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The Next QDR: Improving the Linkage Between End, Ways, and Means

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The Next QDR: Improving the Linkage Between Ends, Ways, and Means

In May 1997, DOD reported the results of its Quadrennial Defense Review (QDR), the third major post-cold war review of defense strategy and force requirements since the Warsaw Pact's dissolution. The QDR adopted a three-pronged defense strategy built around shaping the strategic environment during peacetime through day-to-day military contacts; responding to a full spectrum of military operations; and preparing for an uncertain future by investing now in new technologies and force modernization. Senior DOD leaders reasoned that only modest cuts should be made in force structure and personnel given the strategy's continuing emphasis on maintaining the capability to conduct two overlapping major regional conflicts. DOD also concluded that it could effectively implement the strategy within an expected no-growth budget environment of $250 billion annually. DOD assumed that much of the additional spending required for modernization would flow from a variety of planned initiatives to trim DOD's infrastructure such as new base closures and outsourcing functions traditionally performed by DOD's military and civilian workforce.

Nearly two years have passed since DOD's senior leaders announced the QDR results and began the challenging task of implementing its recommendations. During this time, DOD has realized significant problems in successfully implementing its strategy despite having characterized the QDR as an effective,

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comprehensive effort to balance near and long-term defense needs. For example, DOD has experienced increasing difficulty in recruiting and retaining high caliber military personnel due to concerns about pay, benefits, and high operational tempo; has failed to obtain congressional approval of additional base closures; has used operations and maintenance funds to support a wide range of operations in Bosnia, Iraq and other locations, thereby contributing to declining readiness; and has been unable to increase modernization funding.

DOD's difficulty in implementing the QDR strategy should come as no surprise to those familiar with its conduct. Specifically, two of the QDR's most noteworthy shortcomings include DOD's failure to identify and analyze a sufficient range of alternative strategies and force structures, and to subject its recommendations on strategy, forces, and resources to sufficient scrutiny regarding the linkage between DOD's stated ends, ways, and means. Understanding what went wrong and how the process could be improved is important given the consensus among DOD officials and Congress concerning the desirability of making the QDR an ongoing process.

Rationale and Authority for the QDR

In 1995, the Commission on Roles and Missions recommended that DOD conduct a comprehensive strategy and force structure review at the start of each administration to examine an array of force mixes, budget levels, and missions. In August 1995, the Secretary of Defense endorsed performing a quadrennial

defense review and announced the first such review would be completed in 1997.

Congress, noting the Secretary's intention to complete a Quadrennial Defense Review, identified specific reporting requirements for the review in the National Defense Authorization Act for Fiscal Year 1997.[1] Specifically, the law required a comprehensive examination of defense strategy; active, guard, and reserve component force structure; force modernization plans; infrastructure; budget plans; mobility requirements; how the force structure would be affected by new technologies; and other issues. It also required DOD to submit a report on the results of its review by May 15, 1997. Moreover, the law established an independent, nonpartisan panel comprising national security experts from the private sector, known as the National Defense Panel, to review the results of the QDR and conduct a follow-on study of long-range security challenges and force structure alternatives.

Congressional staff and DOD officials widely assume that DOD will conduct another QDR in 2001 following the next presidential election. However, currently, there is no permanent requirement for a QDR. DOD has not issued any written guidance requiring that such a review be conducted every four years. Moreover, the Secretary of Defense has not assigned responsibility for preparing for the next QDR to any specific office or individual. Similarly, Congress has not

established a permanent requirement for a QDR. QDR language included in the Fiscal Year 1997 National Defense Authorization Act established requirements for the 1997 QDR only. The Senate's version of the Fiscal Year 1999 National Defense Authorization Act included language that would have established another National Defense Panel to review and report on strategy and force structure alternatives by November 2000 to be followed by another QDR conducted by DOD in 2001. However, the House bill did not contain similar language and the provision was dropped during conference.

In the meantime, however, Secretary Cohen has appointed members to the National Security Study Group, which will consist of 16 members representing a wide range of expertise on defense as well as other issues.[2] The group will conduct a two and a half-year review of the security environment during the first quarter of the 21st century and analyze potential changes to the U.S. national security apparatus and strategy. For example, one of the study group's major tasks is to clarify the role that the U.S. armed forces and federal civilian agencies should play in implementing national security objectives. The study is to be completed by February 16, 2001.

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[1] Public Law 104-201, title IX, subtitle B, sections 921-926

Why Another QDR Is Needed

Although some members of the defense community may question the value of another major DOD study, particularly given the large amount of time and resources expended by the DOD bureaucracy in producing the last QDR and the limited change reflected in the study's outcome, valid reasons exist for continuing the QDR process. First, the QDR will provide the new administration with an opportunity to conduct a comprehensive reassessment of the national military strategy and develop specific plans for implementing it. In lieu of conducting another QDR, DOD could rely on its DOD's ongoing budget process, known as the Planning, Programming and Budgeting System, to review and make adjustments to the Clinton administration's defense programs. However, a QDR is more likely to focus DOD's senior leaders on longer-term threats and challenges and result in their sustained involvement in identifying and evaluating alternative means of responding to these challenges.

Second, another QDR is needed because the Clinton administration's planned increase in defense spending for the years 2000 to 2005 is unlikely to resolve the serious mismatch in ends, ways, and means that is undermining DOD's efforts to implement the current national military strategy. DOD's five year budget for 2000 to 2005, known as the Future Years Defense Program, reflects President

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[2] L Edgar Prina and Gordon I Peterson, "An Institutional Road Map on National Defense", *Seapower*, February 1999

Clinton's decision to allocate an additional $112 billion to defense during this time period. However, close scrutiny of the plan reveals it is far from a panacea for DOD's budget woes. Overall, the administration's plan fails to rectify a counterproductive but long-held practice of sacrificing longer-term funding requirements to meet near-term needs. Much of the planned increase will go to fund pay raises and benefits rather than shifting funds to modernization--a long-stated goal of the current administration. Moreover, a Senate Budget Committee staff report has concluded that President Clinton's pledge to increase defense spending by $12.6 billion in Fiscal Year 2000 amounts to $3.8 billion less than fiscal year 1999 defense spending when various budget gimmicks are exposed and the effects of inflation are considered.[3] For example, $3.1 billion of the planned $12.6 billion increase in spending for fiscal year 2000 was achieved by shifting half the cost of military construction projects planned to start in 2000 to the fiscal year 2001 budget rather than fully funding them as in past years. Secretary Cohen testified in early February 1999 that DOD used this approach because it was the only way to increase fiscal year 2000 defense spending while meeting the terms of the 1997 balanced budget agreement.[4] The Senate Budget Committee's report notes, however, that failing to provide the full funding needed to finish military construction projects "provides no savings at all over

[3] Senate Budget Committee staffpaper on President Clinton's Fiscal Year 2000 Budget, February 1999
[4] Rowan Scarborough, "Clinton's Figures for More Defense Don't Add Up", *Washington Times*, February 10, 1999

time".[5] Its effect is merely to exacerbate the difficult trade-offs that will need to be made in future years.

In addition, it is unlikely that the need for difficult trade-offs can be avoided through future defense spending increases. Although some future increases in defense spending may occur, it is unlikely that they will be sufficient to fund the broad array of weapons and equipment the services seek to replace. Moreover, proposals to increase defense spending may not fare well in the future as executive branch and congressional decisionmakers struggle to resolve Medicare and Social Security funding problems affecting the aging baby boomer generation.

Lessons Learned and Key Ingredients for an Effective QDR

While conducting another QDR has merits from a conceptual standpoint, its real usefulness will depend on how it is carried out. It is within this realm that valuable lessons can be drawn from the 1997 QDR. Moreover, now is the time for DOD and Congressional decision makers to focus their attention on these lessons and evaluate proposals for crafting an alternative process that is more likely to enhance the QDR's results. Overall, DOD and the Congress will need to rethink several issues including (1) the scope of the review; (2) guidance from senior leaders, particularly with regard to the types of alternatives to be considered; (3) extent of participation in the process; (4) timing of the review

[5] Senate Budget Committee staffpaper, Function 050 National Defense. p 5

and interface with external commissions; and (5) budget assumptions and funding issues.

Scope of the QDR

An important factor affecting the QDR's effectiveness is whether its scope is managable. Although the QDR must be comprehensive in nature and therefore must address a range of complex issues, its scope should be defined in a way that focuses senior leaders' attention on the most critical, top-level issues rather than enmeshing them in a plethora of less critical details. Although Congress has not yet established any legislative requirements for the next QDR, it is probable that it will enact some legislation outlining requirements for the next QDR prior to the next election. DOD may be able to influence Congress' thinking on the QDR's scope or, if Congress does not act, will be able to revise the scope on its own. In any event, the key starting point for determining the next QDR's scope will be the requirements established by Congress in the Fiscal Year 1997 National Defense Authorization Act.

Overall, the scope of the QDR established by Congress in 1997 is consistent with the criteria of focusing the QDR on an array of complex, inter-related, top-level issues. The legislation includes a list of 12 major requirements for the review including the defense strategy, key assumptions, force structure, and reserve component missions. However, some streamlining of these requirements could

help to better focus DOD on core issues such as strategy, force structure, and modernization priorities. For example, the Fiscal Year 1997 National Defense Authorization Act required DOD to report on the need for changes to the Unified Command Plan as a result of changes in the defense strategy. DOD wisely chose to conduct a separate follow-on study in response to this requirement. While important, spending time during the QDR on these issues would have detracted from DOD's main challenge of determining the defense strategy along with appropriate force levels and modernization requirements.[6]

In 1997, Congress also mandated that DOD report on the appropriate ratio of combat forces to support forces including the appropriate number and size of headquarter units and defense agencies. Moreover, DOD spent a significant amount of its time and resources during the QDR on infrastructure issues. Some decisions on these issues were made during the QDR, such as the Secretary's decision to request Congress to approve additional rounds of base closures. However, the Secretary ultimately concluded that a separate task force was needed to address many infrastructure issues and formed the Defense Reform Task Force, which reported its recommendations in November 1997.

To ensure that DOD focuses most of its attention on strategy, future QDRs should not spend significant time attempting to identify detailed initiatives to streamline DOD's infrastructure. Thus, the 1997 requirement that DOD report on

[6] DOD plans to announce changes to the Unified Command Plan later this year

tooth-to-tail ratios and the appropriate size and number of headquarters as part of its QDR effort should be eliminated. While senior DOD leaders must continue to maintain emphasis on reducing infrastructure and adopting more efficient business practices, such issues are best addressed outside the scope of the QDR. The Secretary of Defense has established a Defense Reform Steering Group, led by the Deputy Secretary of Defense, to oversee DOD's progress on these issues.

Finally, DOD and Congress may want to reconsider one other matter relating to the QDR's scope; namely, the timeframe governing DOD's analysis. In 1997, Congress mandated that the QDR focus on determining a defense strategy and revised defense program through 2005. In contrast, Congress required that the National Defense Panel adopt a longer-range view by examining the security environment and force structure alternatives applicable in 2010. In its critique of the QDR, the National Defense Panel noted that while the QDR strategy took a longer view, other parts of the QDR concentrated on the period through 2005.[7] Given the panel's conclusion that it is important for DOD to emphasize a longer view as well as focusing on more near term issues, Congress and/or DOD may want to extend the timeframe for DOD's analysis of threats and needed capabilities.

[7] Memorandum and attachment titled "Assessment of the May 1997 Quadrennial Defense Review", May 15, 1997

Senior-level Leadership and Guidance

DOD established a tiered structure for conducting the QDR that included opportunities for oversight by senior officials through mechanisms such as a Senior Steering Group and an Integration Group. Moreover, many DOD officials involved in the process believe Secretary Cohen played a key role in providing top-level leadership on matters such as the defense strategy, assumptions about projected defense spending, and the importance of meeting the May 15 congressional reporting deadline. However, additional top-level guidance could help to strengthen the QDR, particularly with regard to fostering an expectation that the Office of the Secretary of Defense (OSD), the Joint Staff, and the services consider alternatives that challenge long-standing and well-ingrained patterns of organizing the operating military forces.

One of the 1997 QDR's most significant shortcomings was its failure to examine force structure and modernization alternatives that may represent suitable means of implementing the defense strategy but that challenge existing norms. For example, DOD's computer wargaming of force structure alternatives to conduct two overlapping major theater wars only examined the feasibility of making 10, 20, and 30 percent across-the-board cuts to the services' current force structure. This type of "salami slice" approach was used largely because OSD officials believed they would have been unable to obtain the services'

consensus to model disproportionate cuts. In addition, DOD's modeling of a notional conflict against a regional great power in 2014 did not examine a wide enough range of alternatives to DOD's current modernization plans or consider the potential for changes in doctrine and organization. Given the potential for adversaries to adopt asymmetric strategies that exploit U.S. vulnerabilities and take advantage of the rapid blurring of military and commercial technologies, confining DOD's analysis of modernization requirements to extrapolations of the current force structure may leave the United States unprepared to respond effectively to future threats.

On a positive note, DOD spent more effort examining requirements for peace operations during the QDR than it had in prior strategy reviews. Specifically, DOD conducted a war game series known as Dynamic Commitment which examined DOD's ability to carry out a randomly-generated mix of operations including non-combatant evacuations, peace operations, and major theater wars. However, although this assessment showed that certain types of DOD forces and assets are currently in short supply and are likely to remain so in the future, DOD did not examine the costs and benefits of buying more of these capabilities while decreasing other capabilities in less demand.

Developing an effective plan to balance near-term and long-term risks will occur only if DOD's senior leaders establish clear expectations that they expect the

QDR to challenge existing norms and evaluate alternatives that break "rice bowls." Conversely, failure to move beyond the "salami slice" approach will only serve to undermine the QDR's value and credibility. During the next QDR, the Secretary of Defense should be briefed on the types of force structure and modernization alternatives DOD plans to evaluate before OSD and joint staff officials conduct detailed assessments and computer-assisted wargaming. Moreover, the alternatives modeled should reflect a range of approaches tailored to different types of military operations that DOD is likely to be engaged in over the next decade. For example, DOD's recent experience has shown that certain types of forces, such as Airborne Warning and Control System aircraft, military police,and civil affairs units, are in short supply given the pace of peace operations and humanitarian relief efforts. DOD should therefore examine force structure alternatives that increase the number of such units (or increase the proportion of such forces in the active component) while reducing other capabilities that are less useful in these types of scenarios. DOD would then evaluate the benefits and risks associated with such options against a range of possible military operations. Other options, such as increasing the number of forces tailored for dispersed, urban warfare or relying more heavily on air assets during the opening phases of a conflict should also be examined. Given the large number of force structure alternatives that could be developed, senior DOD leaders will need to play a critical role in narrowing the range of options to those that seem most worthwhile and feasible.

Structure and Extent of Participation

In planning the next QDR effort, DOD's leaders also will need to develop a structure for the review and determine the extent of participation in the process. In 1997, DOD established a hierarchical structure with seven panels that reported to an Integration Group, Steering Group, and finally, to the Secretary of Defense and Joint Chiefs of Staff. The seven panels focused on strategy, information operations and intelligence, force structure, readiness, infrastructure, modernization, and human resources. All of the panels involved large numbers of people and included representatives of OSD, the Joint Staff, and the services. For example, the modernization panel, which was broken into 17 working groups, involved hundreds of individuals.

DOD should evaluate doing away with some of these panels. For example, the Human Resources Panel did not play a key role in identifying options requiring decisions by senior leaders. Moreover, DOD may be able to eliminate the Infrastructure Panel or at least decrease the number of people associated with it given DOD's ongoing Defense Reform Initiative, particularly if DOD and Congress agree that the process of developing initiatives to reduce infrastructure should largely occur outside the QDR process. For all remaining panels, DOD should consider the feasibility for streamlining membership while continuing to provide opportunities for different perspectives to surface. For example, DOD should

consider including representatives from other federal agencies on panels tasked to assess options for responding to humanitarian disasters, peacekeeping operations, and terrorism in order to ensure that these agencies' capabilities are considered in determining the extent of military participation in such missions.

Timing of the QDR and Interface with External Groups

The timing of the next QDR is another issue that must be assessed, since timing could significantly affect the review's long-term impact. Neither DOD nor Congress has specified exactly when the next QDR will begin or be completed. However, many people assume that it will begin shortly after the next election in November 2000 and be completed in mid-2001. Completing the QDR within 6 to 9 months after the next election will be a difficult challenge given the likelihood of major changes in senior DOD personnel resulting from a change in administrations. Although it would be feasible to conduct the review within this timeframe, the quality of the QDR could suffer in several ways. First, DOD would be conducting the review before the new President has developed an overall national security strategy and before the Secretary of Defense has had a first-hand chance to observe how senior policymakers will work together to make key foreign policy decisions. Secondly, it will be difficult to fill many political appointee positions in DOD within this timeframe and for those appointees on board to develop good working relationships among themselves and with senior military leaders. Given this context, it seems unlikely that the Secretary would

have sufficient time to develop the trust that is a necessary prerequisite for "out of the box" thinking and consideration of new alternatives. Third, it may be helpful for the Secretary to wait for the results of external studies, such as the National Security Study Group, or a National Defense Panel (if Congress authorizes one) prior to conducting his own review. Such studies should precede the QDR, thereby providing the Secretary of Defense with additional leverage for encouraging the services to consider alternatives that break long-standing traditions. DOD will face less pressure to implement such studies' recommendations if they follow the QDR's completion.

Delaying the QDR until later in the next administration's tenure would have some disadvantages. For example, the results of the QDR would not be comprehensively reflected in DOD's budget until later in the administration's term. However, the new administration could still reflect some of its priorities during earlier budget cycles.

Budget Assumptions and Alternative Budget Scenarios

The QDR's value also would be enhanced if DOD introduced greater realism and discipline in estimating the future costs of funding DOD's forces, infrastructure, and new weapon systems. Realistic cost estimates are needed to ensure that senior decision-makers fully understand the risks associated with various force structure and modernization alternatives being considered and can adequately

weigh their costs and benefits. Conversely, optimistic budget estimates can lead senior leaders to avoid making tough decisions. DOD made an attempt during the 1997 QDR to confront and rectify long-standing budget practices that led it to systematically underestimate certain types of costs. However, some QDR budget assumptions have proven to be unrealistic despite these efforts, thus contributing to the current mismatch between ends, ways, and means. In analyzing force structure and modernization alternatives during the next QDR, DOD must build upon its 1997 effort to instill budget discipline and further improve the realism of its budget assumptions and cost estimates. In addition, it may want to examine a broader range of assumptions regarding top-line defense spending.

In its May 1997 QDR report, DOD acknowledged that it had been unable to achieve its goal of increasing procurement funding to about $60 billion per year, the amount its believes is necessary to recapitalize the force and exploit a potential revolution in military technology, because funds have been repeatedly redirected to meet near-term operations and maintenance costs that were underbudgeted.[8] This redirection threatens DOD's ability to adequately fund the "prepare" part of its strategy because it has created a significant backlog of modernization requirements that will come due in the early part of the next decade as DOD's aging inventory of aircraft, ships, and ground equipment become too old to operate and too costly to sustain. The services' plans to

spend $335 billion over the next 15 years to replace aging tactical aircraft provide a stark example of the "bow wave" DOD is likely to encounter.[9] These plans assume that DOD will choose to spend more than the long-term historical average percentage of the budget allocated to aircraft purchases. In the absence of a major increase in DOD's budget or clear change in priorities, this will require difficult decisions about what programs can be cut to offset the costs associated with purchasing large numbers of aircraft.

During the 1997 QDR, OSD's Office of Program Analysis and Evaluation undertook a major review of DOD's 5-year budget plan to identify the financial risks that could threaten its executability. This analysis found that the chronic erosion of procurement funds occurred because DOD had underestimated the day-to-day costs for items such as depot maintenance, real property maintenance and medical care; overestimated savings due to initiatives such as outsourcing and business reengineering; and failed to plan for changes to the Department's plans arising from new policy decisions, such as decisions to engage in military operations in Iraq, Bosnia, and elsewhere. To resolve the funding shortfall resulting from these problems, the QDR recommended making additional cuts in force structure, personnel, and infrastructure.

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[8] *The Report of the Quadrennial Defense Review*, May 1997, Section IX, pp 2-3
[9] *DOD Budget Substantial Risks in Weapons Modernization Plans*, U S General Accounting Office. October 8, 1998, p 11

In the two years since the QDR's release, DOD has continued to experience difficulty in executing its budgets as planned. For example, the General Accounting Office's work has shown that DOD has overestimated the pace and savings associated with outsourcing, reengineering and health care reform.[10] Moreover, DOD's modernization estimates do not account for program cost increases that DOD typically experiences in developing complex and technologically advanced weapon systems. Such increases often range from 20 to 40 percent.

Prior to and during the next QDR, DOD will need to renew its efforts to instill greater discipline in its 5-year budget and long-term modernization plans. For example, DOD must reassess the feasibility achieving billions in savings from outsourcing over the next few years as well as revisit its assumptions regarding a host of other infrastructure initiatives. DOD also may need to expand on initiatives put in place in 1997 to address budgeting problems arising from unexpected military operations and weapon systems cost growth. For example, in 1997, DOD created an acquisition program stability reserve to address unforeseeable cost growth that can result from technical risk and uncertainty associated with developing advanced weapons systems. Based on its first two years experience in implementing the QDR modernization programs, DOD should evaluate its experience with this account and assess whether it needs to be expanded.

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[10] Ibid. p 6

Once equipped with more realistic cost estimates, DOD may also want to examine force structure and modernization alternatives within the context of a range of top-level budget assumptions. During the last QDR, some members of Congress criticized Secretary Cohen's decision to assume that the defense budget would be capped at $250 billion. Instead, they believe DOD should have determined the strategy and forces needed to execute it in the absence of preconceived resource constraints. However, establishing some assumptions regarding the level of funding DOD is likely to receive is necessary to provide the QDR process with adequate realism so that decision-makers can decide on a strategy and mix of forces and equipment that are feasible given other competing national priorities. Rather than assuming only one budget level, however, DOD may be wise to explore a range of budget assumptions. For example, it might choose to examine a top-line scenario extrapolated from the Future Years Defense Program but also assess how percentage changes to the baseline, such as a 10 percent increase, would affect DOD's risk in executing the strategy.

Conclusion

During the two years since DOD completed its QDR, it has become clear that the United States is still in the process of adjusting to the post-Cold war security environment and continues to lack a strategy that balances clear national military

objectives with an appropriate mix of forces and weapons and that can be sustained within expected funding levels. The QDR can play a significant role in this process and should be continued. DOD and Congress have a window of opportunity within the next year or so to improve the process. In assessing how to revise the process, DOD and Congress should place highest priority on identifying ways to streamline it to focus senior leaders' attention on the most critical issues and identify ways to ensure that participants in the process focus on meaningful force structure and modernization alternatives. In addition, DOD must work harder to instill rigor in the budget estimates underpinning the QDR.

In the interim, DOD officials also should be focusing on identifying the types of scenarios that are likely to challenge DOD forces in the future and improving the models and other analytical tools used to evaluate how alternative mixes of U.S. forces are likely to respond to such threats. Such planning will go a long way to providing a new administration with the analytical capability it will need to develop a coherent military strategy relevant to the future.