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Opinion: 'Efficiencies' Alone Cannot Solve U.S. Defense Budget Crunch

Steve Grundman October 23, 2020



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We are not going to “efficiency” our way out of the hard choices which the next administration will face fitting an already straining defense posture under a flatlined budget. [Previously in the Up Front column](#), I expressed the hope that we could move quickly beyond the distraction of misguided anxiety about Democratic defense budgets and onto the actual work of solving

the problem.

Against the backdrop of a bipartisan consensus that national defense spending is not likely to grow much above \$740 billion a year, meeting the military-strategic challenges facing the U.S. at acceptable levels of risk will require getting substantially more national-security bang for the defense buck. Faced with this challenge, here’s what comes to my mind.

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Let's start with a couplet of principles about gaining leverage over costs:

First, expand and intensify the use of competition across all the business processes of the Defense Department. From policy formulation through program planning—and of course, to acquisition—competing alternatives not only incentivize effort and innovation, they also reveal second-best solutions that are sometimes needed to optimize resources across a portfolio of needs.

Second, its corollary: Resist the seductive call of scale to reduce cost. For too long, the reflex of defense reform has been to seek savings from scale economies through consolidation. That is a Machine-Age precept of efficiency that was adopted in everything from janitorial services to the development and production of weapons.

Today, the Digital-Age precept of efficiency involves leveraging network effects across a distributed infrastructure of costs. The efficiency of these effects arises not from reducing the marginal cost of a unit of output but from the exponential expansion of outputs' value made possible for only a linear increase in cost. Wanna get more bang for the buck in fourth-estate support services, for instance? Think network effects, not further consolidation.

Likewise, I recommend two approaches to making the achievement of military effectiveness more affordable:

First, reinvent, but with a view to cost, the concepts of operation that define the “production functions” of military value. As propounded most forcefully by the National Defense Strategy Commission in 2018, conops—which it called the “essential link between strategic objectives, defense policy, and budgetary priorities”—are in urgent need of renovation. Just as innovative business models now routinely upend the cost basis of commercial markets, so, too, are smart conops the key to making military effectiveness affordable.

Second, find efficient trade-offs of hardware for software. The technology offset strategy by which we won the Cold War focused on leveraging dear human capital with overmatching materiel. Today, it is low-marginal-cost digital technologies that can instead give powerful leverage to now dearly expensive hardware. For example, advanced data analytics can often so enhance the performance and capacity of sensors that they serve up highly net-positive trades.

Finally, it must be said that the very greatest “savings” to the Defense Department would involve reducing the strategic and operational requirements the Pentagon is tasked with chasing to begin with. To do this, we need first to rediscover the will and confidence to deploy the soft-power instruments of America's national security—diplomacy generally, including economic, development and security assistance—in ways that can shape a world that does not rely so heavily on the hard-power Pentagon.

In a good year at Foggy Bottom, the federal government is spending barely 8% the scale of the national defense budget on its international affairs agencies. Effective arms control is only the most obvious example of how investments in soft power can yield superior returns to national security. More generally, the next national security strategy needs to animate the story of how managing competition with our rivals and antagonists can give advantage to our comparative, efficient-to-deploy strengths. It's a classic principle of strategy always worth attending but one that enjoys still greater importance when trying to manage through a period of flat defense budgets.

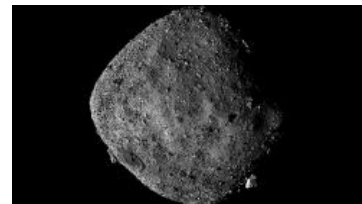


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My agenda to improve the productivity of defense spending is hardly original. Intensifying competition to reduce costs was the motive force of the Better Buying Power initiative during the Obama administration. Accelerating the application of digital technologies to defense systems is the core of the Pentagon's Third Offset Strategy. Increasing the State Department's budget was a signal priority of Secretary of Defense Robert Gates.

I revisit and recast this agenda in the hope that today's new context—a shredded international system combined with intensified “great power” competition and a bipartisan consensus on a flat outlook for defense spending—will galvanize attention and give urgent conviction to those who will have to make and bear the hard trade-offs now needed to create coherence in the next national defense strategy.

Simple efficiencies will not be nearly enough. The answers lie instead in the major muscle movements of strategy, conops, acquisition and industrial policy.

The views expressed are not necessarily those of Aviation Week.



Steve Grundman

Contributing columnist Steve Grundman is a Senior Fellow at the Atlantic Council and directs the National Security Studies program at Syracuse University's Maxwell School.



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