

Statement of

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Thank you for the opportunity to speak with you today about the potential wide-ranging effects sequestration could have on the U.S. defense establishment.

Before explaining why and how sequestration could be so damaging to national security, however, I'd like to first put what is happening into historical context.

The Fifth Drawdown

We are well into the fifth major defense drawdown since World War II. Each of these drawdowns commenced at or near the end of either a hot or cold war. The first came on the heels of the Second World War, before the menace of communism had become clear. The second and third came towards the end of the Korean and Vietnam Wars, respectively. The fourth came as the long Cold War was winding down. And this fifth drawdown began roughly with the end of the war in Iraq, and will likely continue at least through our disengagement in Afghanistan, if not beyond.

Each of the previous four drawdowns had their own unique character. The first drawdown was coincident with the massive post-World War II demobilization, with the size of the defense budget falling over 80 percent off the wartime high. For example, the Navy went from over 6,700 ships in commission in September 1945 to just 634 ships five years later. The other services coped with similar dramatic reductions. Unsurprisingly, given the magnitude of the cuts, our forces were generally unprepared when the North Koreans invaded South Korea in June 1950.

The post-Korean and Vietnam War drawdowns were similar in that they followed hot wars waged during the broader national emergency known as the Cold War. Both wars were fought with large conscript forces, which were shed at the end of the conflicts without regret. The final post-war cuts to defense topline averaged between 30 and 40 percent off the wartime highs, spread out over four to eight years. Thereafter, the demands of containment and for forces ready to respond to communist aggression arrested the cuts and led to subsequent defense buildups.

The post-Cold War drawdown was much different than the three relatively short, sharp downturns that preceded it. It was the first drawdown in the era of the all-volunteer force, and occurred over a much longer period. The downturn started

after FY1985, as the threat of communist expansionism seemed to be moderating. It then accelerated with the dissolution of the Soviet Union. Through much of this period, even as the defense topline was being reduced year after year, successive administrations worked with the Department of Defense (DoD) and Congress to establish a post-Cold war floor in defense spending. The floor's foundation was laid during the 1993 Bottom Up Review, which adopted a national military policy and force-sizing construct that called for a Joint Force capable of fighting and winning two regional wars in over-lapping time frames. By FY1998, after thirteen years of declining defense budgets and a 33 percent drop off the FY1985 spending peak, it was clear that this policy was being underfunded. The next year thus saw a real increase in defense spending, as did each year of following ten years.

I was confirmed as Undersecretary in May 2009. When I arrived, the FY2010 President's Budget (PB) was being debated in Congress. The Pentagon was in the midst of the 2009 Quadrennial Defense Review (QDR). Despite the sharp national economic downturn in 2007-2008, the Department's general mindset was that it would continue to see real increases in yearly defense spending, if at more modest rates than seen over the previous decade. Based on this assumption, the 2009 QDR and the supporting FY2011 PB submission affirmed and sustained the two-war strategy.

This mindset began to change the following year. Because personnel costs and operations and support costs consistently outpaced inflation, Secretary of Defense Gates reckoned the Department would need to see real defense increases of 2-3 percent per year to sustain the two-war policy and supporting force structure. However, he believed the defense budget would flatten by FY2015. He therefore ordered each of the Military Departments to come up with at least \$30 billion in "efficiencies" in overhead or "tail," and divert it to force structure and program "tooth."

In hindsight, this laudable goal was a last ditch effort to stave off the inevitable defense downturn that was coming as we ended the war in Iraq. However, just as the efficiencies drill ended, DoD was levied a last minute \$78 billion cut in the final budget pass back, which was incorporated in the FY2012 PB submission. This budget thus marked the official start of the fifth post-World War II drawdown.

The drawdown accelerated in a big way with the passage of the 2011 Budget Control Act. The associated cuts to future defense toplines ultimately came to \$489 billion apportioned over ten years. I believe the strategic review to accommodate these cuts was generally well led and executed. The President, Secretary and Deputy Secretaries of Defense, Service Secretaries and Undersecretaries, and Service Chiefs and Vice Chiefs were all personally invested and involved in the process. The output of this effort was outlined in *Sustaining US Global Leadership: Priorities for 21st Century Defense*, published in January 2012 in advance of the FY2013 PB submission. In my opinion, it stands as one of the more cohesive and coherent documents published by DoD since the end of the Cold War.

That said, *Priorities for 21st Century Defense* announced a major change to our national military policy and force-sizing construct that had been modified but never substantially altered since 1993. Instead of being sized and ready to fight two simultaneous regional wars in overlapping timeframes, the document announced the future Joint Force would be sized to fight one major regional combined arms campaign while simultaneously denying the objectives of—or imposing unacceptable costs on—an opportunistic aggressor. I, for one, hoped this important change in policy might spark a serious debate in Congress over its ramifications. But I was disappointed in the response, which might be best summed up as a collective “ho hum.”

In any event, the 2011 strategic review was followed in 2012 by the yearlong “debate” over sequestration. Through late Fall 2012, all of the signals coming from the White House, Congress, and the Office of the Secretary of Defense suggested sequestration could and would not happen. As a result, for better or worse, the Department did little to prepare for it. However, as we now know, no grand bargain was struck and sequestration was triggered on 1 January 2013, although it did not take effect until 1 March. If fully implemented, future defense spending will be cut another \$520 billion, apportioned equally over the next ten years.

I provide this background not only to put sequestration into proper historical context, but to make an important point. The Pentagon is suffering from intense change fatigue. The staff completed a QDR in 2009, a major efficiencies drill in 2010, and a major strategic review in 2011, requiring the development of two alternative budgets; and a year of playing “what if?” On top of this, DoD’s civilian workforce has been progressively demoralized due to several years of pay freezes, cuts in bonus pools, and now furloughs. These patriots provide much of the brainpower and energy behind the Planning, Programming, and Budgeting System. As a result, unlike the strategic review following the 2011 BCA, DoD is behind the planning power curve and is finding it hard to catch up.

Sequestration: Piling On

With this as background, what might be the effect of sequestration’s additional \$520 billion in planned spending cuts? First and foremost, the cuts will surely cause a further alteration to our national military policy and force-sizing construct. For a global superpower, maintaining a force capable of responding to two crises—such as fighting one major war and denying the objectives of an opportunistic aggressor in a different theater—would seem to be the absolute minimum requirement for a credible conventional deterrent. However, sequestration will make it very difficult to maintain this minimum standard, at least to a credible degree.

Second, the associated defense cuts will inevitably result in *a less capable future Joint Force* that is *less ready and less resilient*. The reasons for this are quite easy to understand. The problem is less about the overall size of the cuts, however painful

they might be. Instead, it is the mindless way the cuts are being apportioned and applied.

To begin with, the cuts were triggered nearly half way into FY2013, on top of a continuing resolution in effect since October 2012. Thankfully, Congress quickly resolved the CR and later approved a generous reprogramming of Department of Defense funds. These actions helped stave off more serious carnage to programs and damage to readiness in FY2013. However, the way the cuts were apportioned and applied inevitably forced all of the Services to take big cuts in operations and maintenance by deferring maintenance, cutting training, and slowing the buying of spares and parts. Make no mistake, although the effects might not be immediately obvious, these actions mean the readiness of the Joint Force has already started a downward spiral.

This spiral will continue and accelerate through FY2014 and FY2015, as the Department scrambles to hit the abrupt \$52 billion yearly sequestration budget marks. And once again, the way the cuts are apportioned and applied will compound the problems encountered in FY2013. For example, military manpower was exempted from sequestration. Regardless, because this is an all-volunteer force, any savings associated with manpower cuts would not be seen in the year of execution. Sequestration means the Services will likely have to involuntarily separate volunteers, not conscripts, many of whom want to remain on active duty. This will likely require buy-outs and early retirements, which may actually impose additional personnel costs in the near term.

This means that the Services will only be able to hit their share of the \$52 billion sequestration mark by turning to two major accounts. The first will be the investment account, which includes research and development, procurement, and military construction. Funding for promising technologies, key to making the Joint Force ready for future challenges, will be cut. Weapon buys will be cut to minimum sustaining rates, which will increase the unit price for all munitions, making it more expensive to buy less weapons. Aviation "tails" will be cut, increasing the average age of already old aircraft inventories. Ground combat equipment accounts will be cut. Our restoration and renovation efforts to upgrade our aging barracks and infrastructure will be slowed, if not stopped altogether for a period of years. When taken together, all these cuts will inevitably make the future Joint Force less capable, at least in the near to mid-term.

The second place Services will be forced to cut will be in their operations and maintenance accounts. All the maintenance deferred in FY2013 will roll into FY2014. All the maintenance deferred in FY2014 will roll into FY2015. And so on, and so on. We will simply keep digging ourselves deeper and deeper into a readiness hole. The result will be that maintenance and training will be prioritized to those units deploying. Those that aren't scheduled to deploy won't train, at least to the levels to which they are accustomed. Consequently, while our forward

deployed forces may be ready, their backup—our so-called “surge” forces—won’t be. The Joint Force will thus be less resilient and ready if a major crisis erupts.

The effects of sequestration will not be all bad. One of the first rules of strategy is that all resources are scarce. The past decade of sustained defense budget increases has helped to obscure this enduring principle. Thus, inside the Pentagon, nothing will sharpen the debate and analysis more than the prospect of budget cuts and the need for DoD to become more efficient. One would thus expect the entire Department to take advantage of the opportunity provided by sequestration to better balance strategic ends, ways, and means; streamline business operations; and shed unneeded overhead. The recent announcement by Secretary Hagel that staffs will be reduced by 20 percent is a step in the right direction.

However, this process will be made more difficult by DoD’s reduced freedom of action. For example, the Department urgently needs a new Base Realignment and Closure Round, to shed unneeded infrastructure. It needs to reduce personnel costs by shaving back some of the generous benefits given to the force over the past decade. It needs to charge our service members a bit more for the terrific health care benefits they are receiving, in order to halt the growth in costs of military health care. Yet, DoD is being precluded from pursuing these options as aggressively as it might. By working with DoD to address these difficult issues that are beyond their control, the White House and Congress could help reduce overhead costs, thereby making the effects of sequestration on investment and readiness far less onerous.

Pursuing Defense Budget Cuts in a More Responsible Manner

I have been personally touched by three of the five post-World War II defense drawdowns. As a young Marine Second Lieutenant in 1975, I arrived on Okinawa at the very tail end of the Vietnam War drawdown, where I saw firsthand its debilitating effects. I was on active duty throughout the thirteen years of the post-Cold War drawdown, observing both its start and finish. And as Undersecretary of the Navy, I was on hand to see the start of the current drawdown and helped fashion the initial programmatic response to it.

My greatest fear is that the way we are implementing sequestration could lead to many of the problems I found when I arrived on Okinawa. I initially lived in a barracks infested with rats and vermin. Our equipment was in shambles. We had little money to train with and even less to spend on things like toilet paper or office supplies. We were not remotely ready, and it was utterly demoralizing. It is hard for me to imagine things getting as bad as they were in 1975. However, unless we change the mindless way sequestration has been implemented, I see us headed into a similar downward spiral in readiness. And, once you dig into a readiness hole, it takes several years to climb back out, no matter how much money you throw at the problem.

I thus urge Congress to find a way to achieve the sequestration savings targets in a more responsible manner. Reducing DoD's sequestration targets in FY2014 and FY2015 and providing it with greater degrees of freedom to cut its overhead would help delay the near-term investment and readiness problems outlined above. More importantly, it would also allow the Department time to take a breath, conduct a full-blown Quadrennial Defense Review to better align its strategic ends, ways, and means, and better plan a responsible way to achieve its targeted savings.

I hope this Committee, and the entire Congress, will consider doing so.

Thank you.