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Defense Budgeting Challenges: Uncertainty and Unpredictability

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Introduction

Of all enemies to public liberty war is, perhaps, the most to be dreaded because it comprises and develops the germ of every other. War is the parent of armies; from these proceed debts and taxes … known instruments for bringing the many under the domination of the few … no nation could preserve its freedom in the midst of continual warfare.

—James Madison, Political Observations, 1795[1]

Does the Department of Defense have adequate funding to meet its requirements? Does it have what it needs to defend the interests of the United States (US)? Does the defense budget need to increase, or can the Department accomplish the *National Military Strategy* with less? Finally, what threats are driving defense budgets today and what type of military force is required?

On the surface, these questions seem easy to answer, but in reality, they are quite difficult. They are difficult because of the uncertain and unpredictable environment in which today's Department of Defense operates. The comfort days of the Cold War, where the United States required a large conventional force to deter a major state actor, are long gone. Currently, no strong nation state threatens the United States. Will this remain true in the future, or will an emerging power, such as China, grow to threaten US interests and those of its allies? Will the United States continue to face irregular warfare threats from weak or failed states, terrorists, or other nonstate actors? Will the successes of current terrorist groups embolden others to do the same, and what kind of military force is required to meet these uncertainties? While these questions will ultimately drive current and future defense budgets, they are only part of the equation.

It has been 19 years since the end of the Cold War and 7 years since 9-11, yet Congress, the President, and the Department of Defense are still struggling to redefine an acceptable military strategy and force structure to defeat current and future threats. In the absence of this new definition, the Defense Department continues to maintain its large conventional force, transforming only *at the margins* to meet irregular threats. Unfortunately, many of the military's conventional legacy weapon systems are becoming obsolete and need modernizing. However, when Congress is appropriating $450B to $500B for *peacetime* defense requirements, plus another $100B to $200B per year to execute the Global War on Terror (GWOT)—or more accurately, missions in Iraq and Afghanistan—it is difficult to appropriate additional resources for modernization. Will existing defense resources be enough to train, equip, and prosecute the GWOT and modernize an aging force? If not, what is the right amount?

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Defense leaders are currently struggling with these questions, but there are no easy answers.

Many defense experts, such as Baker Spring from the Heritage Foundation, say the Defense Department needs additional funding to modernize its weapon systems. In a March 2007 article, Spring stated, "the Administration's budget from Fiscal Year (FY) 2009 through FY 2012 reflects a roughly $400B defense funding gap in budget authority."[2] While most experts seem to shy away from quantifying specific shortfalls, they seem willing to make historical comparisons. The most recent effort compares defense budgets to the US gross domestic product (GDP). For example, as a percentage of GDP, the FY 2008 defense budget is well below historic *wartime* averages. Including GWOT funding, the Department expects its FY 2008 defense budget to be a little over 4 percent of GDP.[3] Compared to peak budgets in World War II (WWII), which equated to 36.3 percent of GDP; the Korean War, which equated to 11.7 percent of GDP; Vietnam, which equated to 8.9 percent of GDP; and the Gulf War, which equated to 4.6 percent of GDP, this percentage is low.[4]

The Defense Department seems to be adopting this GDP argument and using it as their niche to acquire additional modernization dollars. However, in an era of uncertainty and unpredictability, the GDP argument will not be sufficient to garner additional resources, because it does not adequately explain what these resources will accomplish in terms of strategy.

To increase budgets in this era, the Defense Department needs to understand the positive and negative factors facing it in future budget battles. Until it has an understanding of these factors, and can develop a strategy around them, the Department will not be successful. This article addresses many of these factors, such as how the US military spending compares to world military spending, the GDP argument in depth, other fiscal challenges facing the US government, the effects of the current defense strategy, and the role of politics. After researching this topic, it is my belief that solely pursuing an argument based on GDP will not get the Department of Defense where it needs to be. Defense spending as a percentage of the gross domestic product is a useful metric in comparative analysis; however, strategy and politics will determine future defense budgets, not a percentage of GDP.

Article Acronyms

DAWG – Deputy Advisory Working Gorup
FY – Fiscal Year
FYDP – Future Years Defense Program
GDP – Gross Domestic Product
GWOT – Global War on Terror
OMB – Office of Management and Budget
OSD – Office of the Secretary of Defense
PB – President's Budget
PBD – Program Budget Decision
PPBE – Planning, Programming, Budgeting, and Execution
QDR – Quadrennial Defense Review
US – United States
WWII – World War II

US Defense Spending Versus the World: A Background

In order to put the size of the US defense budget into perspective, it is useful to provide background on how it compares to the rest of the world. In terms of capabilities, depth, and raw conventional power, the United States military dominates the world. This also holds true for the size of the United States defense budget. In FY 2005, the international community spent approximately $1T on military expenditures, or 2.5 percent of the world's GDP.[5] While FY 2008 US military budget figures are known, the latest figures for international spending is FY 2005, so it is used in this comparison. The US peacetime budget (minus GWOT funding) was $420.7B, or roughly 43 percent of the world's total. Table 1 shows the other top 27 nations and their percentage of the world's military expenditures. As this chart illustrates, the United States enjoys a substantial advantage in the size of its military budget. In a 25 February 2007 article, "Arms Trade: World Military Spending," Anup Shah captured the essence of these differences in the following comparisons:[6]

- The US defense spending is 7 times greater than the second leading country, China, which spent approximately $62.5B on defense in 2005.
- The US spent 29 times more than the six *rogue* states of Cuba, Iran, Libya, North Korea, Sudan, and Syria, which collectively spent $14.7B in 2005. This almost equals the amount the US spends in Iraq and Afghanistan every 6 weeks.
- The US defense budget is larger than the GDP of Cuba, Iran, Libya, North Korea, Sudan, and Syria.[7]
- If an analyst were to combine the defense budgets of the six rogue states with that of Russia and China, they would collectively total $139B, which is approximately 30 percent of the US defense budget. It is also less than the US funded for GWOT in FY 2007 and 2008.
- Finally, the combined defense budgets of the US and its allies (NATO, Australia, Canada, Israel, Japan, and South Korea) account for almost 66 percent of the world's total military spending.

Without question, the United States enjoys a substantial advantage in the size of its defense budget. However, this nation also

Country	Dollars ($B)	% of Total	Country	Dollars ($B)	% of Total
United States	420.7	43.0	Turkey	9.8	1.0
China	62.5	6.0	Israel	9.7	1.0
Russia	61.9	6.0	Netherlands	9.7	1.0
United Kingdom	51.1	5.0	Spain	8.8	1.0
Japan	44.7	4.0	Taiwan	8.3	1.0
France	41.6	4.0	Indonesia	7.6	1.0
Germany	30.2	3.0	Myanmar	6.9	1.0
India	22.0	2.0	Ukraine	6.0	1.0
Saudi Arabia	21.3	2.0	Singapore	5.6	1.0
South Korea	20.7	2.0	Sweden	5.6	1.0
Italy	17.2	2.0	North Korea	5.5	1.0
Australia	13.2	1.0	Poland	5.2	0.5
Brazil	13.1	1.0	Iran	4.9	1.0
Canada	10.9	1.0	Pakistan	3.7	0.5

Table 1. International Military Spending

has a large, technologically advanced Army, Navy, Air Force, Marine Corps, and several defense agencies, that require substantial funding for personnel, day-to-day operations, construction, and investment in future weapon systems. Just because the United States has the largest defense budget in the world does not necessarily mean the Department of Defense is satisfied with its current level of funding—or at least that is what the Secretary of Defense is saying.

On 6 February 2007, the Secretary of Defense Robert M. Gates submitted an FY 2007 Emergency Supplemental Appropriation request for $93.4B, an FY 2008 President's Budget request for $481.4B, and an FY 2008 Global War on Terrorism request for $141.7B to Congress.[8] During his testimony, the Secretary stated:

> I believe it is important to consider these budget requests in some historical context as there has been, understandably, some element of sticker shock at their combined price tags—more than $700B in total. But consider that at 4 percent of America's gross domestic product, the amount of money the United States is expected to spend on defense this year is actually a smaller percentage of GDP than the Cold War, Vietnam, or Korea.[9]

His statement is correct.

As a percentage of GDP, defense budgets have steadily decreased since the end of WWII (see Figure 1).

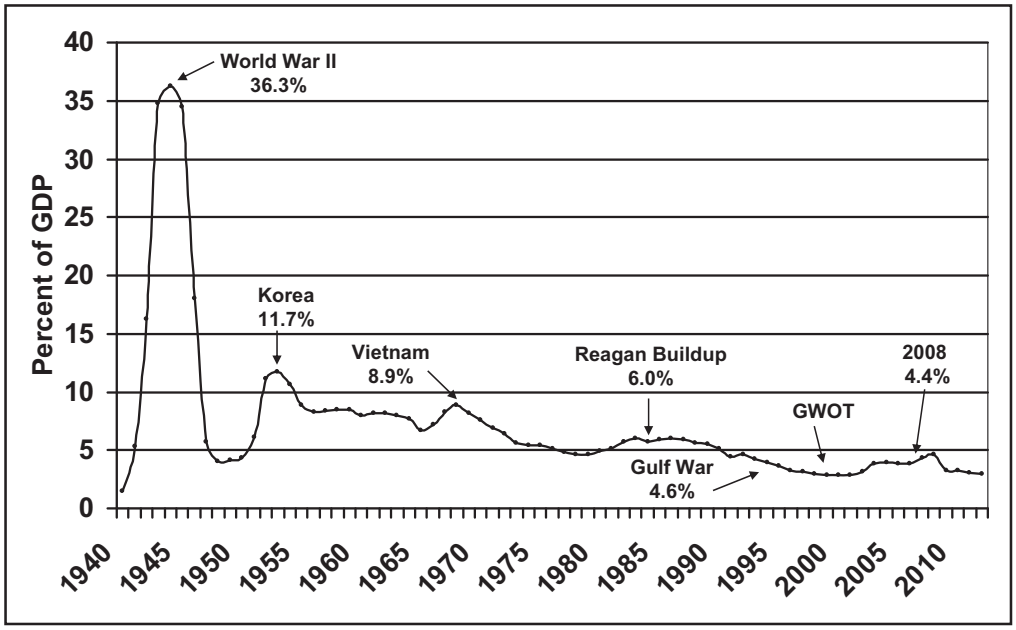


Figure 1. Defense Budget as a Percent of GDP[10]

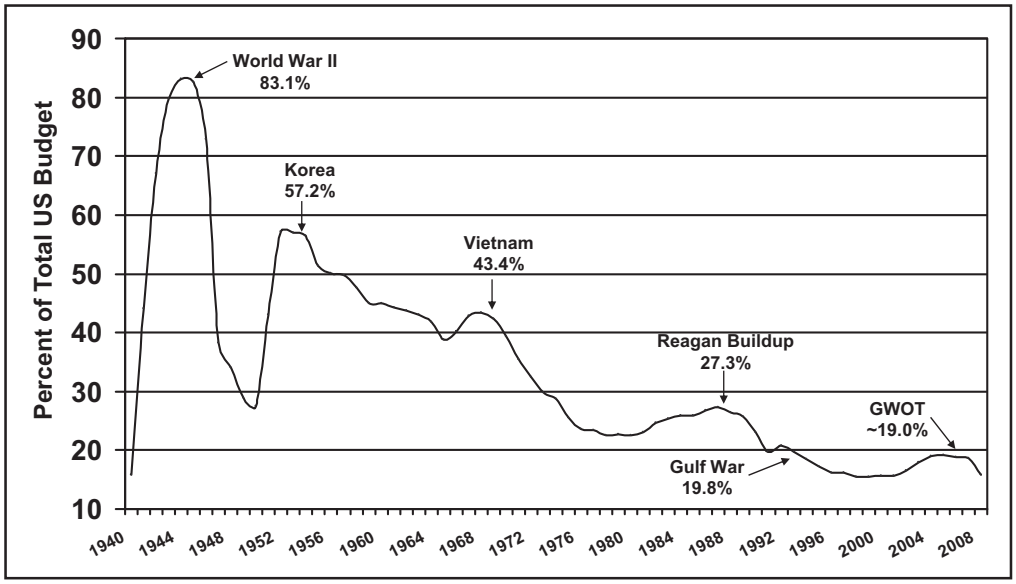


Figure 2. Department of Defense Budget as a Percent of Total US Budget[13]

There are a couple of obvious reasons for this. First, technology has allowed the size of the Defense Department to decrease from 12.1M active duty personnel at the height of WWII to 1.4M active duty personnel today.[11] Second, the size of the economy (for example, the GDP), has steadily increased from $221.4B at the peak of WWII to an estimated $14.5T by the end of 2008.[12] However, the defense budget has also decreased as a percent of the total US budget since WWII as illustrated in Figure 2.

What should stick out for defense analysts is the fact that defense budgets have immediately declined after every war or military conflict since the 1940s. Much of this, of course, is expected. Once hostilities stop, the cost of funding them should also stop. The discouraging fact for the Department of Defense is the budget percentage—with the exception of military wars and conflicts— has not stopped going down since WWII and the potential for another *peace dividend* once hostilities stop in Iraq and Afghanistan is looming in the future.

Despite the sizeable advantage of US defense budgets over the rest of the world, and despite the historical trends of peace dividends at the end of hostilities, many military analysts and Washington DC think tanks believe it is time for defense budgets—as a percentage of GDP—to go back up to mirror historical averages. So far, Congress has not accepted this GDP argument for additional topline. The question is why. It appears the reason is self-evident—GDP does not define defense requirements.

The Gross Domestic Product Argument

Commit to spend at least 4 percent of GDP on our national security. By any historical standard, this is a modest level. Yet it's sufficient to provide an adequate military and not unduly burden the economy.

—Mike Franc, Heritage Foundation, 2007

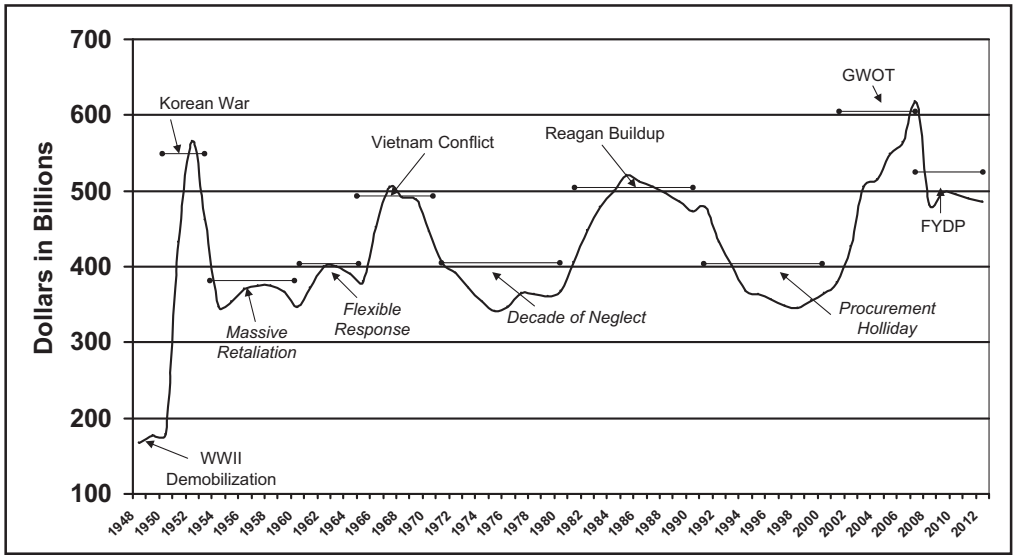


Figure 3. DoD Budget History: 1948 to 2008 (Constant Year 2008 Dollars)[14]

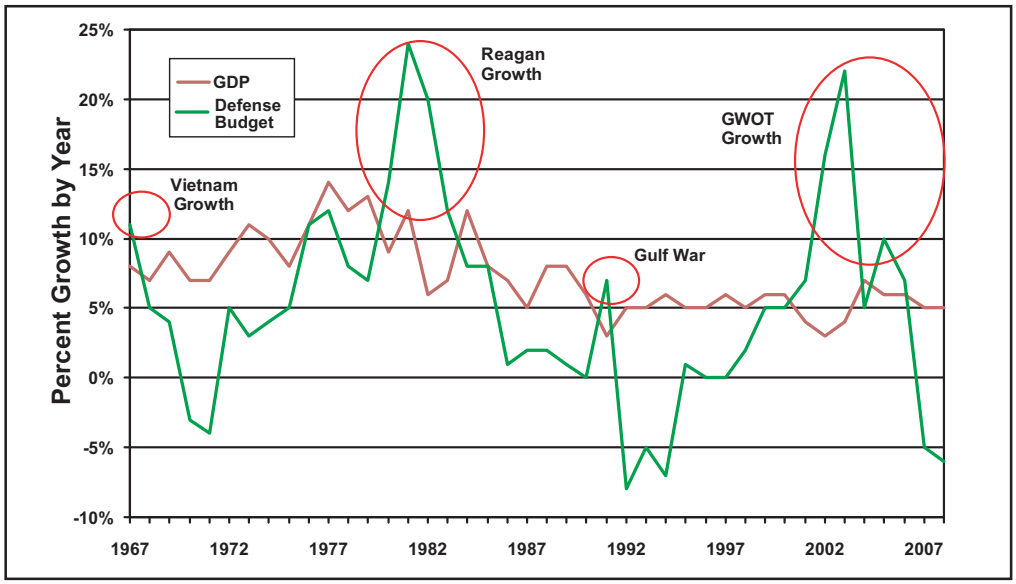


Figure 4. Comparison Between Yearly Growth in GDP and DoD Budgets[21]

As the cost of the GWOT continues to rise, the Department of Defense is under increased pressure to explain the need for such large budgets. Figure 3 highlights the defense budget in real terms—or adjusted for inflation in FY 2008 dollars—since the late 1940s.

While the defense budget has steadily gone up since 2001, these additional dollars supported GWOT efforts—they did not provided investment relief from the *procurement holidays* of the 1990s. Unfortunately for the Defense Department, the GWOT came at the exact time when it needed to modernize legacy weapon systems to the new KC-X, combat search and rescue helicopter, new space systems for early warning and communications, F-35 Joint Strike Fighter, next generation bomber, future combat systems, littoral combat ships, and much more. Acquiring resources to execute the GWOT and modernize at the same time is proving difficult.

In an effort to deflect some of the negative attention away from the fact that in constant 2008 dollars defense spending has never been higher (see Figure 3), and at the same time make an argument for additional funding, the Defense Department is using a funding strategy based on GDP. More specifically, the Defense Department is saying the US military is costing Americans less today—around 4 percent of GDP—than it ever has in history, which averaged between 6 and 10 percent. Therefore, Congress can *afford* to appropriate the Defense Department additional funds to modernize its forces. This fact was *suggested* by the Secretary of Defense and the Chiefs of Staff of the Air Force and Army during their FY 2008 posture hearings. While the Department deserves an *A* for effort, this GDP strategy is unlikely to be effective.

For starters, the GDP measures the market value of all goods and services produced during a particular period by individuals, businesses, and the government in the United States.[15] It is a universal standard among nations to measure the strength and value of their economy. It also serves as a metric for defense budgets as well as many other governmental programs, but the adequacy of these programs should not be based on a standard percentage of GDP, as some military and think tank experts suggest.

Debunking the GDP Myth

Senior defense leaders have repeatedly stated, as a percentage of GDP, defense budgets are too low. In December 2007, the Army Chief of Staff recommended the defense budget be sized at 6 percent of GDP, which would increase the defense budget to more than $900B annually.[16] Think tank experts Mike Franc and Baker Spring of the Heritage Foundation both believe defense spending should be at least 4 percent of GDP stating, "by historical standards this is a modest level … yet it is sufficient to provide an adequate military and not unduly burden the economy."[17] However, there are many problems with establishing these types of standards.

First, they are arbitrary and dependent on the thoughts and beliefs of those who create them, and therefore easily dismissed by others. In the 1950s, Congress established a budget standard of $15B for the Defense Department and it was a proven disaster.[18] This established limit gave no incentive for the Services to operate efficiently; instead, the goal was to spend the $15B regardless of need. The Korean conflict also proved that established spending limits are not achievable, because additional resources were required to prosecute the war. Once this $15B spending limit was broken, Congress found it impossible to bring post-conflict

spending back to the $15B mark, even after the military downsized its forces.[19] By the end of the 1950s, Congress had learned a valuable lesson—it is not possible to impose a funding standard on the Department of Defense.

Second, defense analysts need to be cautious when correlating historical GDP expenditures to current defense budgets. Yesterday's military is not today's military. Today, the Defense Department is smaller, it is technologically advanced, more capable, more educated, more joint, more lethal, and can employ more precise weapon systems and munitions around the globe than at any other time in history. These combinations make today's military much more efficient, so comparing the cost of the current military force with historical forces is really comparing *apples to oranges*. When looking at defense budgets as a percentage of GDP, it is also important for analysts to review both sides of the equation. Christopher Hellman, a senior research analyst for the Center for Defense Information, who heads the Project on Military Spending, aptly points this out. He said it is true defense budgets as a percentage of GDP are low, but this statistic is also misleading. Hellman stated, "Since September 11, 2001, annual defense spending—minus GWOT funding—has grown by 34 percent … the only reason the percentage of GDP is smaller is because the United States economy has grown even faster at 44 percent over the same period."[20]

Third, establishing a funding standard based on GDP focuses military requirements on incorrect criteria, such as spending, and not other criteria learned from history, such as threat levels. For example, realists would argue it is sometimes best to handle *lesser threats* with *lesser means*. If Congress bases defense budgets on a standard percentage of GDP, and the GDP continues to increase each year, so will defense budgets and therefore military capabilities. Continuing to expand military capabilities at a disproportionate rate to the rest of the world may have unintended consequences, such as inviting other emerging powers, like China, to do the same. Inviting emerging superpowers into an arms race is not in the best interests of this nation. There is simply no need to force our nation into a negative self-fulfilling prophecy.

Fourth, when it comes to funding, Congress does not like to establish standards of this nature. Standards tend to limit congressional flexibility and can affect their oversight responsibilities for the appropriation process. In addition, it is extremely difficult for Congress to stick to the budget standards it creates, such as a balanced annual budget. Expecting them to honor any defense standard is not realistic. Those in the Defense Department also need to keep in mind the one true power Congress has over the military is its ability to control the purse strings. Establishing a defense budget based on a standard percentage of GDP is contrary to what the authorization and appropriation committees will allow.

Finally, GDP measures the strength of an economy. GDP does not determine how much should be spent now, nor does it explain, predict, or measure future military requirements—world threats, military strategy, and politics will do that. This is true for the past and will be true in the future because the two are mutually exclusive of each other. Figure 4 is a simple chart which graphs the percentage of increase from one year to the next for both the GDP and defense budgets.

As this figure shows, there does not appear to be any relationship between GDP increases and increases to the defense budgets, especially during the last 20 years. What is clear, however, is major increases in defense budgets occurred during military conflicts and major decreases from year to year occurred during post-conflict periods.

As the Defense Department searches for a strategy to increase funding, a quote from Warner Schilling serves as a reminder of the difficulties it will face. In 1962 he said,

> The major limit on the size of the defense budget is not how much the economy can stand, but how much the people can be persuaded to support. To recognize that the limit is political in character, that it turns on the desire and ability of the administration and Congress to undertake the necessary tasks of persuasion, is to accent the element of choice and to change a seemingly determinate problem into an open one.[22]

His statement is as true today as it was 46 years ago. He seems to understand the limitation of defense budgets is not necessarily the economy, but rather taxpayers and politicians.

Based on this, sizing defense budgets from a percentage of GDP is not a credible strategy. It does not clarify the requirement or need, it is arbitrary by nature, it is not defendable, and it perpetuates the fallacy there is one right amount for defense budgets. As history has shown (see Figure 1), there is not one right amount for defense. If a percentage of GDP is not an effective funding strategy, what is? Fortunately, history has provided an answer—strategy and politics—both will entail an uphill climb, especially in light of the fiscal realities the United States will face in the future.

Fiscal Realities and the Challenges Facing the United States

The "Status Quo" is not an option. We face large and growing structural deficits largely due to known demographic trends and rising health care costs. The way forward is fundamental reexamination and transformation.

—The Honorable David M. Walker, Comptroller General of the United States, January 2007

The European Union and the United States have the largest GDP (purchasing power parity) in the world at just over $13T each (see Table 2). However, having the largest economy of any world

Country	Dollars	% of Total
World	**65,960,000,000,000**	
European Union	13,080,000,000,000	20
United States	13,060,000,000,000	20
China	10,210,000,000,000	15
Japan	4,218,000,000,000	6
India	4,164,000,000,000	6
Germany	2,632,000,000,000	4
United Kingdom	1,928,000,000,000	3
France	1,902,000,000,000	3
Italy	1,756,000,000,000	3
Russia	1,746,000,000,000	3
Brazil	1,655,000,000,000	3
South Korea	1,196,000,000,000	2
Canada	1,181,000,000,000	2
Mexico	1,149,000,000,000	2

Table 2. GDP (Purchasing Power Parity)[23]

nation does not insulate the United States—or the Defense Department—from fiscal realities. For the Defense Department, these challenges come in two forms, external and internal factors.

Mandatory versus Discretionary Spending

External factors are out of the control of the Defense Department, but they do affect defense budgets. The battle between mandatory and discretionary spending is perhaps the best example of this. As Figure 5 illustrates, mandatory spending, comprised mainly of Medicare, Medicaid, Social Security, and interest on the national debt, is taking up a larger portion of the United States budget with each passing year. As a comparison, in 1962, mandatory spending comprised 31 percent of the total budget and defense spending comprised 43.8 percent. By 2007, these percentages dramatically changed. Mandatory spending is now 55.6 percent while defense spending dropped to 18.6 percent.[24]

In terms of GDP, mandatory spending is currently 8 percent, but is expected to double to 16 percent by 2050.[26] The only way to slow mandatory spending in the near future is to reform these programs. Of course, this is a separate political challenge, one that is unlikely to be decided upon in the near future. Therefore, if the administration is going to balance the US budget by 2012,[27] as President Bush briefed on 1 January 2007, mandatory spending increases will require additional tax revenues, or reductions in discretionary programs—and defense spending is more than 50 percent of the discretionary total. In order to fund future *must-pay* mandatory requirements, it is likely Congress or the Office of Management and Budget (OMB) will use defense programs as a funding source. This could put a damper on any additional funding for modernization. This is an external challenge the Defense Department needs to prepare for and adjust accordingly.

There is another funding source available—national debt. However, as discussed in the next section, political leaders have used this source too often, and the current size of the national debt is starting to put a strain on the economy. The strain from debt is another external factor that may negatively affect defense programs.

The United States National Debt

The US national debt is an estimated $9.8T, and OMB estimates it will reach $11.5T by 2012.[28] Figure 6 provides a historical picture and trend line for the national debt.

As the chart indicates, the last four administrations greatly increased this nation's debt. By the end of President Reagan's 8-year term, the national debt reached $2.9T, which effectively doubled the debt from the previous 200-plus year history. Following President Reagan, the combined 12-year period of the *Bush I* and Clinton administrations (1989-2001) again doubled the amount of national debt, bringing the total to $5.8T. By the end of *Bush II's* term, OMB estimates the national debt will again double reaching a staggering $10.1T by 2009, and will continue to increase to $11.5T by 2012. To put this into perspective, this amount of debt will equate to 65 percent of this nation's projected $17.8T GDP. Interest payments alone will be 8.8 percent of the estimated $3.2T national budget;[30] and will equal 1.8 percent of this nation's GDP—the entire defense budget is estimated to be only 3.1 percent of GDP by 2012.[31] Like the other areas of increased mandatory spending, as the national debt and interest payments rise, they will likely impact available funds for the Defense Department.

While increasing mandatory costs paints a gloomy picture for the Defense Department, perhaps the most damaging external factor is right around the corner—a *peace dividend*.

Peace Dividend

Peace dividends, or reductions in defense budgets after conflicts, are not new. The Defense Department has experienced them after every major war or conflict since WWII (see Figure 1). It is too optimistic for the Department to assume a peace dividend will not occur after troops redeploy back to the United States from Afghanistan and Iraq, even when the GWOT continues. This is especially true when one considers the increase in defense budgets since FY 2000 (see Figure 3). Considering inflation, between FYs 2000 and 2007, defense budgets increased 69 percent.[32] This includes supplemental dollars, but even without them, defense budgets increased substantially. This increase did not go unnoticed. The OMB addressed it as the Defense Department was finalizing its FY 2006 President's Budget (PB) submission. In late December, OMB reduced the defense budget by $60B dollars through the Future Years Defense Program (FYDP). The Office of the Secretary of Defense, Comptroller, later bargained this amount down to $30B, but it still had a dramatic effect. This effect was documented in the infamous Program Budget Decision (PBD) 753.[33]

To pay the $30B FYDP reduction, PBD 753 laid out a plan reducing Service programs by $1.2B to $8.5B annually.[34] For example, among the Air Force casualties the PBD terminated F-22A fighter production after FY 2008, capping the aircraft at 183 from its previously programmed quantity of 381.[35] It also terminated the C-130J production line after FY 2006. For the Navy, PBD 753 reduced its planned procurement of the DD(X) destroyer from two to one per year; cut its planned submarine procurement from three subs every 2 years to one per year; and delayed its funding for a new aircraft carrier by 1 year.[36] These lists are not all encompassing for any of the Services, but sufficient to point out the impact these types of decisions can have on modernization programs.

In addition to OMB, other Washington DC political leaders and think tanks are discussing ways to trim down defense budgets. During the FY 2008 budget hearings, James P. McGovern, a representative from Massachusetts, recommended a 30 percent reduction in defense dollars.[37] The Institute for Policy Studies believed $56B could be trimmed off the FY 2008 budget by reducing or terminating programs like the F-22A, F-35, C-130J, V-22, Virginia-class submarines, future combat systems, missile defense systems, nuclear systems, research and development, and deployed Air Force and Navy forces to name a few.[38] In reality, congressional budget committees did not accept these recommendations; however, once hostilities cease in Iraq and Afghanistan, history has proven these types of discussions gain steam and programs like the ones mentioned above are vulnerable to potential peace dividends.

While external factors, such as increased costs associated with mandatory spending programs, the national debt, and future peace dividends may affect future budgets, the Defense Department can do little to control them. However, the Department can control many internal factors influencing its budgets as discussed in the following sections.

Military Personnel Costs

As budget pressures increase, it is imperative the Defense Department utilizes its scarce financial resources in the most

efficient manner possible. In doing so, the Department should first zero in on two internal factors; military personnel costs and decisions, and its process of establishing funding priorities. To free up resources and ultimately succeed in its modernization efforts, the Defense Department needs to make tough decisions in both areas.

In FY 2007, military personnel costs (adjusted to FY 2008 constant dollars) represented 23 percent of the defense budget. Between FYs 2000 and 2007, military personnel costs increased by $23B or 23.6 percent. During the same period, active duty end strength actually came down slightly, by 49,000 members or 3 percent.[39] On the surface, it looks like personnel costs are out of control; however, in fairness they are not. Much of this increase directly relates to the GWOT. For example, the President activated many Guard and reserve units to augment the active duty force in GWOT operations. While activated, the Defense Department pays these units from the active duty personnel accounts at a full-time rate, which is a much higher rate than their normal Guard and Reserve drill pay. Therefore, it is normal to see military personnel costs go up at a time of conflict or war. The good news is supplemental appropriations are paying for most of these GWOT-related personnel costs, so baseline budgets are not greatly affected.

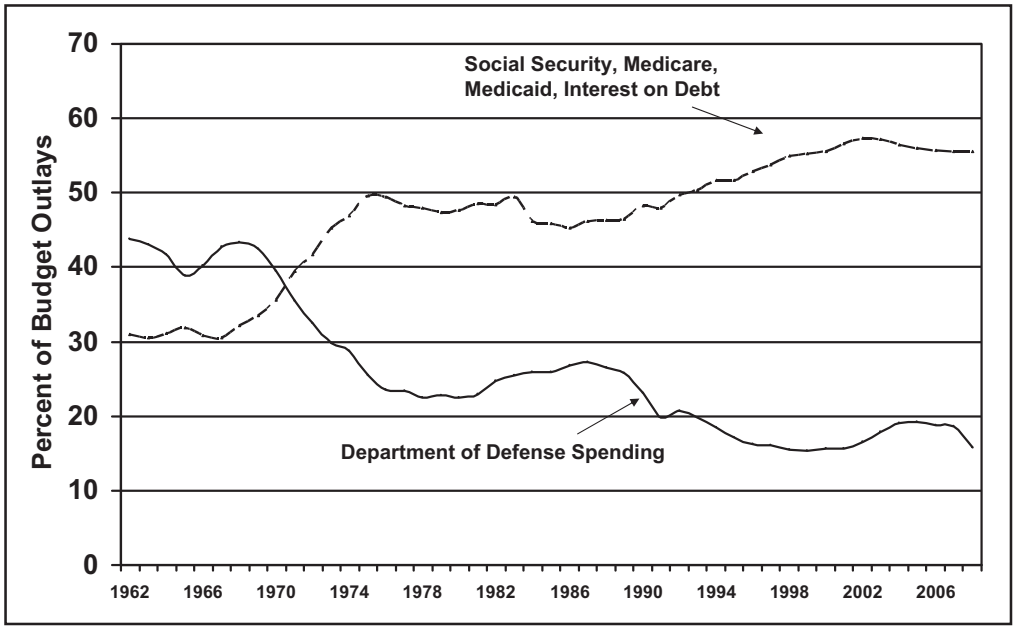


Figure 5. DoD and Mandatory Spending as a Percentage of US Budget[25]

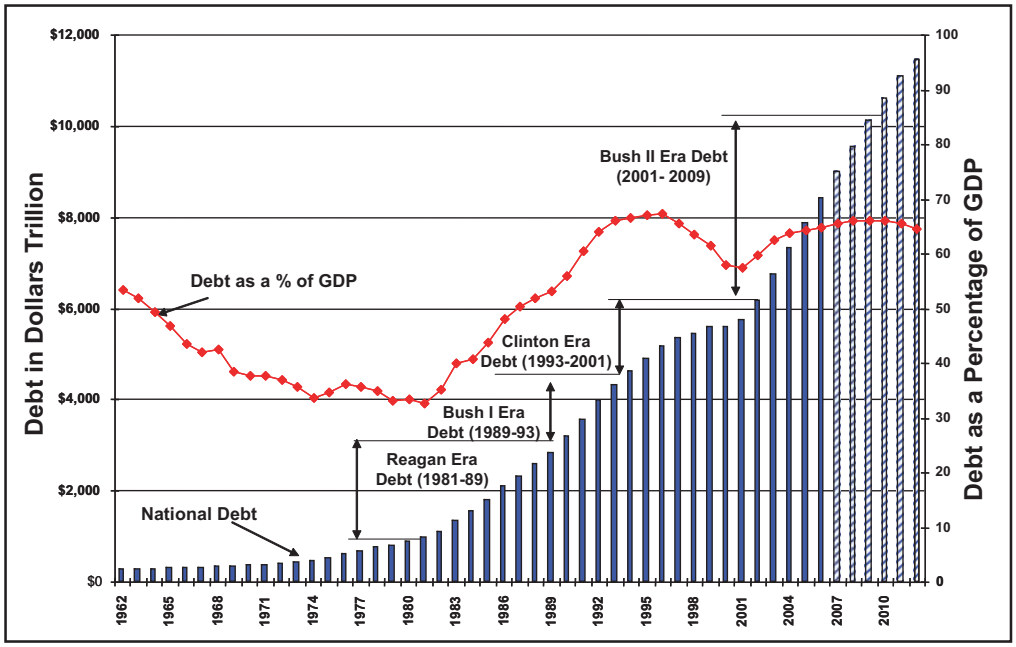


Figure 6. US National Debt[29]

Unfortunately, while the Defense Department was busy drawing down active duty end strengths to free up resources for modernization efforts, GWOT requirements are now forcing the Department to increase the force. The President called for an increase of 92,000 members to be in place by 2012. The Defense Department saluted smartly and its FY 2008, President's Budget submission included $12.1B to pay the salaries for 12,000 of these members.[40] The OMB will offset most of these costs with additional topline, but the remainder will require sourcing from modernization and other investment accounts, which is not what the Department wants to do. The internal question the Defense Department needs to address is whether it can afford to keep these members after hostilities cease and it begins redeploying units out of Iraq and Afghanistan.

Of course, the issues discussed above are not the only reasons for increased military personnel costs. A *Congressional Report for Congress*, written by Stephen Daggett listed seven other reasons for increased military personnel costs since FY 2000. They are as follows:[41]

- Six years of pay raises of half a percent above the Employment Cost Index, and economy-wide measure of wage costs.
- Three rounds of pay table reform that gave much larger pay raises in middle grades to improve retention of skilled personnel.
- A multi-year plan to eliminate differences in on-base and off-base housing costs.
- Approval of a phased-in plan to allow military retirees with a veteran's disability rating of 50 percent or greater to receive both retired pay and Veteran's Administration disability benefits.

- A program known as *TRICARE for Life* under which military retirees age 65 and older will have access to defense provided health care in addition to Medicare.
- Repeal of the 1986 *Redux* retirement program which gave lower pensions to those recruited after that time.
- Repeal of a measure that lowered benefits to survivors of military retirees once they qualified for social security benefits at age 62.

While Congress, not the Defense Department, initiated many of these programs, the effect is the same: they are expensive to sustain, the Defense Department must pay the bill, and they take away budget flexibility. In January 2005, Dr Chu, the Undersecretary of Defense for Personnel and Readiness stated, "The amounts have gotten to the point where they are hurtful. They are taking away from the nation's ability to defend itself."[42] So what will the Defense Department do about it? That is the tough decision it faces. Can the Department afford to keep these programs in place? If not, is it willing to fight Congress for control over them?

Bonus Programs

The Defense Department, immediately after troops redeploy out of Iraq and Afghanistan, needs to address bonus programs. Since the war in Iraq began, bonuses have increased sevenfold. In FY 2003 the bonus program totaled $174M and in FY 2008 they reached the $1B mark.[43] Bonus programs range from a high of $150,000, for selected special operations personnel to a low of $10,000, for some types of ground troops. In an all-volunteer force, during a time of war, bonuses serve a valuable purpose—they keep volunteers in the active, Reserve, and Guard forces. However, when hostilities cease and troops redeploy, the Defense Department needs to reevaluate these programs and make a tough decision. The Department pays bonuses out of its baseline programs, not supplemental dollars, and these scarce resources may be put to better us in the modernization accounts. These kinds of decisions are hard to make and not popular, but they are within the control of senior defense leaders and must be addressed.

Funding Priorities

Perhaps the most dangerous time for investment and modernization programs is during the Pentagon's program and budget review period. Once the Services submit their proposals to the Office of Secretary of Defense (OSD), parochial requirements—from those without funding—begin to appear from every crevice of the 60-year-old building. This might be a bit dramatic, but not from the Service's perspective. After 12 months of blood, sweat, and tears, much of what the Services programmed for begins to unravel at the expense of other defense priorities. This is not new, and all the players in the Pentagon know this is part of the budget building process, but it does come at a cost.

For example, during the FY 2007 Program and Budget Review process, the OSD comptroller delivered a $13.2B FY 2007, $65B Future Years Defense Program bill to the Services to pay for other defense bills and priorities. These bills covered increases in fuel costs, the cost of inflation, Quadrennial Defense Review (QDR) initiatives, some parochial initiatives, and many others. Spread between the Services, these bills had a dramatic effect on their programs. For the Air Force, the effect on its modernization programs were so great General Mosely decided it was necessary to *transform* the Air Force to keep its modernization programs on track. He largely accomplished this through the reduction of 40,000 Air Force billets. This decision was documented in the other infamous Program Budget Decision, 720. For the Army, these reductions were so severe, that during the next year's program and budgeting process, it could not find the resources to balance the FY 2008 Program Objective Memorandum, so it did not submit one. This threw the Pentagon's budget cycle out of whack for several months.

The point of this discussion is not to cast disparaging remarks toward the Defense Department's resource allocation process, but rather to point out there is little flexibility left in defense budgets. If the Department is going to modernize within its topline—or a reduced topline after a peace dividend—considerable thought needs to be given toward the consequences and expense of reprioritizing established priorities. To the Department's credit, it recognized this and assembled a powerful group of OSD, Joint Staff, and Service leaders into a group called the Deputy Advisory Working Group (DAWG). The DAWG is responsible for weighing the cost and benefits of choices to determine the best outcome for the Department. The benefit of this process is that regardless of the outcome of a particular decision, the Defense Department has control over its destiny—or at least until it submits the budget to Congress.

So far, this article has discussed the defense budget, the Department's plan to use the GDP argument to secure additional resources from Congress, as well as some external and internal factors affecting defense budgets. However, the area Congress and taxpayers look at when judging the adequacy of the defense budget is strategy. When hostilities end in Iraq and Afghanistan, and the size of the current defense budget is challenged, a well-defined strategy will help defense leaders defend the topline. Without it—and at a time when taxpayers and Congress are looking for a peace dividend—the Department of Defense will have a tough time defending the world's largest defense budget.

Defense Strategy

The problem of selecting strategies and weapons systems today are quite unlike those that existed before WWII … before WWII, we did not plan on technology change, we merely adjusted to it, now we are forced to plan on it.

—Alain C. Enthovan and K. Wayne Smith, 1973

The *National Security Strategy*, *National Defense Strategy*, *National Military Strategy*, and QDR all played major roles in defining the defense strategy for the United States during the last several years. Regardless, many critics believe the United States has not had a viable defense strategy since the end of the Cold War. This is incorrect. The Defense Department has always had a strategy to defend the United States and its interests. What is missing from this equation is a large, looming, easily identifiable Cold War type threat—a threat that has the potential to single-handedly endanger this nation and all of its citizens. With a threat such as this, just about any defense strategy is acceptable. For instance, during the Cold War, the United States had five separate strategies: containment, massive retaliation, flexible response, mutually assured destruction, and mutually assured safety to defeat or deter the Soviet Union.[44] Without threats of this nature, strategy is difficult to create and defend.

The only threat more difficult to base a strategy on is a threat that does not necessarily require military power to ultimately defeat—such as the GWOT. While military power is obviously required for this type of threat, it may not be central to defeating it. The United States is discovering other instruments of power—such as diplomacy and economics—are just as effective in dealing with many irregular threats. This puts defense strategists in a bind. How does the Department develop a defense strategy to defeat irregular threats, as well as uncertain or unpredictable threats in the future? The Department of Defense has struggled with this since 11 September 2001.

The 2006 QDR transformed the defense strategy from a threats-based strategy to a more modern capabilities-based strategy.[45] Since the Defense Department does not possess a crystal ball and cannot see into the future, how can it determine what capabilities are required to meet future threats? It is difficult, but the Defense Department decided to transform ground capability, such as the Army and Marines, on the margins to make them more flexible in defeating emerging irregular threats. It also preserved the Air Force and naval capabilities along conventional lines, while adding some information, surveillance and reconnaissance, and special operations assets to satisfy current requirements. But back to the challenge—without an identifiable threat, this capabilities-based strategy is difficult to sell to Congress and the taxpayers. If the Defense Department wants to keep, and modernize, the foundation of a capabilities-based strategy, such as its conventional forces, it needs to do a better job of selling its new strategy.

In the 2006 QDR, the Defense Department laid out its capabilities-based strategy. The document supported the four 2004 National Defense Strategy goals of defeating terrorist networks, defending the homeland in depth, shaping the choices of countries at strategic crossroads, and preventing hostile states and nonstate actors from acquiring or using weapons for mass destruction. It also unveiled the *quad chart* (see Figure 7),[46] which graphically showed the Defense Department moving military capability away from traditional challenges toward irregular, catastrophic, and disruptive challenges. Again, the problem came in selling this strategy.

During the official release of the 2006 QDR, a senior defense leader stated the following at a press conference:

> It is important to remember that we exist in an age of uncertainty and unpredictability. We in the Defense Department feel fairly confident that our forces will be called on to be engaged somewhere in the world in the next decade where they're currently not engaged. But we have no idea whatsoever of where that might be, when that might be, or in what circumstance that they might be engaged.[47]

While this individual provided an honest portrayal of how the Defense Department built its strategy, it gives the appearance the Defense Department is spending $481.4B to build military capabilities for capabilities sake. The Department does not really know where it is headed so it will just continue to build up capability to meet any challenge. This is a bit cynical and oversimplified, but to better sell the defense strategy, perhaps it will be more influential to quote the 2006 National Security Strategy. In it, President Bush said the following:

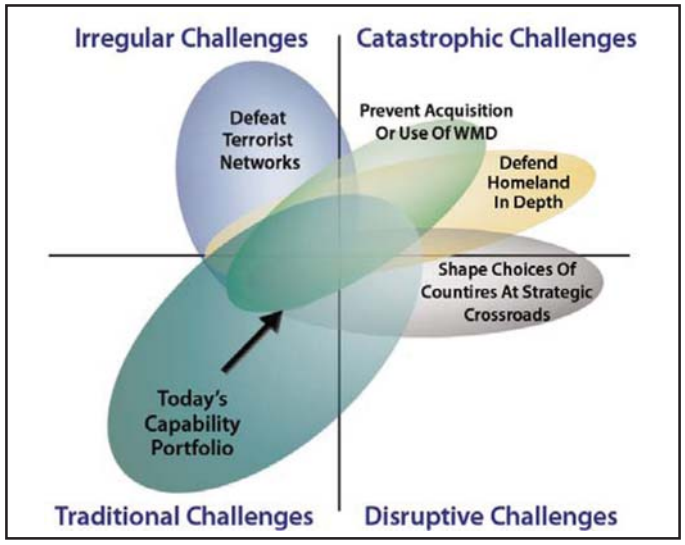
> This Administration has chosen the path of confidence. We choose leadership over isolationism, and the pursuit of free and fair trade and open markets over protectionism. We choose to deal with challenges now rather than leaving them for future generations. We fight our enemies abroad instead of waiting for them to arrive in our country. We seek to shape the world, not merely be shaped by it; to influence events for the better instead of being at their mercy.
>
> The path we have chosen is consistent with the great tradition of American foreign policy. Like the policies of Harry Truman and Ronald Reagan, our approach is idealistic about our national goals, and realistic about the means to achieve them.
>
> To follow this path, we must maintain and expand our national strength so we can deal with threats and challenges before they can damage our people or our interests. We must maintain a military without peer—yet our strength is not founded on force of arms alone.[48]

As the world's only superpower, the United States has chosen to lead, to support its allies and other nations as required, to defend democracy, and to support countries around the world who ask for assistance. This takes a robust Defense Department to achieve.

As the world's only superpower, the United States is in a position (the top) where emerging nations, such as China and Russia, want to be. With this comes the potential for conflict and again, a robust Defense Department is required to protect US interests and deter aggression.

As a nation, the United States needs to determine if holding the world's only superpower status is important or not, or will this nation simply be content with a strong economy. The European Union now collectively has the largest GDP in the world, but it does not possess sufficient military power to defend itself. [49] China has the second largest GDP of any single nation at $10.2B, but does not possess the military power to defend itself against a superpower like the United States.[50] However, the United States has the largest economy of any single nation and has the military power to defend itself against any country in the world. [51] This entitles the United States to its superpower status and from President Bush's comments above, he feels it is necessary to keep this status to influence (rather than be the victim of) world events.

If the Defense Department expects to acquire additional financial resources in a fiscally constrained environment, it needs to integrate and articulate these issues into its strategy. Defense leaders must also sell this strategy to the taxpayers and Congress.



Insert Figure 7. Shifting the Portfolio.

In the end, Congress will review the Defense Department's strategy and budget submission, and determine the appropriate amount for the nation's defense. Because politics is perhaps the most influential area in funding the Defense Department, senior leaders need to fully engage themselves into this realm—within legal bounds, of course.

The Role of Politics

The central fact about the defense budget is that it is a political problem. These [defense] questions involve matters on which the judgments of experts and politicians alike are bound to conflict. Issues of great public consequences about which intelligent, informed, and dedicated men disagree can have but one destiny and one destination. They must be resolved through the exercise of power in a political arena.

—Warner R. Schilling, Strategy, Politics, and Defense Budgets, 1962

In *On War*, Carl Von Clausewitz stated, "war is a continuation of political intercourse."[52] If he were alive today, he would probably agree military budgets are also fathered by politics. Article 1, Section 8 of the United States Constitution gives power to Congress to raise and support the military, which includes appropriating dollars for its operations.[53] The members of Congress have benefited from over 2 centuries of experience; they know budgetary control is the most effective tool they have over the military and they are not afraid to use it.[54]

The Defense Department expends a vast amount of personnel resources during its resources allocation process, or the Planning, Programming, Budgeting, and Execution (PPBE) system. Under PPBE, it takes a full year for the Defense Department to complete its portion of the President's Budget (PB). Once OMB submits the PB to Congress the first Monday in February, the Defense Department tends to lift its foot off the gas pedal, take a deep breath, and start focusing on the next year's budget. Of course, defense leaders will testify before congressional budget committees, and their staffs will spend countless hours answering committee questions. Once the hearings are complete, the Department moves on and does not spend much time or effort on the submitted budget; at least until the authorization and appropriation committees start marking it up during the late summer months.

In the future, it will be more crucial than ever for the Defense Department to engage Congress during the *transition period* from budget submission to budget markup. This period is important, because it is the period when the influence of politics takes place.

During the budget transition period, Congress will review several influencing factors. For example: What are the current threats to national security? What does the future hold and is the military prepared to face it? Is the military properly manned and equipped to do the job? What is public opinion saying? In terms of resources, Congress will review the nation's priorities, question whether the Defense Department has sufficient funds to accomplish its mission, and if not, determine how much more is required. The lists of questions could go on and on, however, the point is simple. In an era of uncertainty and unpredictability, it is in the best interest of the Defense Department to engage Congress when it asks these questions.

In Gregory Palmer's book, *The McNamara Strategy and the Vietnam War: Program Budgeting in the Pentagon, 1960-1968*, he made a very good observation. He said, "… the major constraint on peacetime military production, where national priorities are not so clear, is the budgetary one."[55] In other words, it is necessary for the Defense Department to ensure its military priorities are clear. It is also important to articulate to Congress how a large, modern, conventional military force fits into the broader national priorities. A well-designed engagement policy will help the Department accomplish this.

However, in dealing with its political masters, the Defense Department is in luck. As it turns out, Congress likes to support modern, technologically advanced, conventional forces because it is in their constituent's best interests—and consequently, their best interests. It is no secret the members of congress place great value in supporting industry within their districts, because it brings jobs and wealth to their constituents. Leon Sigal confirmed this in his book, *The Changing Dynamics of US Defense Spending* by stating: "… the biggest change since the end of the Cold War is the emphasis that congressional members with defense-related industries in or adjacent to their districts now place on preserving constituent jobs."[56]

For example, during the FY 2007 President's Budget build, the Air Force programmed for the shut down of the C-17 production line, effective at the end of FY 2008. While the Air Force wanted more C-17s, it could not afford to purchase more than the programmed 180 aircraft. To keep the production line open longer, Congress stepped in and appropriated an additional $2.1B in the FY 2007 Defense Appropriation Bill to procure an additional 10 C-17s.[57] Later, the FY 2008 Global War on Terrorism Supplemental included an additional $2.0B to procure 10 more C-17s.[58] Congress accomplished both of the actions to extend the C-17 production line operations and keep jobs in several congressional districts. The payback to these congressmen will come from votes during future reelection campaigns.

These are just two examples showing how it is in Congress' best interests to extend military procurement programs. There are certainly many others. Back in 1962, Warner Schilling summarized this congressional process by writing, "Once formed, the climate of opinion with regard to desirable and possible defense spending has been remarkably impervious to change."[59] Thirty-seven years later, when David Obey, the Chairman of the Committee on Appropriations was asked where overseers of the defense budget place their loyalties and emphasis, he answered: "...they come from areas [districts] where it is their number-one political requirement to preserve the status quo in the military."[60] While many define this behavior as *pork spending* and view it in a negative fashion, in a fiscally constrained and uncertain or unpredictable environment, it is a benefit to the Defense Department and the Department needs to continue to harness it in order to bolster modernization efforts.

Finally, political changes related to a new presidential administration have the potential to affect defense budgets. For example, what will the new administration's foreign policy look like? Will it reach out to the international community, or concentrate within United States borders? Will it emphasize democracy around the globe, or concentrate only in failed states? Will it choose to remain a leader among the world nations, or allow world nations to develop independent from US interests?

Will it choose to use the military as its dominant instrument of power or turn more toward diplomacy? How will it choose to view threats to US interests in this era of uncertainty and unpredictability? Will it believe large defense programs are archaic remnants from the Cold War and decide to undertake major transformation initiatives within the Defense Department?

Regardless of what will happen in the future, the Defense Department needs to stay actively engaged in the political process. Senior leaders need to put their own political views aside and carry the defense message to Congress without fear of reprisal. Congressmen, above all, understand how to play the political game. They understand their constituents' needs, and they understand how to satisfy them. It is up to senior leaders to ensure members of Congress understand the needs and desires of the Defense Department, as well as how it will help defend the interests of the United States.

Recommendations

The Department of Defense has the responsibility to prepare a budget, which clearly supports and executes the *National Defense Strategy*. The execution of this budget process affects the national security and the welfare of its citizens. The consequences of not getting it right are unacceptable. Fortunately, the Defense Department has worked this process for well over two centuries. Creating strategies to maintain scarce defense dollars and modernize legacy weapon systems are the current challenges. The recommendations below are not a panacea, but rather a place for the Defense Department to start or expand upon.

Gross Domestic Product Argument

The Department of Defense should stop using the GDP argument as a means to acquire additional topline. It is useful for comparative analysis, but the GDP has nothing to do with defense requirements or strategy, it is arbitrary in nature, it is not defendable, and it tends to make the Defense Department look desperate. Defense spending as a percentage of GDP is a great metric and the department should use it as that, but should not pursue it further.

Bonus Programs

The Defense Department needs to reexamine bonus programs as soon as troops redeploy home from Iraq and Afghanistan. Reducing these programs early has the potential to free up to $1B in scarce resources, which the department needs for modernization efforts.

Peace Dividend

The Defense Department needs to start preparing for a peace dividend now. If historical postwar funding trends hold true, the Department should expect to lose financial resources and forces at the end of hostilities in Iraq and Afghanistan. Unfortunately, this will only compound its difficulties in modernizing the force. However, developing a plan of action now will allow the department to make better choices on how it will carry forward difficult programmatic reductions.

Defense Strategy

Prior to hostilities ending in Iraq and Afghanistan, the Defense Department needs to redefine its capability-based strategy to better support both irregular threats and the need for a large, modern, conventional force. Granted, in an era where threats are uncertain and unpredictable, this will not be easy. A well-defined strategy that the average American and congressmen can understand will help support the defense budget in a fiscally constrained environment.

Political Actions

The Defense Department needs to continue pushing its way into the political process, past its comfort zone. Political constituency is the one salvation for modernization of conventional forces. Now is the time to be aggressive, honest, forthright, and perhaps a bit humble when dealing with congressional staffers and members.

Prepare for a New Presidential Administration's Policy on Defense

It is too early to predict what policy changes loom on the horizon for the Department of Defense; however, it is not too early to start preparing for forthcoming, tough questions, For example, two questions repeatedly asked are as follows, "Does the Department need to maintain such a large conventional supremacy over the rest of the world?" "To whom or what is this disproportionate supremacy geared toward, and at what costs are we as a nation willing to accept to achieve it?" These are not easy questions to answer, but if the Department is to sustain and modernize its conventional force—in a time of severe fiscal constraints—it might be required to justify its necessity to the new administration.

Conclusion

Budgeting for the defense of the United States during an era of uncertainty and unpredictability is an extreme challenge. There are simply no easy solutions. The need to modernize legacy weapon systems is real, but so are the fiscal pressures facing the US government. The future challenge for the Defense Department is how to take the most capable and best financed military force in the world, and shape it to meet future threats. Right now, the only threats the Defense Department cannot defeat are mandatory spending, the national debt, and future peace dividends. The Department must adapt to these.

Above all, the Defense Department needs to readdress its funding strategy based on the GDP. Defense spending as a percentage of the GDP is a useful metric in comparative analysis; however, strategy and politics will determine future defense budgets, not a percentage of GDP. Allowing this funding strategy to dominate budget discussions perpetuates the belief that the Defense Department has no better strategy to defend its half trillion-dollar defense budget.

However, it does not need to be this way. It is within the Department's expertise to build, defend, and articulate a better capabilities-based strategy. Most senior defense leaders are also political appointees and have the knowledge to take full advantage of the political process. Regardless of the approach taken, the Defense Department needs to be realistic. The outlook for bigger budgets in the future is not good. Now is the time to stop worrying about receiving more funding and start worrying about how to operate and modernize with less.

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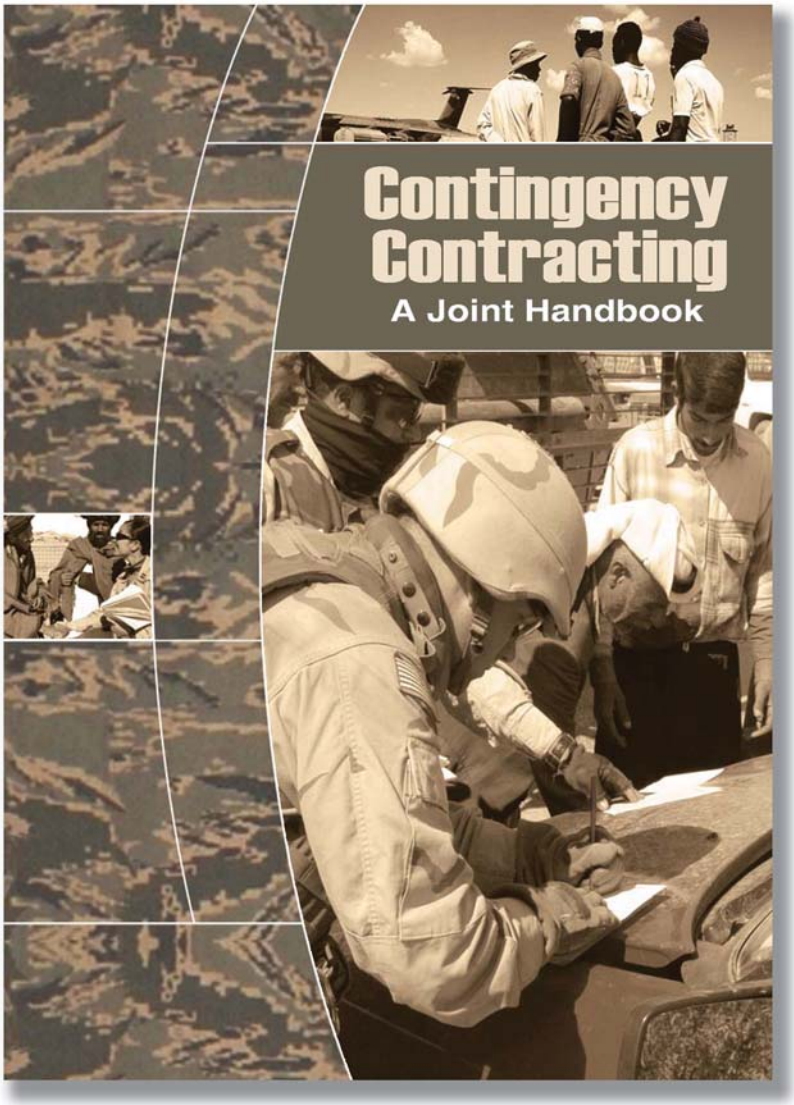

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