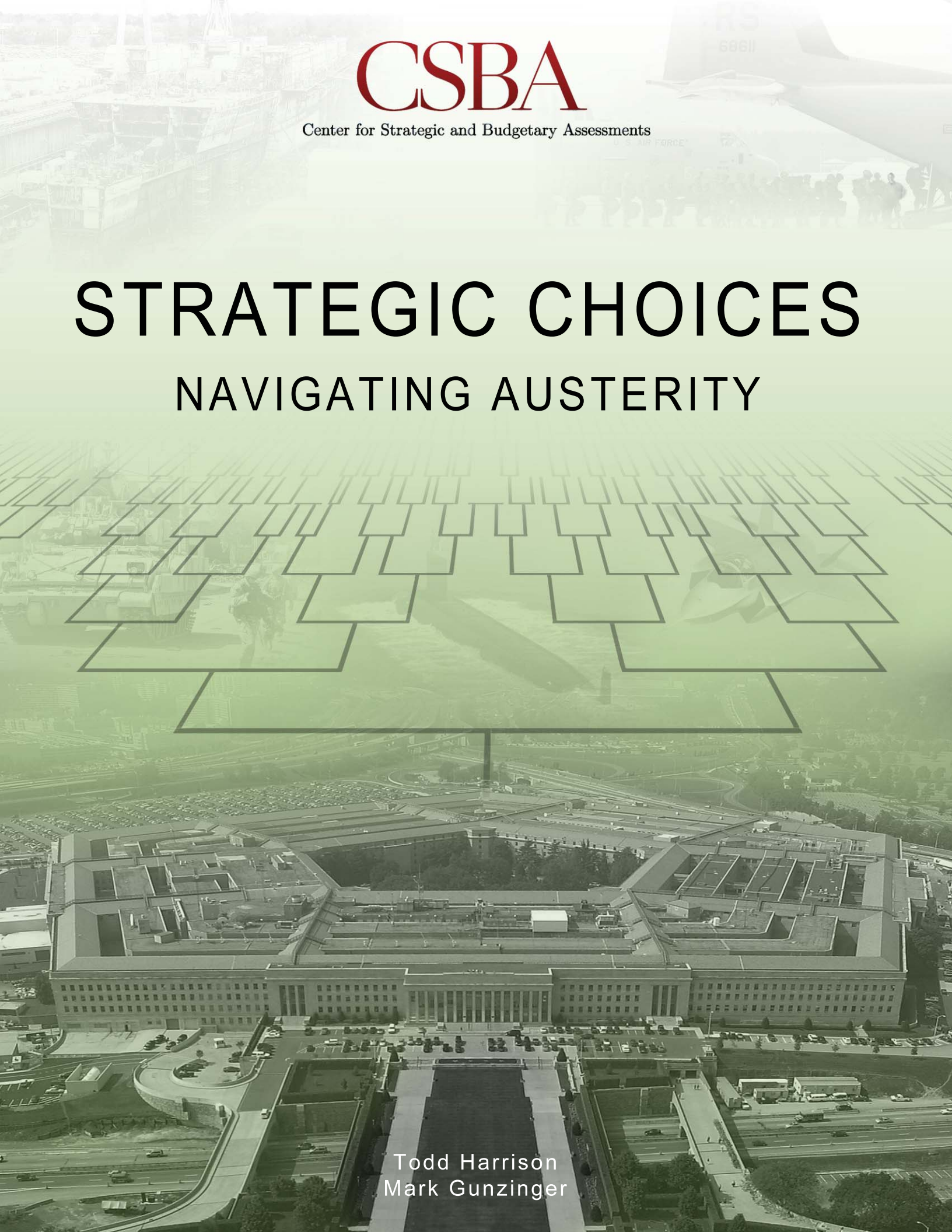


The logo for the Center for Strategic and Budgetary Assessments (CSBA) is displayed in a large, red, serif font. The letters are bold and closely spaced.

Center for Strategic and Budgetary Assessments

STRATEGIC CHOICES

NAVIGATING AUSTERITY

The background of the cover is a faded, green-tinted aerial photograph of the Pentagon. A large, dark grid pattern is overlaid on the image, consisting of a series of horizontal and vertical lines that form a series of rectangular cells, resembling a floor plan or a data grid. The grid is centered and extends across most of the width of the image.

Todd Harrison
Mark Gunzinger

STRATEGIC CHOICES: NAVIGATING AUSTERITY

By Todd Harrison and Mark Gunzinger

2012

About the Center for Strategic and Budgetary Assessments

The Center for Strategic and Budgetary Assessments (CSBA) is an independent, nonpartisan policy research institute established to promote innovative thinking and debate about national security strategy and investment options. CSBA's goal is to enable policymakers to make informed decisions on matters of strategy, security policy and resource allocation. CSBA provides timely, impartial, and insightful analyses to senior decision makers in the executive and legislative branches, as well as to the media and the broader national security community. CSBA encourages thoughtful participation in the development of national security strategy and policy, and in the allocation of scarce human and capital resources. CSBA's analysis and outreach focus on key questions related to existing and emerging threats to US national security. Meeting these challenges will require transforming the national security establishment, and we are devoted to helping achieve this end.



About the Authors

Todd Harrison is the Senior Fellow for Defense Budget Studies at the Center for Strategic and Budgetary Assessments. Mr. Harrison joined CSBA in 2009 from Booz Allen Hamilton, where he supported clients across the Department of Defense, assessing challenges to modernization initiatives and evaluating the performance of acquisition programs. He previously worked in the aerospace industry developing advanced space systems and technologies and served as a captain in the U.S. Air Force Reserves. Since joining CSBA, Mr. Harrison has authored a number of publications on trends in the overall defense budget, modernization initiatives, the defense industrial base, military personnel costs, and the cost of the wars in Iraq and Afghanistan. He frequently contributes to print and broadcast media and is a member of the Council on Foreign Relations. He is a graduate of the Massachusetts Institute of Technology with both a B.S. and an M.S. in Aeronautics and Astronautics. Mr. Harrison combines his budgetary, programmatic and engineering experience with a strong background in systems analysis to lead the Budget Studies program for CSBA.

Mark Gunzinger is a Senior Fellow at the Center for Strategic and Budgetary Assessments. He has served as a senior advisor to the Air Force for the 2010 QDR, and as Deputy Assistant Secretary of Defense for Forces Transformation and Resources. A retired Air Force colonel and command pilot with 3000-plus flight hours, he joined the Office of the Secretary of Defense in 2004. Mark was appointed to the Senior Executive Service as principal director of the department's central staff for the 2005-2006 QDR before joining the National Security Council as the Director for Defense Transformation, Force Planning and Resources. Mark is the principal author or co-author of multiple Defense Planning Guidance directives, key strategic planning documents that shape DoD force planning. He holds an M.S. from the National War College, a Master of Airpower Art and Science degree from the School of Advanced Air and Space Studies, an M.P.A. from Central Michigan University, and a B.S. in Chemistry from the U.S. Air Force Academy. Mark is the recipient of the Department of Defense Distinguished Civilian Service Medal, Secretary of Defense Medal for Outstanding Public Service, Defense Superior Service Medal, and Legion of Merit Medal.

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EXECUTIVE SUMMARY

Regardless of whether sequestration goes into effect on January 2, 2013, the Department of Defense (DoD) will likely face a constrained funding environment over the next decade. While the U.S. military has never had unlimited resources, major program changes driven by flat or declining budgets could be particularly disruptive in the near term. This is especially true considering that senior leaders in the Pentagon have spent much of the past ten years figuring out how to spend more each year rather than less. DoD's efforts to adapt to smaller annual budgets will be further complicated by the Pentagon's desire to shift its planning focus from operations in Iraq and Afghanistan to the Indo-Pacific region—a strategic reorientation that will place greater emphasis on air, sea, space, and cyberspace capabilities. Moreover, the U.S. military faces the challenge of countering increasingly sophisticated anti-access/area-denial (A2/AD) threats in multiple regions that could render traditional means of projecting military power abroad less effective.¹

While the overall level of defense spending is certainly important, in light of DoD's changing priorities and evolving threat environment the *way* defense resources are allocated is even more crucial. To help inform this debate, CSBA conducted a series of strategic choices exercises in which experts from across the defense community were given the task of altering DoD's strategy and capabilities while implementing budget cuts of roughly the same magnitude required by sequestration. Because a straight application of sequestration—

¹ CSBA has published a number of reports summarizing AD/AD complexes that could challenge the U.S. military's freedom of action. For example, see Jan van Tol with Mark Gunzinger, Andrew Krepinevich, and Jim Thomas, *AirSea Battle: A Point-of-Departure Operational Concept* (Washington, DC: Center For Strategic and Budgetary Assessments, 2010). Also see Mark Gunzinger with Chris Dougherty, *Outside-In: Operating from Range to Defeat Iran's Anti-Access and Area-Denial Threats* (Washington, DC: Center For Strategic And Budgetary Assessments, 2011).

uniform across the board cuts as required under current law—would not present the opportunity to make meaningful choices, the participants were given a plausible alternative to sequestration that achieves the same level of total cuts over ten years but provides the flexibility to target the cuts in a thoughtful manner.

This report summarizes the methodology used, the fiscal and strategic guidance given to participants, and the insights developed from the exercises. While the teams differed in their approaches and specific decisions, they made similar strategic choices in a number of areas. One of the common assumptions across the teams was that future military operating environments would be less permissive than they have been since the end of the Cold War. In their view, future adversaries might attempt to hold in-theater airfields and ports at risk, attack critical U.S. satellite communications and GPS networks, and possess sophisticated air defenses. Accordingly, the majority of the teams prioritized a set of forces and capabilities they deemed most capable of operating independently, least sensitive to access challenges, and most effective projecting power into denied hostile areas. The “crown jewels” they identified include:

- Special operations forces: All teams protected special operations forces (SOF) even as they made significant reductions to active component ground forces.
- Cyberspace capabilities: All teams chose to protect investments in offensive and defensive cyber capabilities to preserve the integrity of U.S. networks and maintain the capability to degrade the battle networks of future adversaries.
- Next generation long-range penetrating surveillance and strike: All teams chose to maintain or accelerate development of the next generation Long Range Strike-Bomber. Teams also increased the planned procurement of stealthy, multi-role Unmanned Aircraft Systems (UAS) rather than maintain the current UAS force, which is optimized for operations in permissive airspace.
- Survivable undersea warfare systems: All teams cut surface ships relatively more than submarines, indicating a strategic choice to prioritize submarines and unmanned undersea vehicles better suited for operating in an A2/AD environment.

To create the resource tradespace needed to make new investments and protect existing investments in these “crown jewel” capabilities, the teams made a number of difficult reductions. For example, all of the teams reduced DoD’s

civilian and military end strength, with the deepest cuts occurring in conventional ground forces. Each team also decreased planned procurement of tactical fighter aircraft, including the F-35 Joint Strike Fighter.

Perhaps one of the most difficult choices the teams faced was in the area of readiness funding. Five of seven teams agreed that they could not fully resource their strategies under the assumed fiscal guidance unless they accepted near-term risk by reducing current readiness programs. These teams rationalized that a near-term reduction in readiness, while not ideal, would be better than the significant additional reductions in force structure, end strength, and modernization initiatives otherwise required. In essence, they chose to take greater risk in the near term in order to reduce longer-term risks.

The process of running the exercises and observing how teams addressed strategic choices in a fiscally constrained environment produced a number of lessons learned. First, the most successful rebalancing approaches focused on assessing major capabilities that are shared by multiple Services in the aggregate rather than by individual organizations. While this may seem obvious, it is not the way that DoD typically conducts its annual program and budget assessments.

Second, the rebalancing strategies that had the greatest impact on DoD's overall mix of capabilities began by identifying the kind of force the nation might need in the future, then working backward to the present to determine specific program and budget decisions.

Another approach that proved effective was to pick the winners first and develop a consensus on DoD's overall priorities rather than begin by making program cuts. By picking the winners first, players knew that their top priorities would be protected, which made them more open to cutting lower priority capabilities. Again, focusing on the future and picking the winners first are not approaches that are typically used by DoD as it develops its annual budget.

These insights and lessons may inform DoD and Congress as they wrestle with the challenge of maximizing the effectiveness of U.S. military forces during what is likely to be a period of extended budgetary austerity.

STRATEGIC CHOICES EXERCISE CONTEXT

Future Fiscal Environment

To understand the future fiscal environment, it is important to understand how the nation got to where it is today. In January 2001, the Congressional Budget Office (CBO) projected that if Congress continued funding the federal government's departments and agencies at their current levels (adjusting for inflation) and the tax code did not change, the government would run a cumulative surplus of \$5.6 trillion from Fiscal Year (FY) 2002 to FY 2011. This surplus would have reduced the nation's publicly held debt from \$3.1 trillion to \$0.8 trillion by FY 2011.² Instead of paying down its debt, however, the nation took a much different fiscal path, one that accumulated a \$6.1 trillion deficit instead of a \$5.6 trillion surplus from FY 2002 to FY 2011—a change of \$11.7 trillion.³

This remarkable divergence in the nation's fiscal trajectory was due to a combination of additional spending, including defense and non-defense accounts, and a reduction in revenues from tax cuts and two recessions.⁴ The deficit for the most recent budget year, FY 2012, was \$1.1 trillion. Over the coming decade the United States is projected to accumulate another \$10 trillion in debt assuming Congress continues to extend current tax and spending policies.⁵ In comparison, the Budget Control Act (BCA) mandates \$1.2 trillion in cuts through

² CBO, *The Budget and Economic Outlook: Fiscal Years 2002-2011* (Washington DC: CBO, January 2001), p. 2.

³ CBO, *The Budget and Economic Outlook: Fiscal Years 2011-2021* (Washington DC: CBO, January 2011), p. 133; and CBO, *The Budget and Economic Outlook: An Update* (Washington DC: CBO, August 2011), p. 4.

⁴ For a more detailed accounting, see Andrew F. Krepinevich, Simon Chin, and Todd Harrison, *Strategy in Austerity* (Washington, DC: CSBA, June 2012), pp. 9-12.

⁵ CBO, *An Update to the Budget and Economic Outlook: Fiscal Years 2012-2022* (Washington DC: CBO, August 2012), p. 66.

sequestration over the next decade—a small fraction of what would be needed to balance the budget.

Sequestration does not allow the Department to make intelligent choices informed by strategy.

Sequestration was included in the BCA to be a forcing function for further deficit reduction, as it was used in the late 1980s and early 1990s. The law gives the Department of Defense (DoD) virtually no ability to control the cuts in terms of which accounts are affected, by how much, and over what time period. In other words, sequestration does not allow the Department to make intelligent choices informed by strategy. Rather, sequestration adopts a formulaic approach where a uniform percentage must be taken from all applicable accounts. Sequestration would reduce top-performing programs the same as poor-performing programs and high priority activities the same as low priority activities. It is the antithesis of a strategic approach to budgeting for defense. Moreover, it cuts funding sharply in the first year, giving DoD little time to adjust its priorities or make long-term decisions.

It is not particularly useful to explore how DoD could best manage its programs under sequestration because DoD has few options available under current law. It is useful, however, to understand how DoD could best manage cuts of this magnitude if Congress gave it the flexibility to target the cuts and the time to begin a phased implementation. Both political parties agree on the need to replace sequestration, even if they disagree on what that approach should be. And the sheer magnitude of the fiscal challenge—\$10 trillion in projected deficits over the next decade—suggests that some defense cuts are almost certain to be part of any compromise plan that replaces sequestration. Even a partial compromise that removes the across-the-board constraints of sequestration would enable the Department of Defense to adopt a strategy-based approach as it formulates its future plans and budgets. With this in mind CSBA's series of portfolio rebalancing exercises focuses on strategic choices DoD could make over the next decade assuming that such a compromise could be achieved.

Future Challenges

The security challenges the U.S. military must prepare for will continue to evolve even as it grapples with the implications of a smaller defense budget. Over the last ten years, the U.S. military has been consumed with large-scale irregular warfare/counterinsurgency operations in Iraq and Afghanistan. These operations required increases in the size of the Army and Marine Corps and some new capabilities, such as Predator and Reaper UAS and Mine Resistant Ambush Protected (MRAP) ground vehicles. But these wars did not, however, drive the U.S. military to conclude that it must fundamentally alter its operational concepts

for projecting power overseas. For the most part, these concepts continue to center on responding to crises when they occur, building up a relatively large number of forces at secure forward bases, and operating with relative impunity in the global commons of sea, air, space, and cyberspace.

Other state and non-state actors have studied U.S. military operations since the end of the Cold War and are developing anti-access/area-denial (A2/AD) strategies that could undermine America's traditional approach to projecting power abroad.⁶ These could include, for example, launching salvos of precision-guided missiles against the U.S. military's forward air bases and surface ships; using undersea warfare systems to challenge the Navy's freedom of maneuver and attack sea-borne trade and logistics; and degrading U.S. airborne and space-based communications, surveillance, and precision navigation systems through electronic or kinetic attacks. In brief, the U.S. military finds itself transitioning from the relatively permissive operating environments of Afghanistan and Iraq to contingencies that are likely to be far less permissive with respect to projecting and sustaining forces.

Over time, it is likely that the A2/AD capabilities China, Iran, and other countries are fielding today will proliferate to smaller state and non-state actors. Although the A2/AD challenge is not new, over the past decade the U.S. military has done little to address it. Now that U.S. troops are out of Iraq and are beginning to withdraw from Afghanistan, DoD faces a set of strategic choices in how it prepares for future conflicts—choices that are greatly complicated by the fiscal constraints and increasingly non-permissive operating environments it is likely to face in the coming decades.

⁶ In the context of this report, anti-access/area denial strategies are focused on preventing the U.S. military from conducting effective power-projection operations to a theater of conflict. Anti-access capabilities such as theater ballistic missiles and anti-ship weapons are used by an adversary to delay or prevent the deployment of opposing forces to an area of operations. Area-denial capabilities such as advanced air defense networks and guided-rockets, artillery, mortars, and missiles are used to restrict the freedom of action of an opposing force once it is in an area of operations. For an overview of A2/AD challenges see the *Joint Operational Access Concept Version 1.0* (Washington, DC: Department of Defense, January 17, 2012), pp. 6-7.

EXERCISE METHODOLOGY

In the summer of 2012, the Center for Strategic and Budgetary Assessments (CSBA) conducted a series of day-long exercises with participants that included congressional staffers from both parties and chambers; DoD civilians and former military officers from all Services; defense experts from industry; and thought leaders from other think tanks. Participants in each exercise were organized into teams and each team was asked to adapt DoD’s strategy and mix of capabilities over a ten-year game period in light of emerging security challenges while implementing cuts of the magnitude required by sequestration.

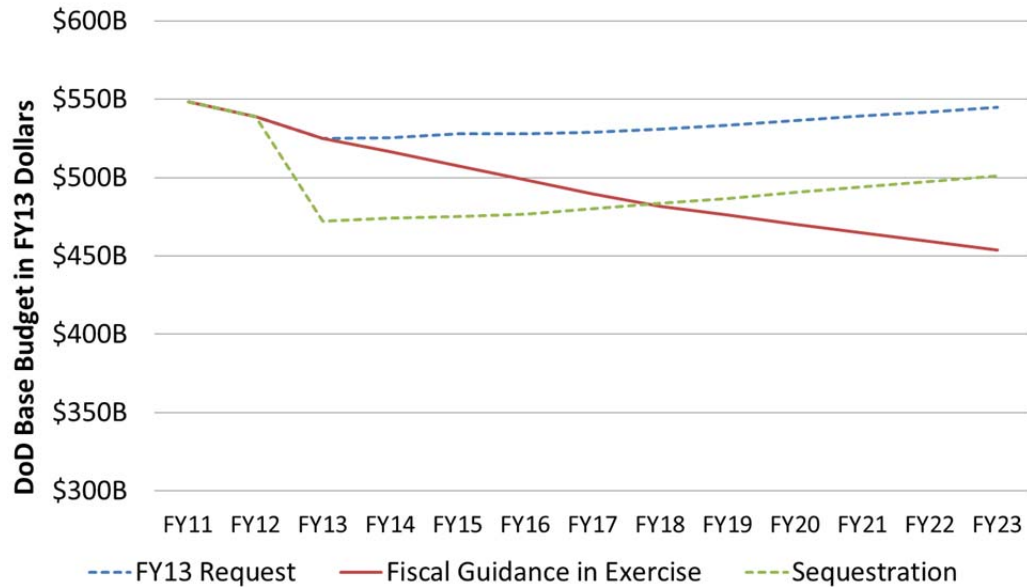
The teams developed their strategies and made capability choices independently. The exercises were conducted on a non-attribution basis so that participants could feel free to set aside their organizational biases and offer their best assessments of DoD’s future priorities. This section provides an overview of the exercise methodology, beginning with strategic and fiscal guidance given to exercise participants.

Fiscal and Strategic Guidance

Because a straight application of sequestration—uniform across the board cuts as required under current law—would not present the opportunity to make meaningful choices, exercise participants were given a plausible alternative to sequestration. This alternative calls for roughly the same level of total cuts over ten years but with the flexibility to target the cuts in a thoughtful manner. The “modified sequestration” fiscal guidance, shown in Figure 1, directed teams to cut \$519 billion over ten years relative to the FY 2013 budget request—similar to the size of cuts required under sequestration. But this fiscal guidance differs from sequestration in several ways. It assumes that reductions do not begin until FY 2014 and that DoD is given the flexibility to target cuts rather than being forced to apply a uniform percentage cut across all accounts. The cuts are also phased in

gradually to allow more time for adjustment and rebalancing within the Department, rather than the immediate reduction that would occur under sequestration.

FIGURE 1: FISCAL GUIDANCE COMPARED TO THE FY13 BUDGET REQUEST (BASELINE) AND SEQUESTRATION (CURRENT LAW)



In addition to fiscal guidance, CSBA provided exercise teams with DoD's current strategic guidance as a starting point for their initial discussions. Teams were asked to identify ways in which they would recommend modifying the defense strategy given the new fiscal guidance and their individual team assessments of future security challenges. CSBA encouraged players to focus on rationales for making tradeoffs within and across major capability areas, rather than simply chasing a budget target.

Two Game Moves

The teams applied their revised strategy in two five-year rebalancing moves representing DoD's two Future Year Defense Plans (FY 2014-2018 and FY 2019-2023). The baseline for making changes was the current program of record in the FY 2013 budget request, projected over the next decade. This meant that if a particular program were already funded in the budget request, cutting it would result in savings. If something were not funded in the request, it would cost money to add it. In each move, the teams were required to make cuts and additions from the baseline to meet the required budget targets: a net reduction of \$147 billion in Move 1 and \$372 billion in Move 2.

FIGURE 2: SCREEN SHOTS FROM CSBA'S PORTFOLIO REBALANCING TOOL



Rebalancing Tool

To facilitate the exercise and help ensure players focused on their strategic choices rather than simply meeting budget targets, CSBA developed a database of more than 300 pre-costed budget options to cut or add in each move. The teams used this rebalancing tool, shown in Figure 2, to make their selections and maintain a running total of the net savings. The budget options in the tool included new and legacy weapon systems, major force structure elements, basing, personnel, readiness, and key capability areas, such as space and cyber. The teams had more than \$3 trillion in options to add and \$3 trillion in options cut from the budget over ten years, as shown in Table 1.

TABLE 1: TOTAL POTENTIAL ADDS AND CUTS IN EACH BUDGET OPTION CATEGORY FOR EACH MOVE

Option Categories	Description	Move 1		Move 2	
		Adds	Cuts	Adds	Cuts
Air	Includes all legacy aircraft, modernization programs, and supporting force structure (Active, Guard, and Reserve) from all Services. Does not include the cost of personnel and bases associated with this force structure.	\$126.35	(\$147.14)	\$259.60	(\$237.58)
Sea	Includes existing surface, undersea, and amphibious fleet of ships, all shipbuilding programs, and supporting force structure (Active and Reserve). Does not include the cost of personnel and bases associated with this force structure.	\$119.35	(\$96.20)	\$175.80	(\$150.50)
Land and Expeditionary	Includes all Army and Marine Corps ground units, equipment, and modernization programs (Active, Guard, and Reserve). Does not include the cost of personnel and bases associated with this force structure.	\$195.63	(\$217.25)	\$284.45	(\$424.76)
Missile Defense	Includes all missile defense-related programs. Does not include the cost of personnel and bases associated with these systems.	\$47.90	(\$19.40)	\$80.90	(\$20.70)
Space, Cyber, Communications	Includes all space, cyber, and communications related programs. Does not include the cost of personnel and bases associated with these systems.	\$115.03	(\$25.80)	\$202.13	(\$40.80)
Nuclear, Counter WMD	Includes all nuclear weapons and counter WMD related programs. Does not include the cost of personnel and bases associated with these systems.	\$28.40	(\$25.55)	\$35.20	(\$38.90)
Building Partner Capacity, Security Force Assistance	Includes options to procure weapons for allies and partners (assuming they pay to operate and maintain these systems) and options to increase training, exercises, and interoperability with partner nations.	\$154.20	\$0.00	\$186.20	\$0.00
Logistics and Basing	Includes options to add and cut bases within the United States, Europe, and Asia. Closing bases costs money initially but saves money in future years.	\$98.70	\$35.00	\$106.20	\$9.00
Personnel	Includes options to reduce or increase military end strength in each of the Services (active or reserve components), the DoD civilian workforce, and service support contractors.	\$204.13	(\$211.83)	\$612.47	(\$644.64)
Missiles and Munitions	Includes options to add or cut the inventory of missiles and munitions, such as GPS-guided bombs and sub-launched cruise missiles.	\$53.86	(\$7.01)	\$105.10	(\$8.10)
Special Operations	Includes options to reduce or increase different components of special operations forces and procure equipment sets unique to special operations forces.	\$30.98	(\$29.79)	\$57.67	(\$54.78)
Readiness	Includes options to reduce or increase the readiness budgets for each of the Services, which includes funding for training exercises, peacetime operations, and maintenance of equipment.	\$315.50	(\$315.50)	\$315.50	(\$315.50)
Science and Technology	Includes options to reduce or increase funding for basic research and development activities not associated with a specific acquisition program.	\$32.25	(\$32.25)	\$32.25	(\$32.25)

As in real life, decisions made in the first move could result in savings or costs in the second move. For example, cutting personnel in the first move would save money in the second move as well because the people cut would no longer be on payroll. Likewise, the teams had to make certain research and development investments in the first move in order to have the option to buy related capabilities in the second move.

The budget options were designed to give teams flexibility in rebalancing and reshaping the force. For example, teams were allowed to cut force structure and end strength separately in case they wanted to maintain a larger force structure with reduced manning or a smaller force structure with more robust manning. Teams were also allowed to cut or increase readiness funding for each Service, close or add bases, and start, terminate, or slow major acquisition programs.

No Easy Choices

The teams were not given the option to cut military or civilian pay and benefits. In CSBA's experience running similar exercises, such budget options do not lend themselves to a strategic discussion. Instead, these options become "easy money" the teams can use to ignore political realities and avoid difficult strategic choices.

Teams were not given the option to cut military or civilian pay and benefits.

The exercise also placed limits on certain options for how much a team could cut or add in a single move. For example, teams were not allowed to cut more than one third of a Service's end strength in a single five-year move since it is unlikely political or military leaders would agree to such a precipitous reduction. Teams were also not allowed to more than double the production of major weapon systems within a five-year period, since it is unlikely that industry would be able to respond this quickly.

Key Questions for Discussion

At the end of the exercise, the teams were asked to reflect on the decisions they made during game play and major lessons learned. Specifically, players were asked to discuss:

- How did your team adapt the defense strategy to better address changes in the fiscal and security environment?
- Where did you accept or reduce the most risk, and why?
- What additional adjustments to your strategy may be needed?
- What were your most difficult choices?

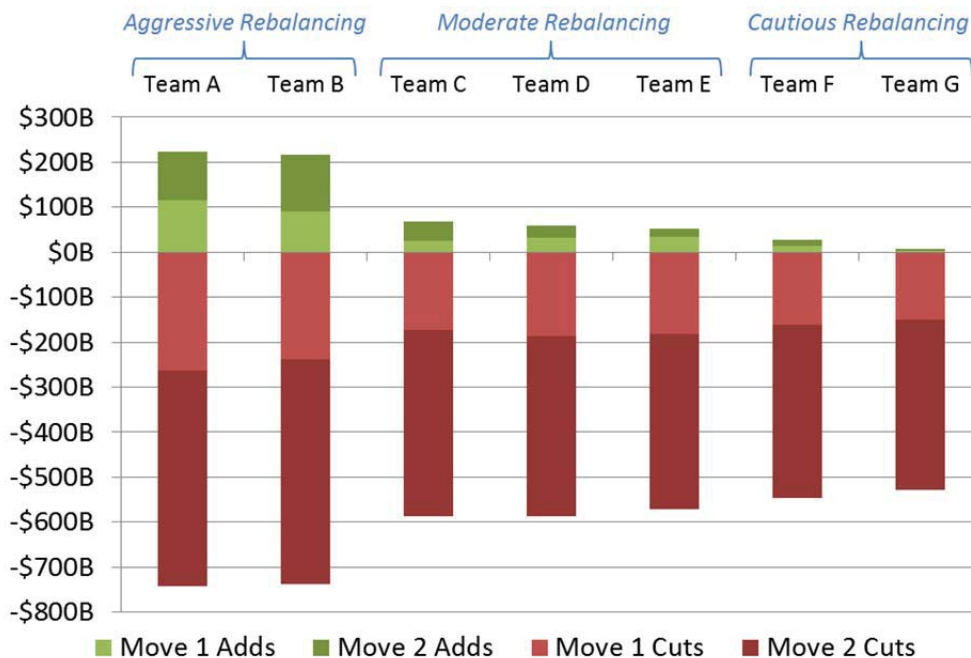
- What were the most contentious points of discussion within your team?
- What did your team see as the U.S. military’s “crown jewels” (i.e., capabilities that should be protected at all costs during a budget downturn)?
- In hindsight, what were your biggest regrets—what would you do differently if given the opportunity?

EXERCISE RESULTS

Rebalancing Approaches

As expected, the teams differed in their overall approach to rebalancing the force. As shown in Figure 3, the approaches used by the teams can be grouped into three categories: aggressive rebalancing (more than \$200 billion in new investments and more than \$700 billion in cuts); moderate rebalancing (\$50 to \$100 billion in new investments and \$550 to \$600 billion in cuts); and cautious rebalancing (less than \$50 billion in new investments and less than \$550 billion in cuts).

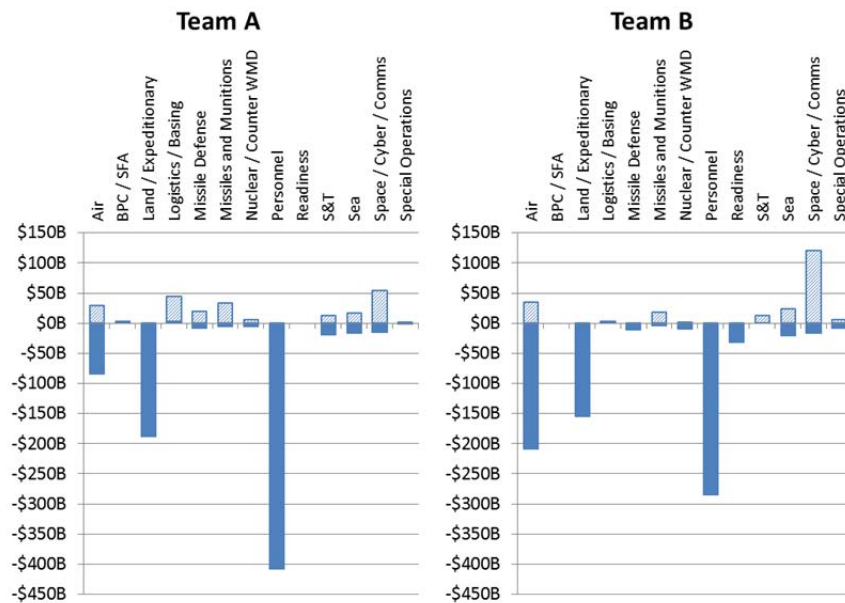
FIGURE 3: COMPARISON OF AGGREGATE ADDS AND CUTS ACROSS THE TEAMS



Aggressive Rebalancing

Teams A and B took a relatively aggressive approach to rebalancing. These teams each added more than \$200 billion in new investments over the 10-year period of the exercise, which meant they had to offset these increases by cutting more than \$700 billion from the current program of record. As a result, they did the most rebalancing both within capabilities and across capabilities, as shown in Figure 4, and deviated significantly from the baseline program of record. Team A saved more than \$400 billion from cutting military and civilian personnel—more than any other team. It reinvested a portion of these savings across a number of areas, including: \$55 billion in space, cyber, and communications capabilities; \$42 billion in improved logistics and basing; \$34 billion in missiles and munitions inventories; and \$30 billion in aircraft. Team B targeted its rebalancing actions more narrowly, cutting and reinvesting more within the air category than any other team (\$200 billion cut and \$35 billion added) and investing more in space, cyber, and communications capabilities than any other team (\$121 billion).

FIGURE 4: DISTRIBUTION OF ADDITIONS AND CUTS FOR TEAMS A AND B

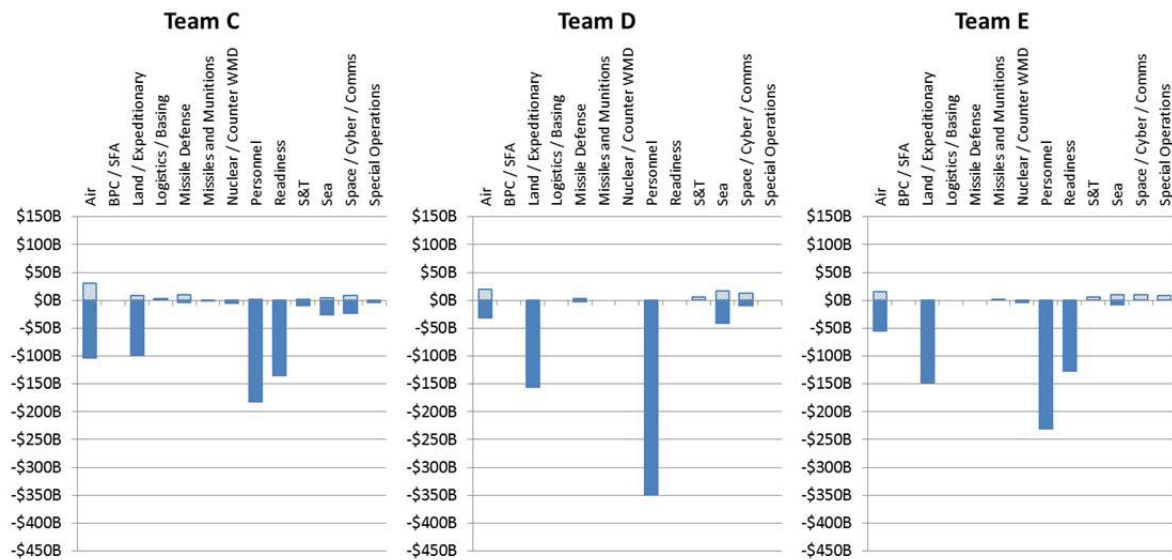


Moderate Rebalancing

Teams C, D, and E adopted a more moderate rebalancing strategy, each cutting less than \$600 billion and adding just \$50 to \$70 billion in new investments across the ten year planning period. Team D focused its cuts on ground forces and associated personnel, as shown in Figure 5, while Teams C and E spread their

cuts over personnel, ground, air, and readiness, among other areas. Because Teams C, D, and E did not cut as much, they did not have as much funding available for new investments. What funding they did have for new capabilities went primarily to aircraft.

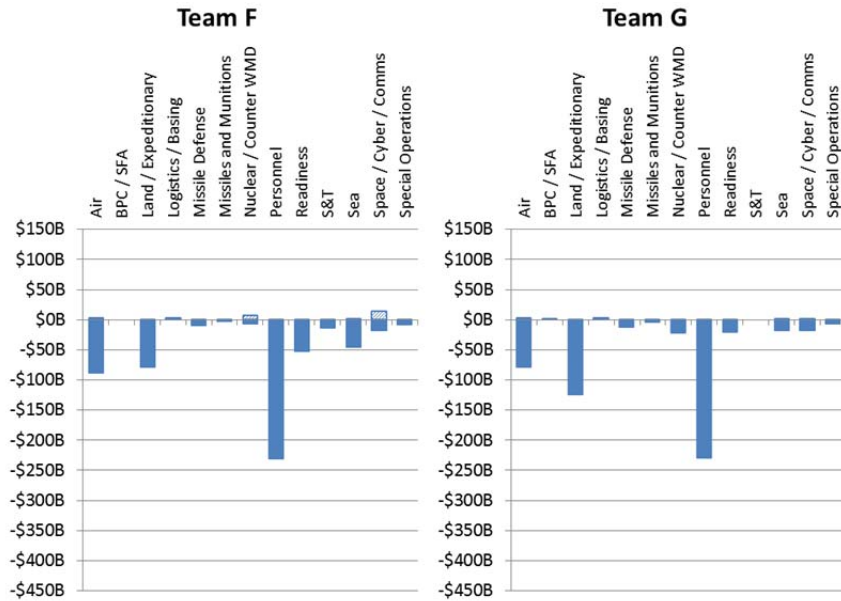
FIGURE 5: DISTRIBUTION OF ADDITIONS AND CUTS FOR TEAMS C, D, AND E



Cautious Rebalancing

Teams F and G took the most cautious approach to rebalancing, cutting as little as possible in both moves and spreading the cuts across the different categories. As a result, Teams F and G added just \$28 billion and \$8 billion in new investments, respectively, and made fewer changes from the program of record. As one participant noted, this approach hedges against an uncertain future by reducing capacity in nearly all areas rather than attempting to discern which areas are likely to be the highest and lowest priority in the future. The result of this approach is a military that looks and operates much like today’s force, only smaller.

FIGURE 6: DISTRIBUTION OF ADDITIONS AND CUTS FOR TEAMS F AND G

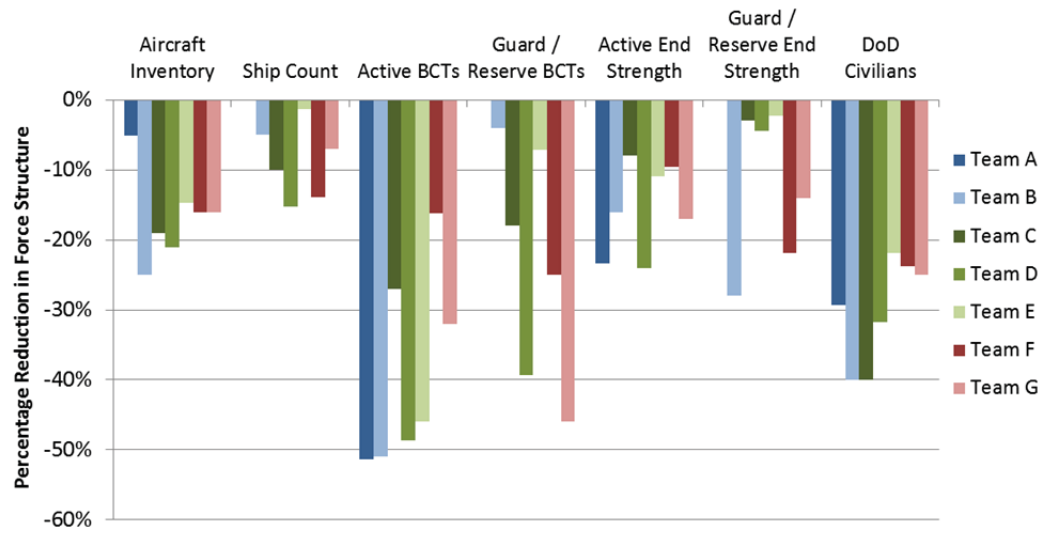


Force Structure Implications

The various approaches to rebalancing developed by the seven teams—aggressive, moderate, and cautious—had somewhat unexpected results on DoD’s future force structure. Figure 7 compares the percentage reduction in personnel and major areas of force structure for each of the teams.

Although Teams A and B cut more aggressively from their budget, they managed to maintain more force structure in some areas than other teams that adopted a less aggressive rebalancing strategy. Specifically, Teams A and B focused their cuts on active component Army brigade combat teams (BCTs) and associated end strength while preserving the number of ships in the fleet and the number of Army Guard and Reserve BCTs. Team A in particular reduced the inventory of aircraft less than any other team. In contrast, the more cautious approach used by Teams F and G resulted in a broader distribution of reductions in force structure, and in some areas resulted in larger cuts than the more aggressive choices made by Teams A and B.

FIGURE 7: REDUCTION IN KEY AREAS OF FORCE STRUCTURE FOR EACH TEAM



STRATEGIC CHOICES

The fiscal constraints of the exercise forced the teams to identify and address key strategic choices. As one would expect, the teams made similar choices in some areas but differed in other decisions. The choices summarized below, while not an exhaustive list, highlight areas in which teams made significant decisions during the exercise.

What is the right mix of active and reserve component forces?

One of the key strategic choices in which the teams differed was determining the right mix of active and reserve component forces, particular in the Army. Teams A and B made a clear choice to cut the number of active Army BCTs by more than 50 percent while protecting the Army Guard and Reserve. The rationale for their choice was that a large ground force would not likely be needed for near-term power projection operations, especially in light of DoD's strategic shift toward the Indo-Pacific region. Teams A and B acknowledged, however, that the threat environment and demand for ground forces could change in the future and thus decided to maintain the size of the Army Guard and Reserve as a strategic hedge.

Following a different approach, Teams F and G determined that it was important to keep more ground forces in the active component to support near-term operational requirements and thus focused their cuts on the reserve component. With the budget constraints imposed on them, however, they could not avoid making some reductions to active component forces.

What is the right balance between readiness and force structure?

Another key strategic choice each team addressed in a different way was the level of readiness to maintain over the next ten years. Teams A and D made no reductions in readiness, which is consistent with DoD's current strategic

guidance. Teams B, F, and G made modest reductions in readiness—less than 5 percent of funding across the Services—and used these savings to limit reductions in force structure and to protect key modernization programs. Teams C and E made the most significant reductions, cutting readiness funding by up to 15 percent in some areas. These teams made a choice to accept greater risk in near-term readiness to free up more than \$125 billion in funding to limit reductions in military personnel. As a result, Teams C and E cut the most from readiness and the least from active duty end strength. They effectively chose to preserve the size of the force at the expense of near-term readiness.

What is the right mix of surface and undersea naval platforms?

All teams in the exercise series rebalanced their naval forces to focus more on undersea warfare capabilities. Each cut surface ships relatively more than submarines, which reflects a strategic decision to prioritize naval capabilities that would be better suited for operations in an A2/AD environment. Four of the seven teams increased the buy of Virginia-class attack submarines above the current plan, while six of seven teams reduced DoD's planned procurement of Littoral Combat Ships (LCS).

What is the right mix of short-range and long-range aircraft?

Within the air portfolio, the teams made several choices that shifted the mix of combat air forces toward longer-range, multi-role capabilities. All of the teams reduced the planned procurement of short-range stealthy fighters, namely the Joint Strike Fighter (JSF). While Team B terminated the JSF program entirely, the other teams reduced planned procurement by 120 to 360 F-35s over the next ten years. Each of the teams also increased the planned procurement of stealthy, multi-role unmanned systems, and elected to maintain or accelerate procurement of the Air Force's next generation Long Range Strike-Bomber.

What is the right size and mix of ground forces?

The teams also agreed on the need to reduce the size of land and expeditionary forces. Each team cut the active duty Army, with reductions ranging in size from six to nineteen BCTs. Teams that cut Army force structure more deeply tended to protect funding for special operations forces. This reflects a strategic choice to rely more on small footprint ground forces, working in combination with naval and air power, for future land operations. The Marine Corps faced reductions as well, with six of seven teams cutting Marine Corps artillery and tank battalions. All teams decided to reduce the Marine Corps active component end strength by 7,000 to 29,000 marines.

The teams also agreed on the need to cut DoD civilian employees as part of any reduction in the overall size of the military. The Department currently employs some 791,000 civilian full-time equivalents. On average, teams reduced this workforce by 30 percent, with cuts ranging from 165,000 to 300,000 full-time equivalents. It was not clear from team discussions, however, if these reductions represented a strategic choice or simply a case of downsizing the civilian workforce to correspond with cuts in military end strength.

KEY LESSONS-LEARNED AND CONCLUSION

The strategic choices exercise series necessarily addressed potential cuts and new investments, identifying specific program decisions. This, however, was not the primary objective. Rather, the goal of the exercises was to identify broader strategic choices and opportunities to rebalance DoD's portfolio of capabilities to meet future challenges. In so doing, it aids in identifying key issues that senior leaders in DoD and Congress would confront if faced with similar cuts, as now appears likely, but with the flexibility to address them from a strategic perspective. The process of conducting the exercises and observing how teams struggled to make strategic choices in a fiscally constrained environment produced a number of insights summarized in this section. These insights are provided to help inform senior civilian and military leaders who will likely be confronted with similar difficult decisions in the coming months and years.

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Assess Capabilities across the Military Services

While this insight may seem obvious at first, it is not the way DoD typically approaches its budget and capability assessments. During DoD's normal planning and programming process, each of the Services develops its submission more or less independently. Only near the end of the process does the Office of the Secretary of Defense assess and adjust the Services' proposed programs and budgets. Changing the process to start with cross-Service budget and capability assessments would require a fundamental overhaul of the Planning, Programming, and Budgeting System (PPBS).

CSBA deliberately structured this exercise series to avoid grouping capabilities and budget options by Service. Budget options under the air capabilities category, for example, included all aircraft (including rotary wing aircraft) from all Services rather than just the Air Force. This encouraged participants to assess similar

capabilities from a DoD-wide perspective, to identify capability overlaps, and to have a robust discussion of roles and missions.

While most teams followed this approach, two teams (F and G) tended to focus more on the parochial interests of each Service. They made a deliberate effort to cut each of the Services' force structure and end strength in a more "fair and balanced" manner, implicitly putting shared sacrifice ahead of strategic requirements. As a result, the teams made as few cuts as possible and spread their cuts more evenly over the joint force, reducing the potential to make new investments. Other teams, particularly Teams A and B, took a more holistic approach and were able to make significant trades in capabilities across the Services.

Begin with the End in Mind

With a desired end state in mind, the teams were able to work backward, making resource and program decisions that supported their vision of the future force.

Teams tended to devise more coherent approaches for rebalancing when they began by discussing what the world would be like in ten or twenty years and the kind of capabilities the military may or may not need in the future. With a desired end state in mind, the teams were able to work backward, making resource and program decisions that supported their vision of the future force. For example, teams that recognized from the beginning they would not need or be able to afford as many personnel in the future made end strength reductions in the first move. Making these reductions earlier saved more money, which enhanced investment flexibility—creating "strategic options"—in the second move. Likewise, teams that recognized they would not need or be able to afford certain weapon systems in the future slowed or ended production of these systems sooner, also freeing up more resources to protect or increase funding for higher priority weapons systems.

Pick the Winners First

Another lesson learned stems from how the different teams approached the problem. Teams A and B, which took a more aggressive approach to rebalancing, began by identifying their highest capability priorities first and adding funding in those areas rather than beginning, as typically happens, by cutting programs to meet the "budget bogey." In other words, they began by picking the winners rather than the losers. These teams began with extensive discussions on what new capabilities and investments were critical to their revised strategies. They were able to reach an early consensus because they were debating what capabilities to keep or develop rather than what to cut. Only after making tens and even hundreds of billions of dollars in new investments did these teams turn to the challenge of identifying what was not essential to their strategy, but the task was

simplified by their focus on key priorities. While the bill they had run up by making new investments forced them to cut more deeply in lower priority areas, Teams A and B did more rebalancing both within and across capability areas than other teams.

Conclusion

While the wisdom of specific choices made by each of the teams can be debated, perhaps the most important lesson learned from this exercise series is the importance of actually making choices informed by a coherent strategy. A failure to do so is effectively an endorsement of the status quo. It assumes that the future will be much like the present and that the military of the future should operate much like the military of today. While one cannot know with any precision what the future holds, we do know that the security environment will continue to evolve and adversaries will continue to seek the means to disrupt the military's ability to project power. Moreover, in a declining budget environment, maintaining the status quo mix of forces and capabilities will require significant reductions in the size of the military across all areas.

If DoD manages to avoid sequestration, it should be careful not to inflict a similar fate on itself in the years that follow. Failing to recognize and make strategic choices is effectively a form of self-sequestration—across the board cuts uninformed by strategy. Recognizing that further cuts to the defense budget are likely over the coming years, the Department should instead use the upcoming Quadrennial Defense Review (QDR) to explore the strategic choices it faces in a constrained budget environment.

The upcoming QDR should explicitly account for the possibility of additional budget reductions in the coming years. Rather than developing a fixed strategy that relies on an assumed level of funding, the QDR could instead articulate key strategic options to be exercised based on the level of resources available in the future. As resources are reduced, more options can be exercised to rebalance DoD's investments in a strategic manner. A point solution approach to defense strategy—one that only works under an assumed level of funding and must be “thrown out the window” otherwise—is doomed to irrelevance given the inherent unpredictability of the budget.

If DoD avoids sequestration, it should be careful not to inflict a similar fate on itself in the years that follow. Failing to recognize and make strategic choices is effectively a form of self-sequestration.



Center for Strategic and Budgetary Assessments

1667 K Street, NW, Suite 900
Washington, DC 20006
Tel. 202-331-7990 • Fax 202-331-8019
www.csbaonline.org