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# National Defense in a Time of Change

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# National Defense in a Time of Change

*U.S. defense spending has doubled* since 2001 and America continues to spend considerably more on defense than any other nation in the world. Federal policymakers currently face competing concerns about sufficiently funding our military efforts to maintain our national security and tackling the long-term federal budget deficit, which also threatens to constrain our defense capabilities. In addition to external pressures, problems within the defense budget are making defense acquisition and our defense personnel system unsustainable. To address both types of challenges, policymakers must cut defense spending systematically and prudently in ways that align future military expenditures with military needs.

In a new discussion paper for The Hamilton Project, Adm. Gary Roughead, U.S. Navy (Ret.), and Kori Schake, of the Hoover Institution, offer proposals to reduce U.S. defense spending while maintaining a military force capable of supporting American interests. The authors assert that the United States has a strategic window of opportunity, given the changing military landscape, to restructure the military and better prepare the nation for a new international order. Furthermore, they offer acquisition and compensation reforms that could help the United States build and maintain a more efficient and cost-effective Department of Defense (DoD).

## The Challenge

As noted by Roughead and Schake, the U.S. military is far superior to those of the militaries of our allies and adversaries. In fact, the United States leads the world in defense spending, with expenditures that compose about 46 percent of the entire world's defense spending. Surveying the global security environment, the authors argue that the security challenges we face are less daunting than those we have faced at other points in history. The threat of nuclear annihilation is lower than at almost any time in the nuclear age. No nation's military forces pose a threat of conquest to our country. Terrorism is a grave danger, but our ability to monitor and attack those terrorists and neutralize weapons of mass destruction has increased substantially. In short, the authors' analysis shows that although we do face serious threats, they are disorderly and disruptive, but *not* existential threats.

The global security climate, then, provides a relatively favorable opportunity for U.S. policymakers to put the defense budget in order. The long-term federal budget outlook makes seizing this opportunity essential. Defense spending has come

under scrutiny during budget negotiations; most recently, the Budget Control Act of 2011 (BCA) called for reductions of \$500 billion in defense spending over the next ten years. Although Roughead and Schake agree that defense can and should contribute to spending reductions, they argue that the BCA's across-the-board cuts at the program, project, and activity levels would significantly impair the U.S. military's ability to execute its duties. Instead, they suggest that responsible reductions in defense spending could be spread more practically across a ten-year period. In addition, cuts should be designed to focus strategically on the threats we are likely to face and to address internal pressures in the defense budget as well.

While the international order presents a chance to streamline and modernize our forces at lower cost, internal cost pressures in the DoD present further challenges in reducing spending. The structure of the acquisition process—which includes a highly bureaucratic process for issuing systems requirements and decentralized accountability—has created a system that is expensive and often too slow. In pay and benefits, personnel costs have increased by 90 percent since 2001 while the size of the workforce has only increased by 3 percent. The authors note that unless these areas of cost growth are addressed, they will crowd out spending in other areas and begin to reduce military capacity and capability.

## A New Approach

In order to adhere to the standards laid out in the BCA and in the defense strategy outlined by Defense Secretary Leon Panetta in January 2012, the authors propose a three-pronged strategy to (1) design a defense force better aligned to face future challenges, (2) improve the efficiency and efficacy of the acquisition system, and (3) control rising personnel costs. The proposal addresses systemic problems in each area—problems that would lead to an ever-shrinking and imbalanced force structure if unaddressed. Together, the authors argue, these reforms set the stage for a sustainable defense budget—one that preserves our capability to face challenges in the near future and to rebuild as new challenges arise.

## Force Redesign

There are two fundamental questions regarding force design: what capabilities and infrastructure does our military need, and how is our military positioned in the world? The emerging threats that Roughead and Schake identify are not systemic

or overwhelming, but rather disorderly and disruptive. These threats pose difficulties for the intelligence community and political leaders who must identify priorities. The crucial capacity is the ability to quickly focus attention and resources on real threats as they materialize. Making the appropriate strategic investments, carefully redesigning the force, and reducing infrastructure to correspond with this challenge could **save nearly \$25 billion each year**.

Based on their analysis of the global security situation, Roughead and Schake recommend rebalancing the force to deemphasize the fighting of sustained ground wars, to focus more on providing for rapid response time in executing campaigns in Asia (perhaps, even at the expense of response time in other regions), and to transfer much greater defense responsibility from our forces to our allies' forces.

Achieving a force to meet these objectives will require politically difficult and sensitive restructuring between the military branches. The authors propose to keep the Navy and Air Force at currently planned levels, with the Navy tasked with greater presence in Asia and the Middle East, and the Air Force prioritizing speed of response in the Asia and the Pacific region. The Army would be reduced by 200,000 soldiers from the 490,000 planned in the FY 2013 budget, and the reserve and National Guard units would be increased by 100,000 and would have the principal mission of arriving in a mature theater for sustained combat. The Marine Corps would also be reduced from more than 200,000 to just 172,000 soldiers, and would serve as the forced entry and initial-response capability. In the past, equal budget shares between the branches of the armed services have helped ensure continuity and harmony between branches, but the authors argue that today's constrained environment requires a more thoughtful approach to determining the size and composition of the force and that taking on the challenge of rebalancing is necessary to align it with new strategic guidance.

In conjunction with these changes, Roughead and Schake propose reevaluating the necessity of military bases in certain locations around the world and pursuing an aggressive base-closure and realignment effort. They also recommend reevaluating the assets and investments that the military requires to carry out its missions. Current replacement numbers for many major platforms are far below what is needed to sustain the force level that meets the envisioned demand for the military in the coming years, and so a period of rebuilding may be required. On the other hand, the authors caution against pursuing new capabilities at the expense of capacity, because it is not cost-effective to use sophisticated platforms and weaponry against low-tech problems.

Finally, to complement shifts in the forces, the authors also recommend a critical and thorough examination of the role of civilians, contractors, and headquarter staffs. These groups

have grown as a share of the military, but in many cases there has not been scrutiny or debate about whether they are being properly employed. The authors recommend eliminating as many headquarters staff as is feasible. Furthermore, they point out that while civilians are increasingly being used to perform military functions, they are often less-disciplined and less-well-trained than service members. And since the DoD's dependence on contractors gives a bargaining advantage to the contractors, they are likely to provide little or no cost advantage. Roughead and Schake therefore suggest reducing civilian personnel by a greater proportion than uniformed forces, and simultaneously reinstating the National Security Personnel System, a pay structure that went out of effect in 2012, to help retain talent in the civilian defense workforce.

## Acquisition

Roughead and Schake outline two problems in acquisition. First, defense acquisition is both costly and slow because it is subject to a highly bureaucratic process for issuing system requirements and increasingly demanding regulation by Congress. Whatever the original intentions of the restrictions, the authors claim that they not only waste money—the GAO estimated that the restrictions squandered \$74 billion last year alone due to deficiencies in acquisition—but also discourage businesses from entering the industry and from working with the military to create new technologies. Second, the industry has become more and more consolidated, leading to less competition and therefore higher prices. The United States is nearing monopoly production in all major capital platforms, a state that endangers the health and structure of the industry. The authors claim that reforms are necessary to strengthen the industry and would offer budget savings—a performance improvement of even 20 percent in the acquisition process **could save \$15 billion annually**.

Within the acquisition process, the fundamental problem is that responsibility for acquisition outcomes is dispersed across many offices. No one is accountable for the beginning-to-end process—including creating requirements, acquisition, and budgeting—and costs and benefits are often managed in different places. Even after an acquisition process has begun, additional requirements are easily added, and so the end products that are delivered to the services—and the bill given to them—most often do not mirror their initial request and almost always require reducing the anticipated numbers of platforms purchased. Finally, the authors argue that congressional regulation introduced to ensure fairness and cost-effectiveness has unintentionally created a difficult and litigious process that companies can be reluctant to join.

To tackle these issues, the authors propose freezing requirements—that is, making it more difficult to add additional requirements to an acquisition and making it impossible after

a certain stage—and reconnecting requirements to costs. Total lifecycle operating costs and the cost of manpower must always be accounted for, and Roughead and Schake propose that the service chiefs take on responsibility for requirements and costs, centralizing accountability and overseeing costs and benefits together. The Office of the Secretary of Defense could provide oversight. In addition, the authors recommend implementing a time-based metric that would be less subject to the manipulations that plague the current cost-based system. Accountability in this method would disincentivize the addition of unnecessary requirements that currently drive up costs and delay delivery in the cost-based system. In addition to cost savings, creating a more agile acquisition system is essential for meeting the faster timelines demanded by developments in warfare (particularly cyber warfare) that innovate several generations in the average time of acquisition for defense equipment.

The above changes could begin to revive the industrial base by making it easier for firms to contract with the DoD. In addition, Roughead and Schake propose revising export controls to enhance research and manufacturing partnerships and to generate more-attractive foreign sales to help the United States capitalize on global expertise and innovation. Policymakers in Congress and the DoD should revise regulations that limit the number of firms with which the U.S. military can do business.

## Personnel

According to Roughead and Schake, personnel costs are the most significant internal driver of defense spending. While personnel costs were relatively low during the draft era, today's all-volunteer force must recruit and retain extraordinary young men and women. These men and women have moved into more-advanced roles as the needs of the modern military have changed, and the increasingly complex and technological nature of warfare has led to higher rewards for skills and training. Any proposal to address personnel costs must provide a compensation model that recognizes and values military personnel and sustains the all-volunteer force. The authors offer reforms to military compensation that would likely make military personnel more satisfied, could be implemented in the immediate future, and **could save the DoD \$20 billion per year**.

The most important aspect of reforming compensation packages is understanding which benefits personnel in the armed services value the most. A recent survey conducted by the Center for Strategic and Budgetary Assessments showed that basic pay is most important for junior military personnel, while child care and school services are not as highly valued by the majority of respondents. Roughead and Schake suggest giving servicemen and servicewomen the ability to choose a package of benefits that best meets his or her specific needs.

## Roadmap

### Force Redesign

- The DoD would rebalance toward the Navy and the Air Force, reducing the size of the Marines and the Army, with reserve and National Guard units playing a larger role in sustained combat.
- The DoD would reduce a greater proportion of civilian personnel than uniformed force, and would reinstitute the National Security Personnel System. The DoD would reduce headquarters staff and create more-stringent staffing requirements.

### Acquisition

- Requirements would be frozen early in the process, and only senior leadership could make changes, and then only if funding is set aside.
- To create better accountability and to connect costs and benefits, the service chiefs would be given responsibility for both system requirements and costs in the acquisition process, and the current cost-based metric would be replaced with a time-based metric that is harder to manipulate.
- To revitalize the industrial base, Congress and the DoD would revise export controls and other regulations in the defense industry.

### Personnel

- The DoD would offer service members more flexibility to choose a package of benefits tailored to their specific needs, providing cost-effective compensation.
- Tricare for life would be phased out and copayments would be increased, but those who have served more than ten years would be exempted from these measures.



## Learn More About This Proposal

This policy brief is based on The Hamilton Project discussion paper, “National Defense in a Time of Change,” which was authored by:

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## Additional Hamilton Project Proposals

### Making Defense Affordable

In the face of mounting fiscal pressures, it is necessary to reassess the defense budget. Unless the internal cost growth is reined in, it will erode military capacity even if budgets remain constant in real terms. Meanwhile, the shift away from the lengthy and costly wars in Iraq and Afghanistan creates a window of opportunity to restructure the armed forces strategically—by rebalancing among the military branches—to focus more on the salient threats of the future. This paper suggests a two-pronged approach to reducing defense spending while maintaining a strong and well-equipped military: first, tackle rising internal costs in areas such as health care, compensation, operation and maintenance, and weapons, and second, reduce and realign forces to achieve deeper cost savings.

### 15 Ways to Rethink the Federal Budget

As policymakers face an unsustainable federal deficit, The Hamilton Project asked leading experts from around the country, from a variety of backgrounds—the policy world, academia, and the private sector and from both sides of the political aisle—to develop policies that are good for the budget and have broader benefits for the economy by encouraging employment, strengthening safety-net programs, or promoting productivity-enhancing investments. Touching on topics as wide-ranging as immigration, transportation, health care, and tax expenditures, the proposals include options to reduce mandatory and discretionary expenditures, raise revenues, and improve economic efficiency.

By tailoring compensation packages to reduce or eliminate costly benefits that are not valued by particular recipients, the DoD could potentially improve recruiting and retention while reducing personnel costs.

Difficult, but necessary, decisions will also have to be made when it comes to health care for service personnel. In Tricare—the military health-care system offered to active-duty personnel, retirees, and their families—fees paid by enrollees have not risen nearly as quickly as health-care costs, so it currently has relatively little cost-sharing. Those who have served more than ten years would be grandfathered into the new system, but Tricare for retirees would be phased out and copays for medical and pharmaceutical costs would be increased. Other service members could choose a package of benefits tailored to their needs.

## Conclusion

The reforms proposed by Roughead and Schake—including a rebalancing among services, a more streamlined acquisition process, and careful cuts to personnel costs—will not immediately resolve the structural problems with the current defense budget, but they will put the DoD on a more sustainable path. By demanding more efficiency in all areas of the defense budget, policymakers can set the stage for the U.S. military’s continued success during a time of rapid global change—even when those changes include a significant reduction in DoD resources. Such changes do not break faith with our military. On the contrary, the authors argue, we break faith with our military by not bringing our spending into alignment with our available resources and not being driven by a strategy that is aligned with current threats.

# Questions and Concerns

## **1. When will savings from these reforms start to accrue?**

These reforms are designed to be spread out pragmatically across the next decade, so savings from the various components of proposals will accrue savings at different rates. Personnel cost reductions will generate savings immediately because reforms to Tricare, medical copays, and the compensation structure can be rolled out quickly. However, savings from an improved acquisition process and more-efficient force design will take longer to acquire, due to varying timeframes of current military contracts and operations. Nevertheless, the immediate reductions in personnel costs will be large enough to support long-term structural changes to build a more efficient military, and these proposals will generate around \$500 billion in savings over the next decade.

## **2. What distinguishes this proposal from previous reform efforts?**

These proposals look beyond solving the immediate budget problem and seek to put the DoD on a more sustainable long-term footing. Past responses to reduced spending requirements have resulted in cuts to major weapons systems and operation and maintenance funding, but such an approach is not only insufficient for solving the current budget crisis, it also is not optimal for supporting future military demands. Roughead and Schake address a number of structural inefficiencies within the DoD that they believe are responsible for driving defense spending, and offer systematic reforms that cut costs without cutting capabilities and will actually help our military be more effective in combating domestic and foreign threats.

## **3. Are there security risks involved with this proposal?**

A reduction in military spending is never without risk. However, this proposal seeks to provide a restructuring strategy that would improve overall efficiency of U.S. military operations, while producing significant budget savings. Decreasing the number of personnel in combat positions means that the United States will not have the manpower to carry out two concurrent ground wars, as our armed forces have been doing for the past decade. Through creating a more efficient and effective force design, however, the U.S. military will be better equipped to face the challenges that arise in the modern world.

## Highlights

Adm. Gary Roughead, U.S. Navy (Ret.) and Kori Schake of the Hoover Institution propose systematic reforms to the United States defense budget that will reduce spending, while maintaining a strong and capable military force.

## The Proposal

- **Redesign the military force.** As the capability and infrastructure needs of the military—as well as the nation’s position in the world—change, the United States and our armed forces must adapt. The military must rebalance its force to face emergent challenges, which are predominantly air, maritime, and cyber in nature.
- **Improve efficiency in the acquisition process.** The current practices are not only costly, but also inflexible and unable to meet swiftly changing technological needs. Reforms to the acquisition process should be focused on incentivizing diversification and competition, encouraging innovation, expanding the manufacturing base, and improving contract cost and delivery.
- **Address personnel expenditures.** Rising personnel costs are a serious problem for the defense budget, but must be approached in a way that honors the sacrifices of our troops. In designing benefits and compensation packages, the DoD should be more attentive to the preferences of the troops and should phase out certain costly health-care measures that are less valued by our servicemen and servicewomen.

## Benefits

Roughead’s and Schake’s proposals will bring the military onto a more efficient, sustainable long-term path, while significantly reducing the federal budget deficit. Reductions totaling approximately \$500 billion across the next ten years can be more efficiently achieved by removing the most inefficient policies and practices within the DoD. Approached with a sense of urgency, these necessary reforms will set the foundation for a military that is more capable of protecting the interests of the American people and better positioned against future economic and security shocks.



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