do so.”⁸⁸ As members of the NATO alliance reduce their resource commitments to military missions, and while the strategic priorities of the American military shift away from Europe to the southern and eastern Eurasian rim, the U.S. will build ad hoc, issue-based partnerships with other countries in the latter geographic region which have common strategic concerns.⁸⁹ This will include working in a robust manner with countries like India, Vietnam, and Singapore while managing tense relationships with Pakistan and China.

The American experience in Iraq and Afghanistan has soured the public on long-term nation-building and counterinsurgency operations which are both cost-intensive and end in mixed results. If the United States is to bear an even heavier burden to defend Western interests in the future, it will not do so by invading and occupying foreign lands. This experience has placed conditions on the use of force which were not present after the end of the Cold War. The U.S. will be more hesitant in the future to engage in armed conflict on an extended scale, no matter how weak the opponent. And it will have a more difficult

86 Richard K. Betts, “Domestic Constraints and American Strategy,” Presented at the Princeton Center for International Security Studies Second Annual Conference (14 May 2010), p. 6.

87 David Axe, “U.K. Budget Cuts: Sinking the Royal Navy, Part II,” *World Politics Review*, 28 October 2010, <http://www.worldpoliticsreview.com/articles/6859>.

88 Dov S. Zakheim, “Security Challenges Arising from the Global Economic Crisis,” Foreign Policy Research Institute E-Note, March 2009, <http://www.fpri.org/enotes/200903.zakheim.securityeconomiccrisis.html>.

89 Chas W. Freeman, “India and America in the Strategic Times to Come,” Remarks to the Delhi Policy Group and MIT Center for International Studies, New Delhi, India, 11 January 2011.

time deterring potentially revisionist powers which threaten its national interests and those of its allies and partners. "Long accustomed to pursuing a 'rich man's' approach to strategy, the United States will find itself increasingly challenged to take a 'smart man's' approach – one for which it seems ill-prepared."⁹⁰

Revitalizing America's stature abroad will require domestic sacrifice and commitment first and foremost. A growing debt burden, amplified by the most brutal economic recession in 80 years, and the slow drawdown of two long-term land wars provide the impetus for general fiscal consolidation in the first case and curtailing the defence budget in the second. The United States must begin to reorient aspects of its grand strategy to cope with new realities and efficiently handle the potential threats posed by transnational terrorists, regional spoilers, and rising powers. The status quo is simply unsustainable. The future will therefore require closer coordination with allies and like-minded partners to maintain stability in geographic areas of economic and strategic significance during an era of diminished American military capacity. Managing this transition will be the key strategic challenge of U.S. policymakers in the coming years.

90 Krepinevich, p. 1.