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## Key Points

- ◆ Force planning and defense budgeting processes that may work well with spending increases have significant problems with budget reductions under austerity.
- ◆ The current U.S. fiscal crisis and political polarization make strategic planning and defense decisionmaking difficult.
- ◆ As part of strategy, defense leaders need to engage in a credible dialogue about austerity, to include discussing fiscal policy and nondefense spending.

# Strategy and Force Planning in a Time of Austerity

By Michael J. Meese

On February 13, 1989, General Colin Powell, who was in a transition between National Security Advisor and Commander of U.S. Army Forces Command, addressed the reality of strategy: “All of the sophisticated talk about grand strategy is helpful, but show me your budgets and I will tell you what your strategy is.”<sup>1</sup> What General Powell meant is that the definition of the U.S. role in the world and its strategic goals flow from budgets, not the other way around. This paper fleshes out General Powell’s observation by focusing on the *means* part of the ends, ways, and means of strategy in order to explain how austerity affects force planning and strategy. By first examining budget reductions as a general matter, the paper describes today’s austere U.S. budgetary environment. It concludes with the current strategic options that will likely characterize the contemporary discussion of strategy and force planning.

## Decremental Spending

The defense budget system works most smoothly, of course, when budgets are growing, not shrinking.<sup>2</sup> In the 63 years of Department of Defense (DOD) budgets, the budget grew in 49 of those years.<sup>3</sup> With one year’s budget providing the base from which the next year’s increase takes off, increasing budgets do not demand strategic reassessments. Budget debates concentrate on where best to allocate any incremental increases. Decreasing budgets obviously are more challenging than increasing budgets. They require the articulation of a strategy, but that rarely happens, and even more rarely does strategy shape budgets. Rather, bureaucratic infighting tends to result in across-the-board, rather than tailored, budget cuts. With decremental spending, there is rarely an obvious reduction of strategic ends to guide the reduction in means. As budget expert Allen Schick explains, “Decrementalism diverges from incrementalism in at least three significant ways.

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Decremental budgeting is redistributive rather than distributive; it is less stable than incremental decisions; and it generates more conflict.”<sup>4</sup>

As a practical matter, budgeting in austere times is different because of the budgetary context in which decision are made. With an increasing budget, advocates of particular programs argue for increases to those programs from the overall increase to the budget. If successful, in the following year they can ask for still more funding; alternatively, programs that were not favored previously may receive additional funding in the following year’s increment to compensate for smaller, earlier increases. In contrast, with a decreasing budget, a reduction that is taken in one year may not insulate a particular Service or program from continued or increased reductions in the future. Quite the contrary, if a program survived with a 10 percent cut last year, the reduced level is the new starting point for next year’s budget negotiation. This places a premium on defense leaders understanding the long-term budgetary conditions as defining a reality in which, they hope, strategy can be made realistic. Strategy involves far more than budgets. But budgets consume attention.

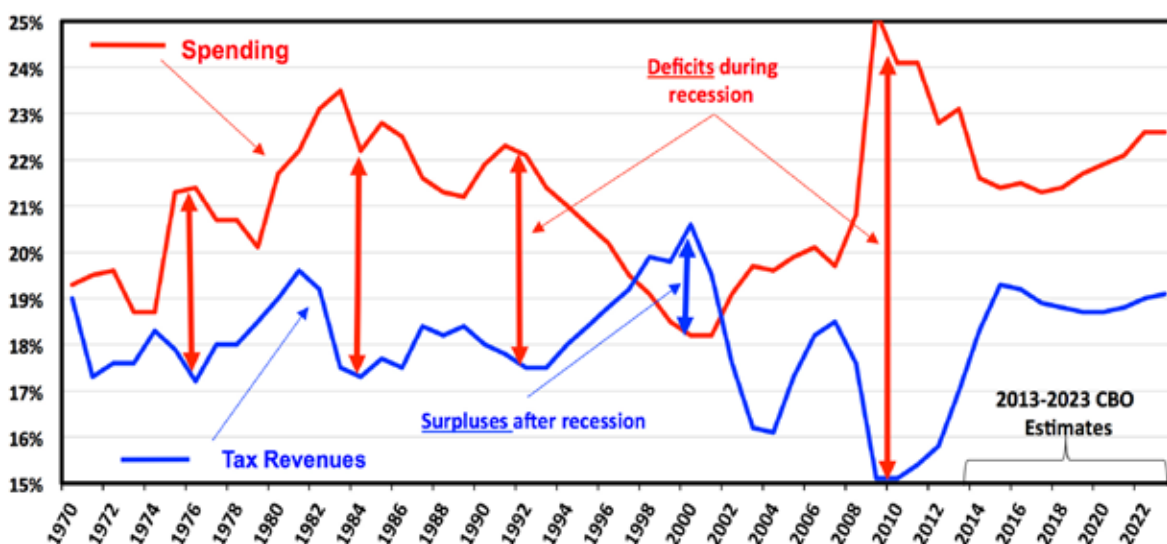
Even if the budget system could be used to make relevant cuts, political, institutional, bureaucratic, and other

factors can lead to continuing obsolete weapons, forces, bases, and concepts, even though they are likely not the most effective way to accomplish the ends of grand strategy with the means available. As Carl Lieberman states, “Decrementalism tends to apply cuts broadly, but often fails to establish clear-cut priorities for reducing expenditures. Moreover, in a period of decremental spending, powerful political forces are likely to seek exemptions from proposed reductions for their preferred agencies or programs.”<sup>5</sup> In the extreme, austerity may cause political leaders to scramble to preserve constituent interests, military officers to fight to protect pet projects, and decisionmakers to placate the demands of competing groups, leaving no one to focus on the security needs of the Nation. Consequently, during a period of austerity, when it is most important to maximize the effectiveness of each defense dollar, billions can be diverted to goals that may not provide the most effective contribution to national security. In austere times, this political reality has a bigger impact on the Nation’s strategy than in periods of budgetary growth.

## Today’s Austerity

The austerity in national security spending is a function of a drawdown from the wars in Iraq and

**Figure 1. U.S. Federal Spending and Revenue as Percent of Gross Domestic Product**



Afghanistan, the need to reduce all parts of the budget to address the Federal fiscal crisis, and a concomitant reprioritization of effort to support a new, albeit incompletely defined, strategy. The fiscal crisis largely stems from the often polarizing and challenging national debate concerning the appropriate size of the Federal Government. This debate implicitly concerns the U.S. role in the world as well. As figure 1 shows, the gap between spending (top line) and tax revenue (bottom line) represents the deficit, which has averaged about 2 percent of gross domestic product (GDP) during non-recession years.<sup>6</sup> The deficit expands during recessions (with spending up to maintain government programs and revenues down as fewer workers are paying taxes) and shrinks as the economy grows, even achieving surpluses, as it did from 1998 to 2001. On average, prior to the 2008–2009 recession, the United States was taxed at about 18 to 19 percent and had nonrecession Federal spending averaging about 20 to 21 percent. While not ideal, this 2 percent fiscal gap was manageable.

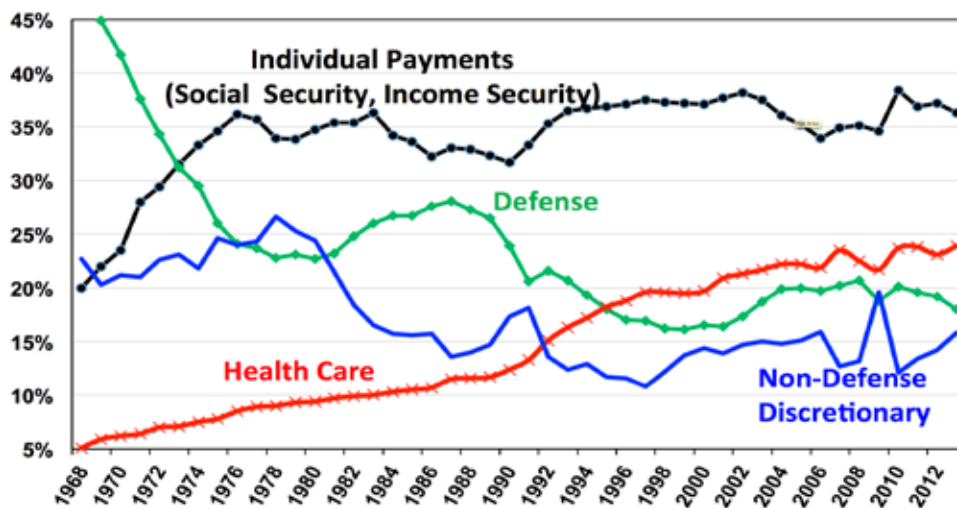
With the 2008 recession, leaders of both of the major political parties took significant and unprecedented action with the American Recovery and Revitalization Act in February 2009. This “stimulus bill” authorized \$787 billion (5.67 percent of GDP) for infrastructure

spending, need-based aid, and tax expenditures, increasing government spending to 25 percent of GDP and reducing taxes to 15 percent of GDP. This exacerbated the national debt, which has now grown to over 100 percent of GDP for the first time since World War II.<sup>7</sup>

The fundamental question of means that confronts the Nation is on the right side of figure 1. The 2013–2023 lines reflect the Congressional Budget Office (CBO) projection for the Federal budget, optimistically assuming there is no recession in the future. The gap between 19 percent of GDP in revenue and 22–23 percent of GDP in spending cannot be sustained indefinitely. Consequently, there is substantial need to reduce all forms of spending, including defense spending. To make matters worse, increasing numbers of the baby boom generation are over 65, living longer, and receiving Social Security and growing Medicare benefits.

Over the past 50 years, Federal Government spending has seen an increase in the size of the social safety net (entitlements) and decrease in defense. In 1960, for example, 52 percent of the Federal Budget was spent on national defense and 21 percent was spent on entitlement programs. Today, the roles have more than reversed with defense comprising just 18 percent of the Federal budget and entitlement spending totaling 60 percent of

**Figure 2. Components of U.S. Federal Spending**



the 2013 budget. Consequently, as reflected in figure 2, as Federal spending on defense is reduced, the growth in individual payments or government healthcare spending will likely—and rapidly—absorb any reductions in defense spending.

The United States has had this problem before—in 1983—when the Nation was in a significant recession, Social Security was rapidly becoming bankrupt, and the national deficit and debt were approaching historically high peacetime levels. The difference was that political leaders, primarily Republican President Ronald Reagan and Democratic Speaker of the House Tip O’Neill, found a way to solve the fiscal crisis through compromise, facilitated by a commission headed by Alan Greenspan and bipartisan cooperation between Senators Patrick Moynihan and Robert Dole, which significantly reformed Social Security and extended its solvency by over 50 years. Reagan and O’Neill had to accept higher taxes, lower benefits, and other reforms, but they solved the problem.<sup>8</sup>

Unfortunately, the political environment today is characterized by extreme polarization, which significantly limits the chances for coherent strategic choices to enhance national security. Instead of compromise, national leaders narrowly averted a debt ceiling crisis with the Budget Control Act of 2011, which prescribed sequestration. Sequestration was viewed as so draconian and antistrategic that it would force political leaders to compromise, but it failed to do so. As a result, the Nation faced a “fiscal cliff” in January 2013, delayed sequestration until March 1, and then allowed budget formulas instead of coherent policy to dictate Federal spending. The government shutdown and the difficulty in extending the debt ceiling in October 2013 reflect the continuing political paralysis in Washington. The Murray-Ryan Bipartisan Budget Conference Agreement in December 2013 forestalls an immediate crisis in 2014, but does not provide substantial movement toward a comprehensive solution in the future.

Without a national consensus on the systemic budgetary challenges, cuts in defense programs will have

little impact on the national fiscal crisis. If cutting an Army or Marine division might save \$5 billion per year, such savings would represent merely \$5 billion in entitlement reform that would not be done, tax revenues that would not be raised, or domestic programs that would not be cut.

Under these economic and political circumstances, what should be done with regard to force planning? First, defense leaders need to engage in a credible dialogue about austerity as part of a grand strategy that includes seeking fiscal balance. As defense spending is cut, those savings should be used for deficit reduction—that is, to improve the Nation’s fiscal position and not for other political priorities. Second, defense leaders should not only notice but also focus on other parts of government because of their effects on national security. Arguably one of the greatest threats to U.S. national security is the unchecked expansion of entitlements without commensurate revenues, which leads to increased Federal debt, retarded national growth, and further austerity. While some might argue the military should not comment on domestic programs or entitlement spending, it is not only appropriate, but it is also essential that leaders provide their best judgment about the impact of those programs on economic security and national defense. Finally, within this context, defense leaders still need to make strategic choices with regard to national security priorities.

## Current Challenges

Strategy in an age of austerity must carefully consider current defense spending and the levels from which proposed reductions begin. First, the historical approach to DOD spending has been for the Army to receive roughly 25 percent of the defense budget, nearly consistently, for the past 60 years. The exceptions have occurred when Army spending—as a percent of the overall DOD budget—increases in support of combat operations during wartime. The fiscal year 2014 budget reflects that return to the 25 percent level, as shown in figure 3.<sup>9</sup> As sequestration was imposed, it affected

all DOD budget accounts, except military pay and a few other programs, with a proportional reduction of spending.<sup>10</sup> It was certainly not a strategic decision on how best to take the cuts. It was the easiest, albeit least thoughtful, method of imposing across-the-board reductions of the defense budget.

Understandably, defense leaders thought that imposition of cuts through sequestration was the absence of a strategy, and Secretary of Defense Chuck Hagel directed DOD leaders to conduct a Strategic Choices and Management Review (SCMR) “to help ensure the Department of Defense is prepared in the face of unprecedented budget uncertainty . . . [and] to understand the impact of further budget reductions on the Department and develop options to deal with these additional cuts.”<sup>11</sup> In addition to identifying specific management reforms, overhead reductions, and proposed reductions to military compensation, the SCMR identified, but did not decide between, two broad options going forward, each of which would represent a distinct strategic direction. Secretary Hagel outlined these options in the following way:

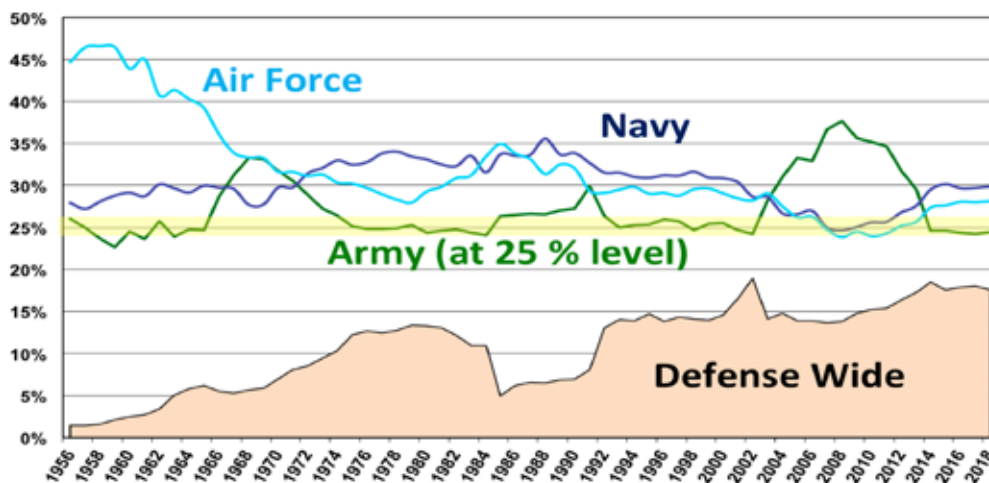
Approach one concentrates on technology and acquisition and trades size for high-end capability:

- ◆ The Army would be reduced from the 490,000 currently planned to between 380,000 and 450,000 Active-duty Soldiers for the future force.
- ◆ The Navy would be reduced from 11 carriers to 8 or 9 carriers.
- ◆ The Marine Corps would be reduced from 182,000 to between 150,000 and 175,000 Active-duty troops.
- ◆ Modernization would continue, especially against antiaccess/area-denial threats with long-range strike, submarine cruise missiles, Joint Strike Fighters, and special operations forces.

Approach two concentrates on force structure and trades high-end capability for size:

- ◆ The Army, Navy, and Marines would generally retain projected sizes to sustain capability for regional power projection and presence.

**Figure 3. Service Budget Shares**





- ◆ Modernization programs would be canceled or curtailed, with slower growth to cyber and other programs.
- ◆ Defense writ large, in effect, would take a decade-long modernization holiday.

Such decisions dictate strategy, as General Powell noted in 1989. While Secretary Hagel made no decision between these approaches, these kinds of choices illustrate substantial tradeoffs among defense priorities and imply the Nation's strategy. Either approach would be substantially different from the current cuts and represent a fundamental strategic choice. Mark Gunzinger of the Center for Strategic and Budgetary Assessments argues that the 1993 Bottom Up Review was "the last time the Pentagon created a new vision for how the U.S. military should prepare to meet the nation's security challenges."<sup>12</sup> If adopted, either of the SCMR's fundamental approaches would have a similar strategic impact on national defense to that of the 1993 Bottom Up Review, which provided the general vision for DOD force planning over the past 20 years.

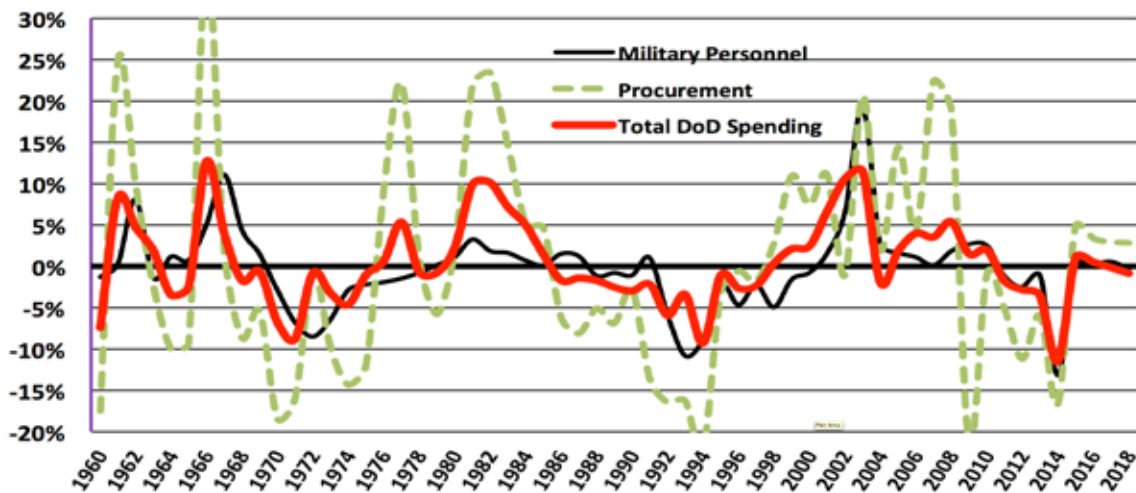
For those looking for a strategic choice, the *Quadrennial Defense Review (QDR) 2014* was disappointing. Instead of articulating a clear choice, it made the

force smaller overall and emphasized the calamitous impact of continuing sequestration-level cuts. In an uncharacteristically blunt section of the QDR titled "Implications and Risks of Sequestration-Level Cuts," the report concludes:

*The return of sequestration-level cuts in FY2016 [the current law] would significantly reduce the Department's ability to fully implement our strategy. . . . [R]isks associated with conducting military operations would rise substantially. Our military would be unbalanced and eventually too small and insufficiently modern to meet the needs of our strategy, leading to greater risk of longer wars with higher casualties. . . . Ultimately, continued sequestration-level cuts would likely embolden our adversaries and undermine the confidence of our allies.*<sup>13</sup>

In the QDR, DOD has forestalled making fundamental strategic choices and instead has declared to Congress and the public that if we follow the current law, we will have longer wars, more casualties, emboldened adversaries, and undermined confidence in our nation's security. This statement of the consequences of budget decisions

**Figure 4. Annual Changes in Spending Components**



made without considerations of strategy could hardly be clearer. It appears to be falling on deaf ears.

When the Nation eventually does make a strategic choice, it is worth noting from a budgetary standpoint that approach two described by Secretary Hagel is more consistent with most of the defense decisions that have been made by the United States in previous postwar periods. The need for military engagement in the world as either a global superpower or the leader of the West during the Cold War has meant that procurement budgets either rose or fell much more rapidly than the overall defense budget (see figure 4) as Services relied less on always replacing the latest equipment. Instead they continued research and development and then procured equipment if and when funding became available.<sup>14</sup> The contrast is clear as the procurement line in figure 4 (dashed line) has much greater annual fluctuations (both up and down) than either the defense budget as a whole (red line) or military personnel spending (black line). Since it is unlikely that the Armed Forces will confront a technologically superior military competitor in the next decade, deferring fleet-wide procurement of new technology may be the best way to allocate scarce funding in the near future.

The best example of deferring modernization was the Army during the 1970s, which maintained its force structure of 16 divisions and 770,000 Soldiers, but had little money for modernization. General Creighton Abrams, Chief of Staff of the Army at the time, put the Army's limited research and development funding into the "Big Five" weapon systems: the Abrams tank, Bradley fighting vehicle, Blackhawk and Apache helicopters, and Patriot missile. He also streamlined Army organizations, improved acquisition practices, and revitalized training. Then, when funding was available in the 1980s, procurement could be increased to provide the basic systems that remain the mainstay of the Service today. Some investment in research and development as a hedge against technological surprises is appropriate, but during this period of strategic uncertainty and fiscal austerity, large-scale procurement should not be funded at the expense of

forces that can shape the current international environment. And, as Russian expansionism shows, the international environment is neither static nor unthreatening.

Strategy and force planning concepts are fundamentally different in a time of austerity because the defense budgeting process that may work with spending increases has significant problems executing budget reductions. To make strategic choices effectively, leaders must understand the context of their decisions, which includes the current U.S. fiscal and political circumstances that make strategic planning extremely difficult. As a result, the absence of strategy was implemented through the sequestration cuts imposed by the Budget Control Act of 2011, which reduced spending across the board. There remains a chance for coherent strategic choices, and the Department of Defense has identified fundamental choices in the Strategic Choices and Management Review. But, so far, DOD has avoided making those choices in the 2014 QDR, preferring to wait until there is greater relief from sequestration-imposed austerity. If a strategic choice is made, it may help resolve the connection between ends, ways, and means and be an important step forward in developing an effective U.S. grand strategy.

## Notes

<sup>1</sup> Colin Powell, "The Changing Foreign Policy Environment," lecture to the Woodrow Wilson School at Princeton University, February 13, 1989.

<sup>2</sup> For further insights into decremental spending, see Michael J. Meese, "Defense Decision Making Under Budget Stringency: Explaining Downsizing in the United States Army" (Ph.D. diss., Princeton University, 2000).

<sup>3</sup> Of the 49 years of growth, over half (32) included real (inflation-adjusted) growth and 17 included nominal growth. Calculations based on Department of Defense (DOD) Comptroller, *National Defense Budget Estimates for FY 2014 (Green Book)* (Washington, DC: DOD, May 2013), table 6-1, recording changes in Total Obligational Authority from fiscal years 1948 to 2013.

<sup>4</sup> Allen Schick, "Incremental Budgeting in a Decremental Age," *Policy Sciences* 16 (September 1983), 1-25.

<sup>5</sup> Carl Lieberman, *Making Economic Policy* (Englewood Cliffs, NJ: Prentice-Hall, 1991), 19.

<sup>6</sup> Calculations based on data from Council of Economic Advisors, *Economic Report of the President* (Washington, DC: Government Printing Office, 2013), tables B-80 and B-1 for fiscal years 1970-2013 (hereafter EROP); and Congressional Budget Office (CBO), *Budget*



*Projections—February 2013 Baseline Projections* (Washington, DC: CBO, February 5, 2013), table 1.

<sup>7</sup> Calculations based on EROP, table B-79. The 2013 national debt is projected to be \$16.7 trillion, which is 107.7 percent of gross domestic product (GDP). Of this total, \$11.9 trillion (77.5 percent of GDP) is debt held by the public, and the balance is the portion of debt held by government agencies (such as trust funds).

<sup>8</sup> See Robert G. Penner, “The Greenspan Commission and the Social Security Reforms of 1983,” in *Triumphs and Tragedies of the Modern Presidency: Seventy-Six Case Studies in Presidential Leadership*, ed. David Abshire (Westport, CT: Praeger, 2001), available at <[www.thepresidency.org/storage/documents/Greenspan\\_Commission\\_and\\_Social\\_Security\\_Reforms.pdf](http://www.thepresidency.org/storage/documents/Greenspan_Commission_and_Social_Security_Reforms.pdf)>.

<sup>9</sup> Calculations based on DOD Comptroller, table 6-13.

<sup>10</sup> Sequestration could have also affected military pay, but

President Barack Obama chose to exempt military personnel from the automatic reductions for both fiscal years 2013 and 2014. See Andrew Tilghman, “Military Pay to Be Exempt from Sequestration in 2014,” *Army Times*, August 9, 2013.

<sup>11</sup> See “Statement on Strategic Choices and Management Review as delivered by Secretary of Defense Chuck Hagel, Pentagon Press Briefing Room, Wednesday, July 31, 2013,” available at <[www.defense.gov/Speeches/Speech.aspx?SpeechID=1798](http://www.defense.gov/Speeches/Speech.aspx?SpeechID=1798)>.

<sup>12</sup> Mark Gunzinger, *Shaping America's Future Military: Toward a New Force Planning Construct* (Washington, DC: Center for Strategic and Budgetary Assessments, 2013), ii.

<sup>13</sup> *Quadrennial Defense Review 2014* (Washington, DC: DOD, 2014), 53.

<sup>14</sup> Calculations based on DOD Comptroller, table 6-8.

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