

**National Security Group Lunch Transcript**

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**Approaching March 1st: The Emerging Military and Strategic Consequences of Sequestration**

**Dr. Daniel Goure, Vice President, Lexington Institute**

Dr. Goure is a Former Member, 2001 Department of Defense Transition Team; Former Director of the Office of Strategic Competitiveness, Office of the Secretary of Defense

**FRANK GAFFNEY:**

Next up, we have Dan Goure, who I think all of you know. He's spoken here before. Always helpfully with respect to issues of great import and few, I think, are greater at the moment than the prospect of an imminent decision to pursue the sequestration of half a trillion dollars that might otherwise be allocated to the Defense Department over the next ten years. Dan if, of course, a PhD, who is the vice-president of the Lexington Institute. He formerly served in the Bush Administration also in the office – as the director of the office of strategic competitiveness in the office of the Secretary of Defense. Dan, welcome back. It's good to have you with us. [APPLAUSE]

**DAN GOURE:**

Thank you very much, Frank. Just to make one comment if I can on the prior discussion. Boeing is having serious problems with a lithium ion battery that they say they tested the hell out of. It was in today's Wall Street Journal. If you aren't even sure about your lithium ion batteries, imagine what the problem might be with your nukes. So just as an, oh, by the way comment.

It's good to be here talking about sequestration for obvious reasons. But another one, what we're talking about having to defend against is truly a man made disaster. All right? To err may be human, but to really screw things up takes the political system and we've done that in spades. What we're talking about happens in March. Not just March 1<sup>st</sup>, but March. We're talking about a number of things going on. There is sequestration the first. There is the end of the continuing resolution or there is the extension, more likely, of the continuing resolution for the rest of the year. We're coming up soon after that with another round on the debt ceiling. We have the 2014 budget, which that was in limbo and if sequestration hits, gets tossed out, has to be redone. There is a quadrennial defense review coming up that has to be worked on this year which people expect now to respond to sequestration and then there's the next round of the future year defense plans, the Objective Memorandum and all the annual reports. So you have this

massive sort of set of confluence of events, laws, and all the rest. All of which driving defense, frankly, into the ground.

In addition, let's be clear in terms of the implication. We're not just talking about what happens to US defense in isolation. There's the external context, if I can use that term. The threat is growing. I don't think anybody can argue that the world has in the last year, five years, even ten years, become a simpler, easier, quieter, safer place. North Korea, we were just talking about. There are reports about China now testing its DF-21 ship killer in Mongolia. There are the kinds of systems the Iranians are buying. Surface to air anti-aircraft missiles being now spread from Syria to Lebanon, from Libya to Egypt, on and on. The list goes on and on and on and on and on. At the same time, most of our allies – with a couple of exceptions – are spending less. NATO is within a hair's breadth of going out of business as an alliance. The average spending by NATO members is below two percent of GDP. We're around four, even excluding the war funds called OCO. At two percent or less you cannot do anything in terms of a modern military and they're all discovering this. There was recent a meeting that Secretary Panetta attended in which the Secretary General of NATO, basically begged everybody to hold the line on spending. It was rather sad in its own way. Without adequate spending, all the things they're talking about, smart defense, collaborative forces stuff, is just meaningless. You don't have the equipment. You don't have the capability. I would point out to you that with all the discussion about buying enablers and all the rest, the French could not move the equivalent of a reinforced battalion what in the U.S. is the equivalent of a Marine expeditionary unit, into Mali without us. France couldn't have run their tactical fighter operations from next door in Chad without us. And if our forces go down, theirs sort of go away for all intents and purposes.

We were just talking about fewer nukes in the last presentation. One of the premises early on in looking at stabilizing reducing US nuclear forces was the notion of conventional superiority. We didn't need them as much. We had all this conventional stuff. We're now getting rid of the nukes, at least the argument is, and we're going to reduce the conventional forces. Doesn't exactly leave you with much. If you wanted to get rid of the conventional forces, you could do what the Russians are doing, roll out the nukes. We've done it before. It wasn't a great idea. But you could do it again. But what do you do if you get rid of both?

And then there's just a general proposition, which is what happens to the world when there is less US power, less US presence, less US involvement? Don't know. It's been a long time since that happened. But of course, if you want to look at the world, it wasn't exactly pretty the last time either. All right? So you have this kind of problem.

Let me spend a little time on history. We can do questions, if you want on the financial implications of the CR and sequestration. This year – and I don't want to limit it to this year. For this year the real problem is more in the continuing resolution than it is in sequestration. Why is that? Because the continuing resolution denies the department the ability to move money around. So you have for example, in the army, billions of dollars in shortfall in O and M and a lot of money in certain procurement accounts, they can't swap them around. The other thing you have with the way this is all set up is you



can't do new starts. You can't do multi-year. So a lot of things you would do to either move the process along to save money – multi-years are a great thing for saving money – V-22, DDG-51 destroyers, the next multi-year on the Virginia [PH] class submarine, great program that's managed to cut like a billion dollars per boat out of the cost. We're going to have all those costs go up. At the same time the money's coming down. Because of the way the CR in particular is written, the costs go up for those same programs. You know, you couldn't plan to do it in a worse possible way, I think, if you tried. In addition, on sequestration, one of the problems is – there's two problems, really – one is we're already five months into the year. And frankly, if we kick it down the road for another two months rather than just getting rid of it for the year, if you were going to sort of look for alternatives, it wouldn't help you. It would actually make the situation worse. Right? Because for many of the accounts, you've been spending money.

Most of these accounts have been spending near, kind of to the standard rate. You know, one-twelfth every month. So you now come to a situation in which in the last seven months, you have to take on sequestration the entire hit. The nominal case, for example, is O and M funding. About two hundred billion dollars. Nominally, according to Deputy Secretary Carter. But when you look at either what's excluded or where the money's been spent, what's left to take that cut is only a hundred and twenty-five billion dollars. You've spent, you know, five-twelfths of the money basically. So whatever the percentage is that you have to get out of that, which is essentially specified in law, it has to be equal across all the programs and elements, now gets taken on a lower base which means it's magnified. Whereas over all the programs for the entire year it's about an 8.5 percent, nine percent cut due to sequestration. On top of that you have about a ten billion dollar cut due to the CR, it's the difference between the 2012 spending level and what we wanted to spend in 2013. All right? But it's about an eighteen percent cut in O and M. And there are a number of programs worse, in the 20s. So, you know, programs that experience in one year twenty, twenty-five percent cut, really begin to sort of have problems managing themselves. The army has said – you can sort of take it with a bit of a grain of salt – twenty-one of their twenty-six major acquisition programs will experience a Nunn-McCurdy breach. For those of you who don't know, a Nunn-McCurdy breach comes when you have a fifteen percent increase in the price per unit. Now why does that happen? Because essentially if I've less money, you know, you can sort of see what the math looks like, So essentially you're going to have all these programs where you cannot match the funds to what you want to do. And so they're looking for massive problems. This will also impact military assistance overseas. It looks very much like the plan to increase assistance to the Israeli missile defense programs will not be done under the current situation between the CR and sequestration.

There are a few alternatives, but frankly, none of them are particular good. Even if you give people transfer authority all the transfer authority allows you to do is move the passengers from one side of the Titanic to the other side of the Titanic. It really does not help save people. So we can talk about that, but the reality is a cut is a cut is a cut.

I would make one other point on this, which is since the end of the Cold War, we took the military down by about half. The use rate went up measured in terms just of named deployments fourfold. four hundred and eighty of them in the last, what, twenty years, Named deployments involve a battalion or a squadron

going out and doing something. Not just steaming around, but actually going someplace to do something. Over four hundred of them in the last twenty years. That rate went up fourfold. So if you think about the calculation – I’ve got a force half as large doing four times as much which puts sort of a use rate, a stress rate, of eightfold on that force. And now you’re going to try and cut that back. Without making any kind of change to strategy or policy. And that’s really where I want to, if you will, end – or focus on our last few minutes here. What we have seen in the last month as the kind of details, the horror, of CR and sequestration came out, I think is evidence that the sixty-five year old bipartisan consensus on national security, US role in the world, importance of US military power, is busted. When the chairman of the Joint Chiefs of Staff can say in testimony at the House Armed Services Committee, if you want us continuing doing what we are doing, not one dollar more in cuts. and he got basically almost no reaction, that consensus is busted. Now we can argue about why and who’s to blame. It doesn’t really matter. It’s busted. It didn’t come first over arguments about taxes and spending and all the rest. All right, so what needs to happen in this context after we finish finding out whether or not we’re going to have these reductions, I think in any case, there needs to be a replacement. This is a symptom, if you want to call it that. The fact that we could put something as crazy as sequestration out there, that the White House could propose it and that the congress, particularly the Republican side of it, could accept it I think is a fundamental prima facie evidence that they’ve lost the bubble. The majority of them or enough of them at least. The leadership certainly has.

So the question for a group like this is, what replaces it? And do you really want to leave it up to the administration to define what replaces it? I think the answer is no. I don’t know if we have to come up with the answer right here and now, but I think you can challenge the administration. For example, go back to the national security – the new defense strategy that was written, what, just a little over a year ago. And that was a list of ten missions. All interesting missions. Ask them, what mission would you give up? You’re not going to do conventional deterrence. Or conventional war fighting? You’re not going to do counter-terrorism, you’re not going to do nuclear deterrence? Which we were just talking about. How about giving up support to civil authorities in natural disasters in the United States? That’s a good one I think we can all agree we shouldn’t do that anymore, right? And pay the price. Another way of asking the question – and I think this would embarrass the hell out of them, which region do you want to give up? We’re down to one carrier in the Persian Gulf area. We’re taking one of them, Washington, I think, we’re turning it around after two months in harbor and sending it back out again because we’re trying to juggle the availability. I mean, we’re going – you’re going to have, if you just look at the kind of availability, things that aren’t being done, ships and planes that have to be tied up. Each of the services put together just glorious ugly charts to scare the bejeezus out of everybody on this. But you know, there’s some truth to this. If you really want to do this, right, we’ll tie up ships, then we’ll sell them for scrap, we’ll get rid of the airplanes, we’ll fire people. So what region do you not want to be in? Pick one. The Middle East? Well, that sounds like a good idea. How about Asia? You know, the economic center of the world for the next couple of hundred years. But I think it’s a question the administration needs to answer.

Okay, if forces can come down, it's not a big deal. You're willing to see that happen. It was your idea. What region do you want to come out? Last time a country pulled that stunt, the U.K. 1970-72. It pulled everything out east of Suez. Famous sort of story. For those of you who don't know, this wasn't a strategic decision. It was a run on the pound. It was a sterling crisis. So you now think about what the Fed is doing, printing money, what happens if there's a run on the dollar? We have to essentially cut the budget, put the money into higher interest payments, all the rest. So it's the equivalent. What region do you want to get out of? Do we pull out east of Suez? All right, let's even say we do. Ask the administration the third question. Who takes our place? Who fills the vacuum? Are they going to be countries that have or share our interests? Share our goals? Are they going to protect our interests? Will they simply protect American tourists that end up being threatened by a local regime? Do we trust the Chinese to protect our interests in Asia? Do we trust the Iranians to protect our interests in the Persian Gulf? Do we trust the Russians to protect our interests in Europe? Those are the kind of questions I think we need to be asking. And then there's really the kind of bottom line, which is, you know, how much are you willing to pay for the military? Let me close with this point. We have a very expensive military. It is expensive because we chose to build it that way. We chose to have technological superiority over our adversaries. The reason you buy B-2s now rather than B-52s, F-35s, F-22s, rather than F-15s and 16s is because they're better airplanes.

The reason you have the Virginia submarine rather than what came before is because it's better than the other guy's and therefore you're going to win the fight. It is an all-volunteer military. It is now a largely married military with family. And we have chosen to take very good care of our military personnel. You've had military health care grow by over a hundred percent in the last decade. And it's not because the cost was going up – that's one factor. The main reason is we expanded eligibility. Hugely. And because for some in part because you have all kinds of people who are military retirees who are double-dipping. They have a second job in the private sector, but rather than going on the private company's health plan and raising their costs, they're maintaining their TRICARE. You know, there's nothing wrong with that. They're legally allowed to do that. But it adds to the burden that is paid for by the Defense Department. So it's all volunteer, it's technologically sophisticated – by the way, we have more lawyers in the US military than half a dozen NATO member countries have infantry. Think about that for a minute. There's a good reason for that, right? We want to have every operation that goes down and every terrorist that gets caught, you know, all covered by the law. But it costs money. Huge amounts of money. It's also a power projection military. If it was just a military that stayed here at home, it'd be coastal artillery like you see at Charleston and some of these other old forts, you know, Ft. McHenry up here in Baltimore and militia. Could do that. It'd be real cheap. But if we want to go anywhere and do anything that costs a lot more. Huge amount. That's why you have two hundred and something transport aircraft. That's why you have six hundred aerial tankers. Because for getting from here to there it's phenomenally difficult and we're the only ones who can do it. So if you like what the military has done, in general, its availability, its responsiveness, its characteristics, if you like the fact that we think we can rely on it to win wars, support civil agencies, etc., then the only question is, are you going to pay for it? Let me end on that point.

**FRANK GAFFNEY:**

Dan, thank you. That was superb as always. Are there questions or comments for Dan? I have a couple of my own. Go ahead.

**MAN:**

-- giving, some have proposed giving the administration more discretion as to how to allocate the cuts within the Defense Department. I was just wondering whether you thought there were any possible problems with that such as the administration sort of allocating money away from the types of weaponry or programs it doesn't like.

**DAN GOURE:**

You know, one can argue that there ought to be discretion allowed based on the continuing resolution. That is, if we're going to have to rewrite the CR come March 27<sup>th</sup>, we ought to rewrite that for discretion, because the CR law is just a matter of, can't pass a budget, just peg it at last year's and keep on going. If you're going to go with sequestration, which I don't agree with, but, you know if the decision is made that that's the only alternative to getting some kind of spending cuts, then frankly, I wouldn't give them discretion on that side.. If the CR continues and sequestration goes through, we sort of know what the -- everybody knows the numbers. In fact, they did them probably nine months ago and wouldn't release them. It's pretty obvious at this point. The problem is not 2013. The problem is 2014 when the sky's the limit. So right now, for example, personnel are off the table. You can't cut people. You can furlough defense civilians. You're not touching military uniformed personnel. The personnel account is not sacrosanct at least for the moment in 2014. Infrastructure, do we have a BRAC round -- and so a lot of things that come up in 2014. If this goes forward, right, and we're not going to make a change to that law, however you believe to do it, tax it, spend it, I don't, you know, doesn't matter.