

CURRENT ISSUES

No. 26: Framing Defense Cuts (10/25/2011)

Since the crisis over America's debt rating and the formation of the super committee, there has been a surge in debate about how to reduce defense spending. Despite talk of "all options being on the table," the lack of both breadth and depth in active proposals is remarkable. Efficiency initiatives and across-the-board cuts have been advanced as solutions. However, a more extensive list of tools must be considered. To enrich the dialogue about defense cuts, what follows is an a la carte menu of options to trim DoD's investment accounts.

Rethinking Termination

Terminating a major weapons program may be one of the most challenging tasks in Washington. Arguments both for and against terminating any given system are vulnerable to claims and counter-claims that span the civil-military divide, from the political consequences of potential job loss to the tactical implications for warfighters.

Yet canceling, or even scaling back, some weapons programs must be considered in a period of fiscal austerity. Cancellation should by no means be viewed as a panacea: the vast majority of programs now under development or in production meet critical requirements, as most purely Cold War-directed programs have already been ended. Furthermore, having invested billions in a system thus far, arguments about sunk costs often prove quite compelling. Finally, it can take years to implement a decision to terminate any given program due to the complexity of canceling multiple contracts with a variety of vendors.

Precisely because proposals to terminate programs are fraught with political danger, it is essential to parse arguments against them with extra care. For example, when the Defense Department saved the C-130J program, it claimed that termination fees would exceed the value of any savings from termination. While that may have been the case for the C-130J, the GAO subsequently concluded that

terminating a weapons contract generally costs less than completing it.¹

Any successful termination, however, will be pyrrhic without the support of the program's sponsoring service. In the past, civilians have won this support by agreeing to keep funds from the terminated program within that service or community. The Army's eventual acceptance and embrace of the decision to cancel the Comanche helicopter is an instructive model.

Review Roles and Missions

The Obama Administration was right to order a roles and missions review to provide an intellectual backbone to whatever cuts may come to pass. However, not since the 1948 Key West Accords established the current roles and missions has an attempt at reform yielded any meaningful reprioritization or realignment. Service identity is so deeply tied to ideas of traditional divisions of labor between the services roles and missions that top-down proposals for change will be all but impossible to implement. Service buy-in is therefore a necessary but insufficient condition for a worthwhile roles and missions review. The likely outcome is for a compromise document to emerge that fails to provide any clear points of departure from the past. As such, the services, OSD, and Congress must be prepared to make trade-offs in the absence of clear, overarching guidance.

Prioritizing R&D Shelf Technology

An easy target for budget-cutters is research and development. Already R&D has seen a \$5 billion cut from the FY11 Continuing Resolution and the FY12 request. But prioritizing R&D may hold the key to much larger savings.

¹ GAO-08-379: Termination Costs Are Generally Not a Compelling Reason to Continue Programs or Contracts That Otherwise Warrant Ending, March 2008, p. 11.

One option is to reduce production funds for systems whose technology development is crucial for the future warfighter but whose deployability over the next five years is suspect. Creating “shelf technology” by prioritizing R&D but resisting the temptation to manufacture this technology on the production line maintains (and could even strengthen) the core technology base and American weapons design independence.

The risk assumed by this option is that the military may not possess as many tools at its immediate disposal. Crash production is of course a contingency for a crisis. But as the United States completes its planned drawdowns from Iraq and Afghanistan in the coming years, continuing production timetables established during active hostilities may be unrealistic. To implement this option, defense officials and legislators must let some active production lines expire on schedule and resist temptations to revitalize them with new orders and money. Some of these lines could be kept in varying stages of readiness to commence production, or a system of alternating readiness schedules could be developed for multiple plants.

Prioritizing Production

By contrast, Congress and OSD could cut R&D to finance continued or extended production of long-established programs. The logic of this option is that scarce defense dollars are better spent rebuilding the force based on advanced but not leading edge programs. Lower unit costs would enable air, ships, and land forces to be reconstituted at an accelerated pace and in greater quantities.

This option prioritizes short-term needs over long-term investments. However, R&D funding has ballooned in recent years because of its more favorable contract terms, so current R&D funding levels are not an accurate measure of investment in future technology. Terminating and restructuring a range of R&D contracts to cancel or postpone significant payments is the implementation approach for this option.

Fund New Wine, Not New Bottles

Decision-makers could choose to defer new platforms to concentrate on new systems that bring those platforms new capabilities. Investments in

precision-guided munitions had this effect for the B-52, which is now more lethal than when it rolled off the production line 50 years ago. Our defense leaders should be examining methods to extract similar performance benefits out of other trusted platforms as well. New starts could be deferred unless a compelling case can be offered independent of the age of the existing system.

Relief through Deregulation

Legislators must evaluate how statutory reforms can allow OSD and the services to better manage their programs and budgets. Repealing or modifying stale legislation is a form of de-regulation: it can liberate affected organizations and individuals from demands on their scarce resources and allow them to direct these resources to more efficient purposes. While the spirit of such regulation is usually laudatory, it seldom comes without a cost. OSD and the services are willing to incur targeted cuts if each institution is given an honest seat at the negotiating table. In the spirit of “shared pain,” Congress should reciprocate with experimental Title X and regulatory reforms that empower DoD to better manage its affairs. Sunset clauses to these reforms will allow Congress to evaluate its experiments.

Implementation through Dialogue

Regardless of which options are deemed superior to others, of equal importance is the process through which these options are implemented. Ideally, the services and the combatant commands will have legitimate seats at the table to provide their professional military counsel to their civilian counterparts. Every final decision need not always reflect this counsel, but civilians would be wise to impose cuts unilaterally only as a last resort. A sequence of structured talks between the Deputy Secretary of Defense and the services could serve as the penultimate forum for negotiations before Secretary Panetta mediates the toughest decisions.

- Michael Sulmeyer and Guy Ben-Ari

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