

Opinion: Under ‘High-Beta’ Trump Presidency, Anything Could Happen

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What does the administration of Donald Trump portend for defense policy? Will it increase the defense budget? Will it change the size, structure and disposition of military forces? Will it cancel important acquisition programs? For now, the best answer to these questions and others surrounding defense policy is “maybe.” After all, Trump’s campaign was largely bereft of careful policy prescriptions for defense, and the transition has done little to dampen the volatility of expectations.

So wide is the range of possibilities for the Trump administration and so uniform their distribution that it would be foolhardy to make predictions. Indeed, in response to friends, colleagues and clients who ask my views about how Trump may change the Pentagon, I hew to the simple refrain, “Anything could happen.” Or, as an investor put it to me, “Trump’s promises to be the ‘high-beta’ presidency” (beta being the measure of a stock’s volatility, although the analog to molecular biology and treatment of hypertension may be equally apt).

In the face of such abject uncertainty, I have abandoned forecasting in favor of a watch-this-space posture of vigilant discernment of leading indicators of change. These are the signposts I will be following as the new administration’s choices unfold:

Defense spending. How will the Trump administration’s proposals for total (i.e., “base” plus “Overseas Contingency Operations (OCO)”) discretionary Pentagon budget authority in 2017 and 2018, as measured in current dollars, compare to the Obama administration’s plans for those two years? For 2017, the Obama administration has requested a total of \$589 billion (\$524 billion base + \$65 billion OCO). For 2018, it planned a base budget of \$557 billion, to which my baseline adds an estimate for OCO of \$62 billion (the three-year trailing average), for a total of \$619 billion. As the new administration unveils its defense spending plans, I will regard deviations from the \$1.208 trillion sum of the outgoing administration’s plans for 2017 and 2018 as the key indicator of the direction and pace of change in defense spending.



Force posture. What will be the U.S. force levels in Afghanistan? Last summer, President Barack Obama reset to a level of 8,400 the number of U.S. troops in Afghanistan. That decision marked the second time in a year the Pentagon had prevailed upon the White House to slow the pace of troop withdrawals from the country, which it had hoped to reduce to a small “embassy presence” before leaving office this month. Despite relegation to the back pages of the news, Operation Freedom’s Sentinel remains the single largest contingency operation driving the deployment of U.S. forces abroad. Consequently, how the Trump administration regulates the U.S.

commitment in Afghanistan will offer a leading indication of its approach to force posture. That U.S. forces in Afghanistan work alongside approximately 6,000 NATO personnel also amplifies the resonance of the defense-posture signal we should be hearing in President Trump's Afghanistan policy.



Acquisition. What will be the unit cost of the [F-35A](#) variant that results from negotiations beginning this month over low-rate, initial-production Lot 10, which is expected to produce about 90 aircraft of all three variants beginning in 2018? Although Trump's Twitter contretemps with [Boeing](#) and [Lockheed Martin](#) probably reflect a preparation of the battlefield over defense spending rather than procurement policy, the single measure of acquisition on which he has focused his attention—cost—may well serve as an early test of whether acquisition is in for a change. F-35 Program Executive Officer Lt. Gen. Christopher Bogdan went on record in mid-December with his expectation that Lot 10 will “come down in price . . . somewhere on the order of 6-7%” compared to Lot 9. Achieving that reduction implies a unit cost in Lot 10 of \$95 million for just the Air Force variant. Achievement of F-35A unit prices in Lot 10 substantially below (or above) \$95 million could well signal that the new president's acquisition alchemy may bring real change in how the Pentagon buys weapons.

One thing we do know for sure: Donald Trump is a master of the political narrative, and the story of public policy counts far more than those with an inductive train of mind might care to admit. It is all the more reason, therefore, that we whose livelihoods and businesses rely on gaining insight into defense policy need meaningful signposts to distinguish the tale from the truth.

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