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## The Geopolitical, Military, and Fiscal Context for Defense Budget Reform

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If history is any guide, democracies usually underinvest in their militaries during peacetime. Maintaining and improving defense capability seems like an expensive luxury to many voters, who have other priorities that press on their government's budget. A famous example was the British public and government. Both ignored Winston Churchill's admonitions about Great Britain's poor preparation for Germany's assault in World War II, given the speed and magnitude of the German buildup and the Nazi Party's intentions for using it. Such underinvestment too often requires an expensive—in treasure and lives—and rapid reversal.

A government's budget is a statement of its national priorities. And its defense budget—its level and composition—is the foundation on which its capability to deter aggression and, if necessary, to defeat the aggressors rests. Unfortunately, America confronts many active and potential adversaries across the globe to which our military (and relatedly, intelligence and diplomacy) must be prepared to respond. What is unpredictable is knowing which aggressors to respond to and when.

As former defense secretary (and CIA director) Bob Gates summarized, “When it comes to predicting future conflicts, what kind of fights they will be, and what will be needed, we need a lot more humility.”<sup>1</sup>

Even more daunting, plans are often mugged by the reality of battle. As the famous late-nineteenth-century German military strategist Moltke the Elder declared, “No plan survives contact with the enemy.”

The views expressed in this chapter are solely those of the individual authors and do not necessarily reflect the views of any organization with which they are, or have been, affiliated.

Thus, a robust national security strategy that covers the main contingencies, embodies great adaptability, and envisions sufficient and flexible capabilities to respond to emerging threats is key to national security. But that strategy must be matched with sufficient budgetary resources and authorization capabilities.

Budgets poorly matched to strategic imperatives are not just penny-wise and pound-foolish but dangerous. In light of the multiple threats the nation faces, three huge, interrelated risks necessitate defense budget and budgeting reforms. The next section of this chapter describes each: America's military capabilities relative to a robust strategy to deal with the threats, the growing military capabilities and intentions of adversaries, and a fiscal trilemma that will increasingly make it difficult to respond appropriately. We then discuss some basic principles that ought to guide defense budget reform to maximize capability: adequacy; consistency and predictability; flexibility; incentive compatibility; and accountability, all of which we illustrate with a few examples. We conclude with some reasons for cautious optimism amid the daunting budgetary and readiness challenges America faces.

These concerns, issues, ideas, and solutions are developed and debated far more fully by the prominent experts in the chapters and panel discussions that follow. Their knowledge and experience on each subject (save perhaps the overall fiscal picture in which it is embedded) is well beyond our own. Indeed, in large measure, what we know derives from reading their work and from discussions with them and others.

### *The Interplay of Three Large Risks to National Security*

America's national security is facing a trifecta of rapidly growing risks. Given the time frames involved, if these are not urgently addressed, the nation's security and geopolitical influence may be significantly harmed—or worse. Defense budget reforms can play a vital role in enhancing security in light of these and other risks, known and unknown. At the highest level, the three interrelated risks are the following:

#### **1. America's Military Readiness Relative to Security Threats**

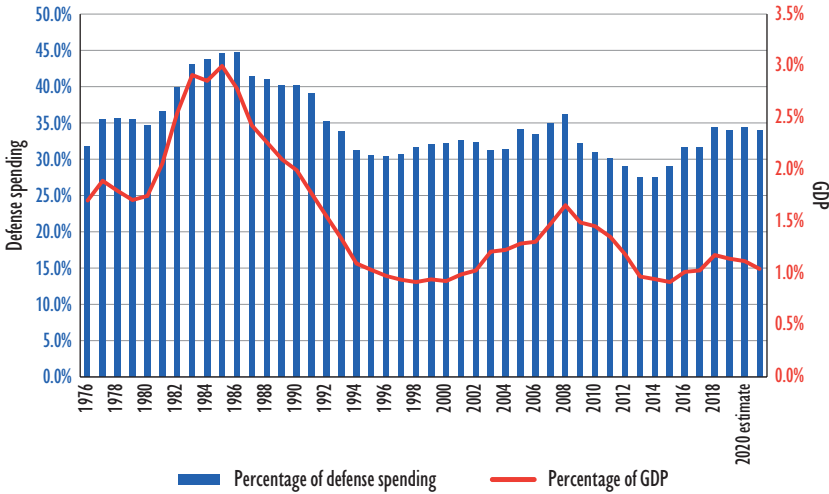
While America still has the strongest military in the world, its capabilities have been stretched and are not aligned and resourced closely enough to a national security strategy that has identified pressing threats from all corners of the world.<sup>2</sup> The causes are many, including, for example, the long wars in Afghanistan and Iraq and a two-decade-long focus on global counterterrorism

following the 9/11 attacks. To some extent, these concerns inevitably shifted focus and resources away from adversaries such as Russia and China.

Combined with the haphazard funding of Defense Department needs, the result has been a damaging delay in recapitalizing and modernizing aging weapons systems, developing and exploiting new technology (including commercial technology), and a stop-and-go uncertainty that has compromised a range of defense programs, from training to weapons procurement. In fact, the National Transportation Safety Board has blamed fatal navy ship collisions on insufficient training. Every sequester, which sharply reduces the defense budget, or continuing resolution (CR), which funds the Pentagon at the same nominal levels as the previous year, adds cumulatively to limits or delays in funding. While harmful enough in the short term, such fiscal instability permeates through capability and readiness for years. For example, by imposing uncertainty on future procurement spending, CRs send unpredictable demand signals to current and potential contractors. Defense firms become less able to risk making large investments in developing, expanding, and speeding capacity, for example, by adding more production lines or producing next-generation technology. Combined with supply chain constraints and globalization, this unpredictability has atrophied the defense industrial base, creating a major challenge to rapidly expanding capability.

Indeed, a primary culprit for the Pentagon's shrinking relative competitive advantage is that the US military has not been sufficiently recapitalized or modernized since the 1980s, when acquisition spending crested at nearly 3 percent of GDP. By 1995, it had fallen to 1 percent of GDP, where it currently sits (see fig. 1.1). This lack of acquisition funding has baleful consequences. The military's fleet is shrinking—even as the United States faces threats from more actors and may have to fight wars in multiple distant theaters simultaneously. The US Navy, for instance, is projected to lose one submarine every two years from now until 2040, and in 2022 it came close to a trough that would have been below previous requirements.<sup>3</sup> And the equipment that remains is increasingly unreliable. The average US Air Force fighter jet is twenty-eight years old, and only 70 percent of in-service aircraft are considered "mission capable."<sup>4</sup>

Procurement is not a binary, either-or choice between lots of smaller weapons—built rapidly with low-cost available commercial technology—and new generations of exquisite systems such as the F-35 stealth fighter and B-21 stealth bomber that require large expenditures and long time frames to bring online. A strategy that simultaneously combines both is necessary,



**Figure 1.1** Acquisition Spending, 1976–2020

Source: Office of Management and Budget (OMB), Historical Tables, Table 5.1, “Budget Authority by Function and Subfunction: 1976–2028,” and Table 10.1, “Gross Domestic Product and Deflators Used in the Historical Tables: 1940–2025.”

especially because of the different time frames. We are not going to quickly build a lot of new advanced submarines and surface ships that may be useful in deterring and, if necessary, responding to a Chinese invasion of Taiwan in this decade. But we can improve how quickly we deploy many distributed antiship weapons in the meantime.

The defense budget must be reformed and enhanced for the military to meet its challenges successfully. The Pentagon needs resources to recapitalize its force as necessary and to invest in the equipment, technology, and personnel required by contemporary and likely future warfare simultaneously. Thankfully, Washington—and increasingly the public at large—is beginning to awake from its post–Cold War stupor. Over 76 percent of Americans polled in the 2022 Reagan National Defense Survey support increasing spending on the military.<sup>5</sup> That may drop off some when how to pay for it is considered, but it’s a promising base. So, too, is a YouGov poll conducted for Hoover’s Tennenbaum Program for Fact-Based Policy, which revealed that among fifteen public policy issues, national security and the defense budget were among the few that respondents said they would most benefit from learning more about.<sup>6</sup>

But more money alone will not solve the US military's challenges. Defense budgeting must become more closely linked with strategy to allocate spending more judiciously. Reforms must reduce the oppressive micromanagement imposed by thousands of line items, too many "colors of money," and a slow-moving bureaucracy. As former under secretary of defense for policy Michèle Flournoy states, "Bureaucratic inertia has prevented new capabilities and practices from being adopted with speed and at scale."<sup>7</sup> That limits the effective and efficient use of appropriated defense dollars and necessitates partial workarounds. Budgets should be predictable and consistent so that defense leaders can make the requisite long-term investments to build new capabilities. It would also be wise to hedge our bets and invest in a variety of capabilities, mainly because of our military and political leaders' checkered history of predicting the future of warfare and sufficiently funding preparation. And policy makers should demand accountability and transparency: the Pentagon must be an effective steward of taxpayer dollars and convince the public that it is spending its money wisely.

## 2. Increasingly Sophisticated Adversaries

While America has been disinvesting in the military, its adversaries have not stood still. Russia's invasion of Ukraine highlighted the danger of Vladimir Putin's long-expressed desire to build a modern-day version of the Russian Empire. It's a desire that has long been implicit in his pronouncements, for instance, that the breakup of the Soviet Union was the greatest disaster of the twentieth century—thus worse than World War II, in which twenty million Russians died. And it was expressed in his seizure of part of Georgia and all of Crimea. The invasion made his plans explicit enough to rally the United States, its NATO allies, and public opinion behind supporting Ukraine's unexpectedly strong resistance effort. The equally unexpected initial weakness of the Russian military was revealing. However long that conflict lasts and however it ultimately ends, it would be foolish to conclude that it is the end of Russian expansionism. Even more dangerous are Russia's large nuclear arsenal and Putin's periodic threats to use it. It doesn't take much imagination to conjure up a scenario where the United States is involved in a China-Taiwan conflict and Putin—or a successor—sees it as an opportune time to seize more territory, even in the extreme, from the Baltics, which would require NATO to invoke Article 5, the commitment that an attack on one is an attack on all. The apparent "without limits" cooperation between Putin

and Xi Jinping, which has thus far seen little Chinese military support for the Ukraine invasion, might at some point make it strategically advantageous for China to help enable a second front for the United States and its allies.

But even more important has been the rapid emergence of China as a major world military power and the world's second-largest economy. The current administration's National Security Strategy (NSS) rightly focuses on China as the military's pacing challenge.

For several decades, the predominant view had been that economic reform and liberalization, begun in the late 1970s by Deng Xiaoping, Mao Zedong's successor, would ultimately lead to political liberalization. Nobody believed China would become a mixed capitalist democracy like Canada in short order, but when the Berlin Wall fell and the Soviet Union broke apart, this view gained credence, particularly among intellectuals and some political leaders. Milton Friedman, Lee Kuan Yew, Bill Clinton, and many others propounded the view that economic liberalization would lead to political liberalization. This view and the prospect of low-cost supply chains and a large pool of Chinese middle-class consumers rapidly becoming richer encouraged America and other wealthy democracies to allow Beijing to join the World Trade Organization in 2001. The result was that China's GDP quadrupled in a historically unprecedented decade and a half as its economy became intricately interlinked with the advanced economies as the world's factory. China's economic growth created the biggest reduction in abject poverty in human history, but it also allowed the resources to fund a huge military buildup and assert China's interests more aggressively in global affairs.

Indeed, since 2000, China's inflation-adjusted military spending has swelled by roughly 700 percent, according to estimates from the Stockholm International Peace Research Institute.<sup>8</sup> Much of that funding has been devoted to countering the United States in a potential war in East and South Asia. China has invested in sophisticated long-range weapons, mines, submarines, and, more recently, potent cyber and jamming capabilities to neutralize US military platforms. And now, unclassified war games simulating a Chinese invasion of Taiwan conducted by the Center for Strategic and International Studies conclude that the Pentagon would likely suffer massive losses were it to intervene in the conflict—dozens of ships, hundreds of aircraft, and tens of thousands of troops.<sup>9</sup> To be sure, doubts remain about the capabilities of the People's Liberation Army (PLA) to carry out an invasion, given its limited battle experience and the logistic challenges of an amphibious assault. However, counting on its weakness is not a sensible strategy.

President Xi Jinping has consolidated power more tightly than any leader since Mao. He has crushed hope for political reform, extending the reach of the Chinese Communist Party deeply into Chinese people's lives. His plan for China's "national rejuvenation" is for it to become the world's largest economy and a world-class military power that could reunite Taiwan, as the Communist Party Constitution calls for, by force if necessary. According to the former head of the US Indo-Pacific Command, Admiral Philip Davidson, that could perhaps happen as soon as 2027, the one hundredth anniversary of the founding of the PLA.<sup>10</sup> And, in contravention of international law, China is building military bases on new islands constructed in disputed territory in the South China Sea, thereby threatening shipping lanes affecting over one-third of all global seaborne trade.

Of course, hopefully, conflict with China can be avoided and deterred, and perhaps other tensions over trade, intellectual property theft, and the like can also be resolved without even larger economic disruption. Only time will tell.

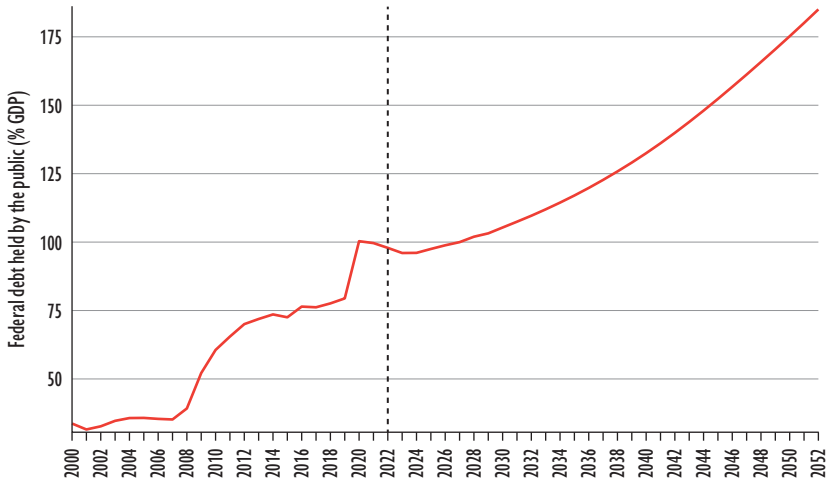
Unfortunately, the possibilities the nation's security agencies must prepare for extend beyond China and Russia. A likely nuclear Iran, a belligerent North Korea with nuclear weapons and ballistic missiles, and terrorist threats in many parts of the world demand continued attention and resources. Each actor could potentially see openings to advance its designs were the United States to become engaged in other hostilities. Of course, other regional tensions could flare up as well. And that's only what we know today.

As former national security advisor General H.R. McMaster put it a while back: "We have a perfect record in predicting future wars . . . and that record is 0 percent." That is not an isolated interpretation. Former chairman of the Joint Chiefs of Staff Mike Mullen acknowledged that "we're pretty lousy at predicting where we'll go. We're pretty lousy at predicting the kind of warfare we'll be in."<sup>11</sup> Former secretary of defense General Jim Mattis echoed these sentiments: "I have never fought anywhere I expected to in all my years."<sup>12</sup>

### 3. America's Fiscal Trilemma

The ability and willingness to fund the budgets necessary for our military (and complementary intelligence and diplomatic agencies) to execute strategy and confront enemies are compromised by three large, looming, and interrelated fiscal crises.

The first is that recently we have amassed more publicly held national debt, relative to GDP, than at any point since the immediate aftermath of World War II. The situation is markedly worse than in 2010 when Mullen



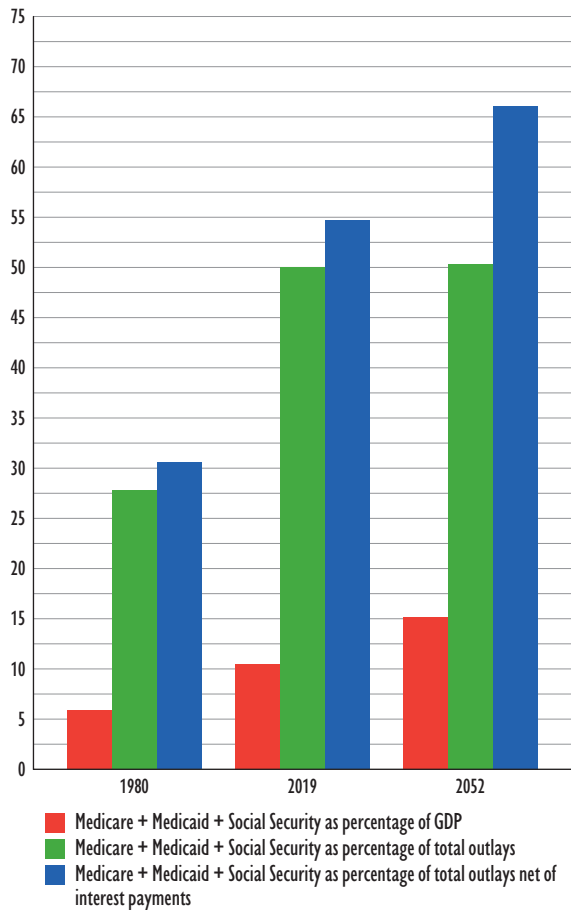
**Figure 1.2** US Debt Projections, 2000–2052

Source: Data from Congressional Budget Office (CBO), *The 2022 Long-Term Budget Outlook* (July 2022), CBO publication 57971.

prophetically pronounced that “the most significant threat to our national security is our debt.”<sup>13</sup> At the time, the national debt stood at 65 percent of GDP. It is now close to 100 percent of GDP and is expected to grow rapidly in the coming decades (see fig. 1.2), driven primarily by the growth of unfunded entitlement spending (see fig. 1.3). When the nation’s first Treasury secretary, Alexander Hamilton, argued the new federal government should assume the debilitating Revolutionary War debt of the states, he claimed such debt should be viewed as “the price of Liberty.” Now it mostly funds growing entitlement benefits.

Concern over deficits and debt is neither an idle nor a distant challenge for the defense budget. The nation’s debt will likely constrain defense budgets this decade, when the Pentagon faces emboldened adversaries and acute recapitalization needs. It is already a concern for next year’s budget and is potentially at risk in any “budget deal” to resolve a likely political impasse, e.g., over the debt limit or appropriations. House Republicans plan to try to return discretionary spending, the less than one-third of the budget that is annually appropriated (see fig. 1.4), to FY2022 levels, unadjusted for inflation. Commentators have calculated that such a move could cost the defense budget \$75 billion. While several prominent House Republican leaders have unambiguously stated that defense will not be cut, they have stated that



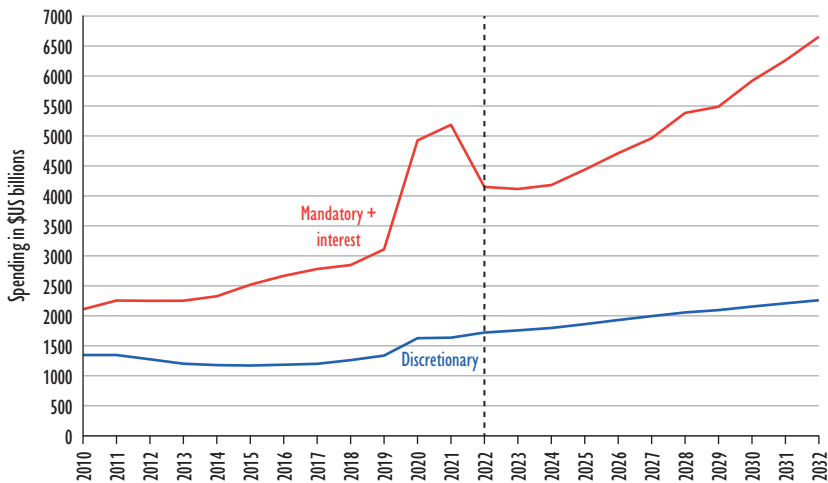


**Figure 1.3** US Entitlement Spending Projections: 1980, 2019, and 2052

Source: CBO, 2022 *Long-Term Budget Outlook*.

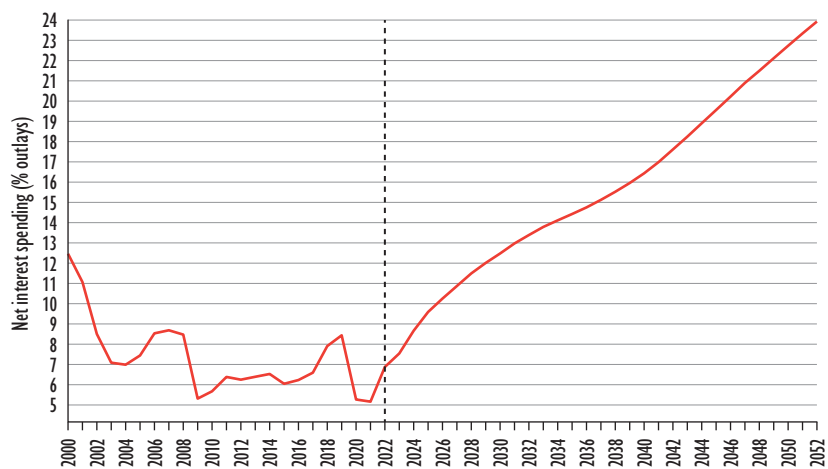
reforms will be necessary. Speaker of the House Kevin McCarthy has tried to thread the needle, stating in essence that defense is on the table because we should go after wasteful spending anywhere and everywhere. So the optimist may sense an opportunity to advance beneficial reforms; the pessimist, however, worries that defense capabilities will be curtailed.

To combat the worst inflation in forty years, the Federal Reserve has already raised its target interest rate to 4.5 percent from close to zero, where it had been for most of the past fourteen years. The rise in interest rates on both newly issued debt and existing debt as it matures and is rolled over greatly



**Figure 1.4** Growth of Mandatory and Discretionary Spending through 2032

Source: CBO, *The Budget and Economic Outlook: 2022 to 2032* (May 2022), CBO publication 57950.



**Figure 1.5** US Interest Spending Projections through 2052

Source: CBO, *2022 Long-Term Budget Outlook*.

exacerbates the deficit and debt outlook (see fig. 1.5). The cost of the debt that had been “hidden” by artificially low interest rates has now been exposed, along with the foolish notion that the debt is costless.

While nobody can be sure what level of debt over what period will cause a major economic or financial disruption, the recent inflation surge, for which

large deficit-financed spending is a prime culprit, should serve as a reminder of the risks. Hoping to kick the proverbial can down the road is becoming increasingly risky.

There are clearly several political and budgetary risks to defense spending. First, as the history below will show, the last time there was a political impasse over the debt limit with a Republican House and a Democrat president, the result was the 2011 Budget Control Act, which imposed damaging sequester caps on the defense budget. Second, even past the short-run challenge, there is a risk that a major multiyear overhaul of the federal budget designed to at least stabilize the debt could result in damaging cuts to defense.

Consider the proposals outlined by the Congressional Budget Office (CBO) in its influential *Options for Reducing the Deficit, 2023 to 2032* report released in December 2022. The report contained three alternatives for downsizing the force and saving at least \$1 trillion (see table 1.1 and fig. 1.6). It concludes that the force is still primarily wedded to the 2017 NSS, which emphasized that “detering military aggression relied heavily on the threat of the rapid defeat of enemy forces by US combat forces . . . to strike with sufficient speed and firepower and to maneuver forces in a way that would overwhelm an enemy’s military.” In contrast, the 2021 interim NSS and full 2022 NSS emphasized “an integrated approach . . . placing less importance on the threat of using US combat forces and more on the threat of broad-based punitive actions by the United States and its international partners.”<sup>14</sup> The CBO shows three alternative ways to align a smaller force to the 2022 integrated deterrence strategy, with large cuts for the services across unit types.

The second challenge is the impending exhaustion of the Hospital Insurance Trust Fund (Medicare Part A), the Social Security Trust Fund, and the (smaller) Highway Trust Fund, all of which are projected to be exhausted within the next decade.

To get a sense of the potential economic disruption and political turmoil, the year of exhaustion would trigger a 45 percent reduction (from the elevated levels of the recent infrastructure bill) from the highway fund, an 8 percent reduction in spending from the hospital insurance fund, and a 23 percent reduction in spending on social security retirement benefits. There will be intense budget battles over how to forestall these cuts, especially any reduction involving popular Social Security and Medicare benefits. The back-and-forth over spending and taxes that has characterized America’s fiscal politics for over forty years is likely to grow more intense, not just over topline numbers but over the composition of spending and tax rates. These specific issues

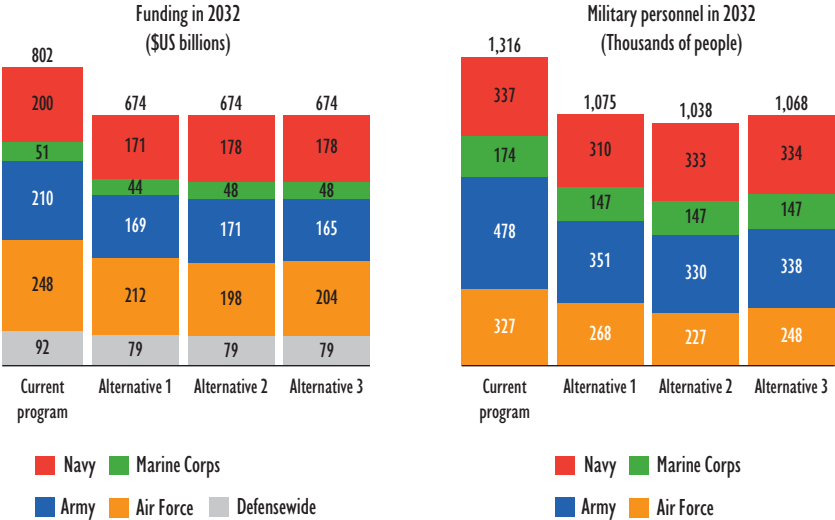
**Table 1.1** CBO Options for Reducing the Department of Defense’s Annual Budget (in \$US billions)

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2037	2032– 2037	2032– 2032
Change in Spending													
Budget authority	0	–64	–90	–105	–132	–138	–142	–146	–150	–154	–391		–1,121
Outlays	0	–37	–68	–88	–112	–126	–133	–139	–144	–148	–305		–995

This option would take effect in October 2023.

The estimated outlay savings reflect the Congressional Budget Office’s assessment of how quickly total funding provided to the Department of Defense is spent and do not reflect the details of any particular alternative.

Source: CBO, *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions*, CBO publication 58164, 60.



**Figure 1.6** Budgetary and Military Effects of Three Alternatives to Reduce the Defense Budget

Source: CBO, *Options for Reducing the Deficit, 2023 to 2032*.

will potentially trigger action overall and also on the defense budget. Thus, we should act on defense budget reforms with urgency, ahead of these other budget deadlines.

The third challenge is the likelihood that the current and impending fiscal pressures will lead to even worse and more costly inconsistencies in defense appropriations than the checkered history of the past dozen years. The recent past has been characterized by more lengthy CRs, sequesters, spending caps and cuts, and reversals that have degraded the ability of the military and the contractor ecosystem to plan efficiently and effectively.

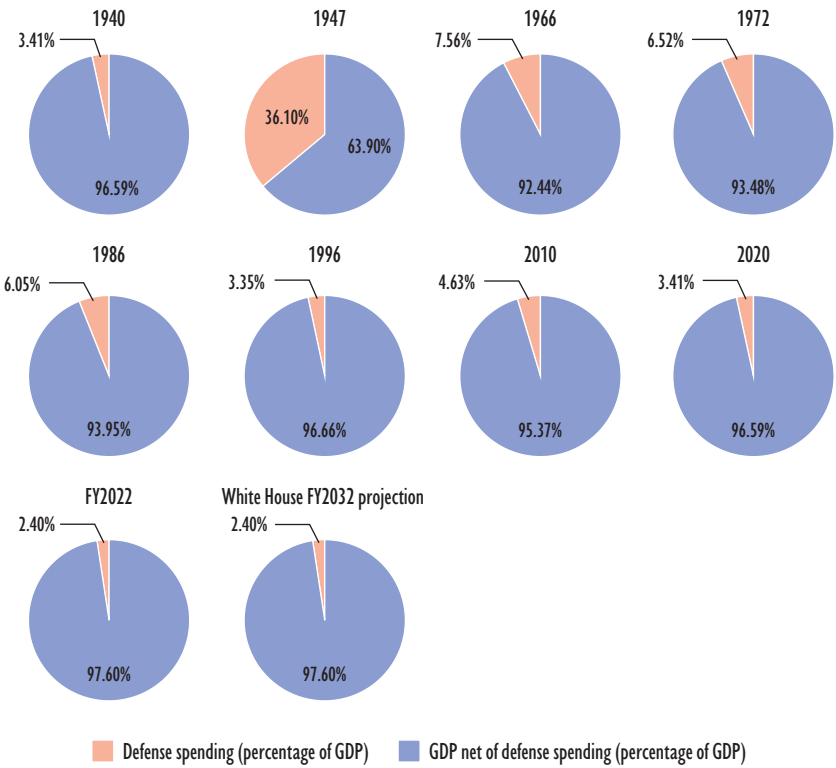
Recent fiscal history, which we describe for potential insights into possible future political budgeting, is not reassuring, except for the large defense buildup under President Ronald Reagan that helped win the Cold War. The difficulty in controlling domestic spending and large supply-side tax reductions that strengthened economic growth but did not fully pay for themselves contributed to large budget deficits. In 1985, Congress passed the Gramm-Rudman-Hollings legislation, which required the president’s budget to forecast declining deficits over several years until the budget was balanced. It likely did produce some restraint—due more to moral suasion than to enforcement rules, which were absent.

A still large (at the time) deficit led to the 1990 Budget Enforcement Act, designed to achieve \$500 billion in deficit reduction over five years. It capped discretionary spending and imposed a pay-as-you-go (“PAYGO”) rule that required spending increases or tax cuts to be offset—in effect, a “marginal” balanced budget rule. President George H. W. Bush, facing large Democratic majorities in the House and Senate, finally agreed to it but only if it contained a provision that walled off defense spending from cuts for three years in the immediate aftermath of the fall of the Berlin Wall and concomitant calls for large reductions in defense spending. But its modest tax hikes following candidate Bush’s “Read My Lips: No New Taxes” pledge split the Republican Party and contributed to his reelection defeat, a message that reverberates politically to this day. Drawing lessons from his electoral defeat, most Republicans are now stridently opposed to all tax rate increases. Only higher revenue achieved through tax reform, similar to President Reagan’s landmark 1986 tax reform, which lowers tax rates while broadening the base, achieving stronger economic growth, receives support from many Republicans.

There was a significant Clinton-era defense drawdown as a percentage of GDP (see fig. 1.7). The reduction in defense spending and the strong economy led to balanced budgets following agreements between the president and the Republican-controlled Congress. But it didn’t last long. To get the large increases in security spending he deemed necessary, especially after the 9/11 attacks, President George W. Bush agreed to large, nondefense spending hikes as well, a pattern that has permeated spending deals since.

As the deficit and debt grew, aggravated by the financial crisis and great recession, President Barack Obama appointed the bipartisan Simpson-Bowles Commission to propose ways to put the country on a more sustainable fiscal path. Their recommendations included sensible steps to slow the growth of entitlement spending and a tax code with lower rates on a broader base, the two main proposals of serious economists and intellectual leaders in both parties since the 1970s. Democrats would get more tax revenue, and Republicans would get slower spending growth. We will never know if the reforms could have passed, because President Obama walked away from his own commission’s recommendations.

Various groups of House and Senate members banded together to offer proposals. House Speaker John Boehner thought he had a deal with the president, but it fell through despite Boehner agreeing to some modest tax hikes. Finally, a deal was struck that was supposed to limit discretionary spending to

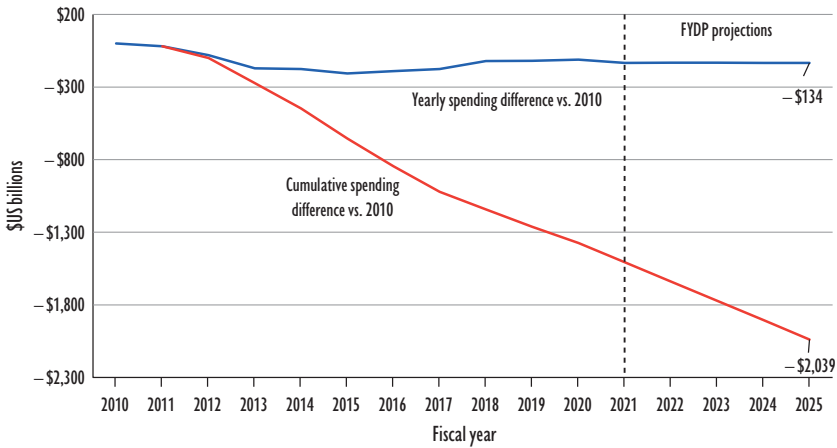


**Figure 1.7** US Defense Spending as a Percentage of GDP since World War II

Sources: OMB, Historical Tables, Table 3.1, “Budget Authority by Function and Subfunction: 1940–2028”; and The White House, Budget of the US Government Fiscal Year 2022, Table S-5, “Proposed Budget by Category as a Percent of GDP.”

lower predetermined levels. If no specific agreement on details was reached, it would impose mandatory cuts in defense and nondefense discretionary spending via sequester. The belief (hope) was that Republicans couldn’t tolerate defense cuts and Democrats couldn’t tolerate nondefense cuts, so a deal would be reached. Unfortunately, it didn’t work, and the sequester went into effect.

The result for the military was the quite damaging Budget Control Act of 2011 (BCA). We calculate that inflation-adjusted defense spending in each subsequent year was over \$100 billion less than in 2010 (see fig. 1.8); by 2022, the cumulative total budget shortfall had reached \$1.7 trillion and was projected to worsen under the Future Years Defense Program (FYDP). Removing



**Figure 1.8** Since 2010, Total Defense Spending, Including Base and OCO, Has Never Recovered

Sources: Authors' calculations from DoD, Office of the Under Secretary of Defense (Comptroller), *National Defense Budget Estimates (Green Book)* for the years shown.

Overseas Contingency Operations (OCO) funding fully, or adjusting that amount by removing the share that was for enduring operations, real dollars to the Pentagon still fell considerably.<sup>15</sup> Some of the pressure—if not all uncertainty—was relieved by workarounds that supplemented the regular appropriations, e.g., continuing OCOs.

But Democrats have continued to insist that large nondefense discretionary spending hikes be tied to major increases in military spending and that any cuts be made *pari passu*. President Donald Trump, with a Republican House and Senate, secured large defense funding increases, but the military could not make up for years of inadequate spending. And there was considerable uncertainty over how long higher spending would last.

Most recently, President Joe Biden, with Democrats controlling the House and Senate, in his budget has projected ten years of declining constant-dollar defense spending amid huge increases in nondefense spending. But in each of the past two years, a bipartisan majority led by the Armed Services and Appropriations Committees approved omnibus bills that added considerable defense spending to the president's budget request.

We take this brief tour through a simplified fiscal history to suggest that if history is any guide, future defense spending will likely be challenged in amount and consistency, perhaps abruptly, in the context of almost certain future political budget struggles having little to do with national security. We



thus conclude that reforming defense budgeting to get more out of every defense dollar and complementing more dollars as politically possible while achieving closer alignment with the strategy that threats necessitate is vital and urgent.

### *Principles for Reform*

Many reform principles have been suggested by previously appointed commissions, other stakeholders, and thought leaders as cornerstones of an effective and strategically coherent budgeting process. These include Pentagon reforms but also reforms in congressional and executive branch processes as well. We focus on the five we believe to be most important.

#### *Principle 1: Adequacy*

We need a budget that is robust and adequate enough to provide the Department of Defense (DoD) with the resources it needs to deter or fight threats. Given budget pressures and political polarization, absent outright conflict, we cannot rely on the vastly larger funding scale reached in the Reagan years of 6 percent of GDP. But while *adequate* does mean considerably larger funding, it must be provided alongside reforms that enable the Pentagon to get more bang for the defense buck. How can that be achieved?

#### *Principle 2: Predictability and Consistency*

The budget needs to be predictable and consistent enough to better enable the development of new capabilities over time while funding current readiness. It took Admiral Hyman G. Rickover, even when given a wide berth, seven years to commission the first nuclear-powered submarine, the USS *Nautilus*. Yet defense has been subject to CRs in nine of the last ten years, including 218 days in 2018. As Admiral Michael Gilday, the former chief of naval operations, warned, CRs only provide enough resources to invest in current programs and don't even account for inflation, preventing the military from investing enough in the new and innovative capabilities necessary to sustain its competitive edge. Nor do CRs allow either the DoD or the defense industrial base to plan and deliver efficiently. Increased use of multi-year funding would help ameliorate this self-inflicted damage.

#### *Principle 3: Flexibility*

America also faces a complicated threat landscape, with escalating competition from China and Russia, perpetual challenges from North Korea, Iran, and other rogue nations, and a profusion of nonstate terrorist attackers who've

proven nimble at recruitment and have often transmuted after defeats. The capabilities required to thwart each adversary are different. Given the country's checkered history of anticipating and planning for future conflicts, a flexible budget is needed, one that hedges by investing in multiple capabilities to serve the military's needs and enabling the United States to react quickly to changes in the threat environment. And, as several of the following chapters argue, the DoD planning, programming, budgeting, and execution (PPBE) process must be reformed to provide, and Congress must authorize, greater flexibility and speed to reprogram funding for other use cases and to spend appropriated dollars across multiple fiscal years.

#### Principle 4: Incentive Compatibility

More funding consistency and flexibility may be necessary but could prove insufficient if budgeting fails to consider incentives within and outside the Pentagon. The DoD has more than 1.3 million active-duty personnel and even more reservists and civilians. Recruitment, retention, skills enhancement, and promotion reforms must account for the incentives of those potentially affected. Past reforms have sometimes failed to incentivize intended behavior. For example, program officers underutilize authorities, including the Commercial Solutions Opening program, which speeds up procurement of innovative technologies, and the Cyber Excepted Service, a group of technologically skilled civilians eligible to earn higher salaries. Indeed, even as secretaries of defense have trumpeted the need for the department to procure more innovative technologies, acquisition officers are not sufficiently judged by—nor promoted for—purchasing cutting-edge products and services from the array of private firms producing them. The Pentagon must better understand and utilize incentives for personnel, contractors, and services to use its budgetary resources effectively. It is often difficult for high performers to rise quickly and for underperformers to be weeded out. Better-designed incentives could also help the services, which have struggled to enlist at target levels, a problem made more acute in a strong labor market.

#### Principle 5: Accountability

The Pentagon is accountable to Congress and, therefore, ultimately to the American voter. Its budget is neither sufficiently transparent nor accountable. While it has made considerable progress, the DoD just failed its fifth consecutive audit, struggling to account for 61 percent of its assets.<sup>16</sup> Reforms that increase accountability and transparency, without jeopardizing security

where possible, will likely be necessary to help build the political support to protect, let alone increase, the defense budget.

### *General Recommendations*

Our analysis leads to several conclusions, most importantly that the level of resources and the inflexible budgeting authorities the DoD has today fall far short of what is necessary to support a strategy relevant to today's threats. Of course, given the country's long-standing appropriate civilian oversight of the military embodied in the president as commander in chief and Congress as authorizer and appropriator, the military must do its best to deal with changing political priorities and decisions. The Pentagon hews to the budget it receives but, hopefully, constructively influences. It could be helped considerably in achieving its mission if reforms along the following lines were implemented:

1. Far greater use of multiyear appropriations.
2. Streamlining the PPBE process to enable the DoD to purchase more quickly and to acquire more commercially available technology.
3. Greater and simpler reprogramming authorities across programs and even services, if necessary.
4. Much broader categories of programs and colors of money.
5. Repurposing at least a major portion of Pentagon spending that does not advance the DoD's core mission, with some transitioned to other relevant agencies and some shifted to the DoD's core mission capabilities. At the very least, non-core-mission spending should be displayed separately in the budget to enhance the public's understanding and build support for what's needed for national security.

### *Conclusion*

We are cautiously optimistic that at least some considerable progress can be made despite the challenges mentioned above and the associated risks. Politicians and the public increasingly recognize the threats made real by Putin's war on Ukraine and China's military buildup and assertiveness. This is why there was a bipartisan agreement in Congress to increase the Pentagon's budget over the last two years. Polling suggests greater interest in national security and the defense budget and support for increased defense spending.

America's allies in different theaters also increasingly recognize that they face more threats. NATO allies are raising their defense spending. Japan plans

to double its military budget, and our allies are collaborating more closely with us on common defense efforts.

Commissions, including the 2017 National Defense Strategy Commission, are clearly laying out the threats the country faces. And the PPBE Commission will recommend reforms to the sixty-year-old internal Pentagon system, which, as structured, is ill suited to procure innovative technology, certainly at the speed necessary.

Also encouraging is the increased interest from private technology companies—large and small—in working with the DoD. Indeed, one of the most important contributions to Ukraine’s defenses has been Starlink, Elon Musk’s satellite system, helping to keep command and control up and running. That could be an advantage for America, as well, deterring an adversary from thinking it could quickly degrade America’s command-and-control system in the event of hostilities.

And the growing number of veterans in Congress, whose attractiveness to voters for their experience, problem solving, and mission-completion orientation, will serve the nation well in future defense budget reform debates.

## Notes

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