





# Toward a Strong and Sustainable Defense Enterprise

Secretary of Defense Chuck Hagel

**T**he U.S. Department of Defense (DOD) is undergoing a defining time of transition. After 13 years of war fought by an all-volunteer force, we are reshaping our defense enterprise to adapt to a fiscal environment plagued by constant uncertainty and declining resources, and to a strategic environment shaped by a historic realignment of interests and influences around the world.

The Defense Department is grappling with downward budget pressures, cumbersome legislative constraints on how we manage our institution, and the unpredictability of both continuing resolutions and the threat of sequestration. At the same time, enduring and emerging powers are challenging the world order that American leadership helped build after World War II. In the Middle East and North Africa, the order within and between nation-states is being recast in ways that we have not seen for almost a century, often leaving dangerous ungoverned spaces in their wake. In West Africa, a virus one-thousand times smaller than a human hair has, in less than a year, infected over 17,000 people, killed over 6,000, and shaken governments and health care systems alike. In Europe, Russia's invasion of Ukraine represents one of the most blatant acts of state-on-state aggression on that continent since the end of World War II. And in the Asia-Pacific, competition between rising

powers threatens to undermine the stability that has allowed the region to prosper and thrive for decades.

We are at the beginning, not at the end, of this realignment. And as Henry Kissinger writes, only "a subtle balance of restraint, force, and legitimacy" will help forge a new order—an order that will be years, and probably decades, in the making.<sup>1</sup> This means that DOD's missions and focus will continue to be marked, and defined, by transition.

As these dynamics unfold, the U.S. military is addressing today's crises and security challenges around the world—degrading ISIL, helping stop the spread of the Ebola virus, and reinforcing our NATO allies.<sup>2</sup> Few would have predicted these missions a year ago; uncertainty is the only certainty in an interconnected world of 7 billion people.

The Defense Department must be prepared for the challenges of that uncertain future. We face the rise of new technologies, national powers, and nonstate actors; sophisticated, deadly, and often asymmetric emerging threats, ranging from cyberattacks to transnational criminal networks; as well as persistent, volatile threats we have faced for years.

Our long-term security will depend on whether we can address today's crises while also planning and preparing for tomorrow's threats. This requires making disciplined choices and meeting all our nation's challenges with long-term vision.

That is what DOD is doing today. We are not waiting for change to come to us—we are leading change. We are taking the initiative, getting ahead

**Previous page:** Secretary of Defense Chuck Hagel makes remarks during the Reagan National Defense Forum at the Ronald Reagan Presidential Library, Simi Valley, Calif., 15 November 2014.

(DoD photo by Petty Officer 2nd Class Sean Hurt)



(Photo courtesy of the Library of Congress)

Chuck Hagel during his service in the Vietnam War, circa 1967-1968.

of the changes we know are coming, and making the long-term investments we need for the future.

This is happening in two important ways. We are investing in our nation's unrivaled capacity for innovation, so that in the face of mounting challenges, our military's capabilities, technological edge, strategy, and readiness will continue to surpass any potential adversary. And we are investing in reforms to our defense enterprise, to ensure that our military's foundation is reliable, agile, accountable, and worthy of the men and women who serve in it. Sustaining both investments will require significant leadership—and partnership—in the years to come.

### **Pursuing Innovation**

Today, our military has nearly 400,000 personnel stationed or forward deployed in nearly 100 countries around the world. This continued forward presence—with its unmatched technological and operational edge—has helped anchor America's global leadership for decades.

However, the superiority of our forces has never been guaranteed, and it is now being increasingly challenged. Technologies and weapons that were once the exclusive province of advanced nations have become available to a broad range of militaries and nonstate actors. And while we spent over a decade focused on grinding stability operations, near-peer competitor countries such as Russia and China have been heavily investing in military modernization programs to blunt our military's technological edge—fielding advanced aircraft, submarines, and both longer-range and more accurate missiles. They are also developing new anti-ship and air-to-air missiles, as well as counter-space, cyber, electronic-warfare, undersea, and air-attack capabilities.

To sustain our global leadership commitments—and the confidence of our allies—America must continue to safeguard its ability to project power rapidly across oceans and continents through the swift deployment of aircraft, ships, troops, and supplies. If this power projection capability is eroded or lost, we will see a world far more dangerous and

unstable—and far more threatening to America and our citizens here at home than we have seen since World War II.

Without our military superiority, the strength and credibility of our alliances would suffer. Both our friends and our adversaries could doubt our commitment to enforcing long-established international law and principles. Questions about our ability to win future wars could undermine our ability to deter them, and our armed forces could one day go into battle confronting a range of advanced technologies that limit our freedom of maneuver—allowing a potential conflict to exact crippling costs and risk too many American lives.

America does not believe in sending our troops into a fair fight, but that is a credo we will not be able to honor if we do not take the initiative and address these mounting challenges now. The Defense Department must continue to modernize our military's capabilities and sustain its operational and technological edge. And we must do so by making new, long-term investments in innovation.

We have accomplished this before, even in times of great tumult and change. In the 1950s, President Dwight D. Eisenhower successfully offset the Soviet Union's conventional superiority through his "New Look" build-up of America's nuclear deterrent. In the 1970s, after Soviet advances in nuclear weapons had diminished our strategic superiority, then-Secretary of Defense Harold Brown—working closely with Undersecretary, and future Defense Secretary, Bill Perry—shepherded a new offset strategy, implementing the Long-Range Research and Development Planning Program that helped develop and field revolutionary new systems such as extended-range precision-guided munitions, stealth aircraft, and new intelligence, surveillance, and reconnaissance platforms.

All these systems drew upon technological developments, such as the micro-processing revolution, that had unfolded over the course of a few decades. The critical innovation was to apply and combine these new systems and technologies with new strategic operational concepts in ways that

would enable the American military to avoid, as Brown wrote, "matching an adversary tank-for-tank or soldier-for-soldier."<sup>3</sup> Because subsequent

leaders—at the Pentagon, at the White House, and in Congress—sustained these investments on a bipartisan basis, they helped America build and hold our military edge for decades.

That is why, at the Reagan National Defense Forum in California this past November, I announced DOD's new Defense Innovation Initiative, which we expect to develop into a game-changing third offset strategy. This new initiative is an ambitious department-wide effort to identify and invest in innovative ways to sustain and advance America's military dominance for the twenty-first century. It will not only put new resources behind innovation but also will account for today's fiscal realities, by focusing on investments that will sharpen our military edge even as we contend with fewer resources. Continued fiscal pressure will likely limit our military's ability to respond to long-term challenges by increasing the size of our force or simply outspending potential adversaries on current systems, so to overcome challenges to our military superiority, we must change the way we innovate, operate, and do business.

The Defense Innovation Initiative will draw on the lessons of previous offset strategies and ensure that America's power-projection capabilities continue to sustain our competitive advantage over the coming decades. To achieve this, we are pursuing several lines of effort.

Our technology effort will establish a new Long-Range Research and Development Planning Program that will help identify, develop, and field breakthroughs in the most cutting-edge technologies and systems—especially from the fields of robotics; autonomy; air, space, and undersea systems; miniaturization; big data; and advanced manufacturing, including 3-D printing. This program will look toward the next decade and beyond. In the near term, it will invite some of the brightest minds from inside and outside government to start with a



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clean sheet of paper and assess which technologies and systems DOD ought to develop over the next three to five years and onward.

We know technology is not a panacea, which is why the Defense Innovation Initiative also will explore and develop new operational concepts, including new approaches to warfighting, and how we balance DOD's investments between platforms and payloads.

In some ways, this will entail exploring creative methods of using capabilities we already have to better achieve our strategic objectives. One example of this would be the Army broadening its role in our rebalance to the Asia-Pacific by leveraging its current suite of long-range precision-guided missiles, rockets, artillery, and air defense systems. These capabilities could provide multiple benefits, such as hardening the defenses of U.S. installations; enabling greater mobility of Navy Aegis destroyers and other joint force assets; and helping ensure the free flow of commerce.

The initiative's other lines of effort will focus on new approaches to war-gaming and professional military education—work that has already begun. In addition, they will focus on our most important asset—our people—by pursuing not only time-honored leadership development practices but also emerging opportunities to re-imagine how we develop managers and leaders.

Each part of the Defense Innovation Initiative will shape our programs, plans, and budgets—increasingly so as the initiative matures over time.

I have asked Deputy Secretary of Defense Bob Work to guide the initiative's development, and he will lead a new Advanced Capability and Deterrent Panel to drive it forward. This panel will integrate senior DOD leadership across the entire enterprise: its policies and intelligence communities, the armed services, the Joint Chiefs of Staff, and research, development, and acquisition authorities.

I expect the panel to propose important changes to the way DOD diagnoses and plans for challenges to our military's competitive edge, and to break with many of our usual ways of doing

business—encouraging fresh thinking that is focused on threats and challenges to our military superiority, not simply adapting plans that are already on the books.

The panel must also face a new challenge head-on: the fact that many, if not most, of the technologies we seek to take advantage of today are no longer in the domain of DOD development pipelines, or those of traditional defense contractors. It is well known that DOD no longer has exclusive access to the most cutting-edge technology, or the ability to spur—or control—the development of new technologies the way we once did. To better understand commercial technology trends that will help us leap ahead of our competitors, we will actively seek proposals from the private sector, including from firms and academic institutions outside DOD's traditional orbit.

## Reforming the Defense Enterprise

Successfully investing in these long-term priorities requires the foundation of a sound, resilient, and accountable defense enterprise—because ensuring the health and vitality of DOD as an institution is critical to our ability to prepare for the future.

As the world in which we operate changes, we must change too. We must revitalize, renew, and when necessary, reform. That applies to everything we do, from special operations and procurement to health care for troops and their families.

The Department of Defense is the world's

largest institution, employing roughly 1 percent of America's population. Its property includes more than 560,000 buildings and structures at more than 520 facilities stretching over 27 million acres of land—about the size of Tennessee. Any institution of

this magnitude, complexity, and breadth of mission and responsibilities is slow to change. But we must realize that change will be forced upon us, on terms not of our choosing, unless we take the initiative ourselves.

That is why DOD must continue to engage in wide-ranging and often uphill reform. We are

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pursuing reform not just for the sake of reform, but wise reform that makes the enterprise stronger and better prepared for the future. Everything else we do depends on it.

I recently announced actions that DOD is taking to revamp our nuclear enterprise, including new resources and shake-ups in organization, policy, and culture. It will take years of committed action to fix problems that have accumulated over many years. But fix them we will—ensuring that our nation continues to have a safe, secure, and effective nuclear deterrent. And we will hold DOD leaders accountable to ensure that promises translate into action, and that action translates into real and sustainable improvements.

To further shift the department's energy, focus, and resources toward supporting our frontline operations, we are undertaking full reviews of DOD's business and management systems. The first reviews are under way now, starting with the Office of the Secretary of Defense. The Pentagon must embrace better business practices that are core to any modern enterprise, private or public. This means upgrading our business and information technology systems and processes, striking the right balance between civil service and contractor support, and avoiding duplication of support functions in the Office of the Secretary of Defense and the armed services.

After years of postponement and delay, we are making progress in moving DOD toward greater financial accountability. The Marine Corps became the first service to earn a clean audit early last year, and in December DOD awarded contracts to independent public accounting firms that will begin auditing Army, Navy, and Air Force current-year appropriations for 2015—ensuring that DOD as a whole remains on track to be completely audit-ready by no later than 2017. That goal could not seem duller, but it is essential for our future effectiveness, efficiency, and accountability.

To streamline the way the Pentagon does business, DOD is also continuing the large acquisition improvement and reform efforts led by Undersecretary of Defense for Acquisition,

Technology, and Logistics Frank Kendall. The goal is to, in partnership with the Congress, overhaul the legal framework for DOD acquisitions and reduce unnecessary paperwork so that we can focus on key strategic priorities.

In addition to all of these efforts, we are also pursuing concrete results and improvements through many other reform initiatives essential to the long-term health and readiness of the force. These include improvements to our military health care system, our military justice system, and our

efforts to account for personnel who remain missing in action. They also encompass a renewed focus on military ethics and professionalism, systems integration with the Department of

Veterans Affairs, and eliminating sexual assault in the military—an area where, despite seeing real progress over the past year, we still have a long way to go. Sexual assault remains heavily underreported both nationally and in the military, and far too many of our sisters and our brothers in uniform have been victims of these crimes. Protecting our fellow soldiers, sailors, airmen, and Marines is the highest responsibility we have to one another, so we must continue to do whatever it takes to eradicate this insider threat from our ranks and get survivors the help and support they need.

The Defense Department will sustain its focus on all these reform initiatives because they will ultimately shape our ability to develop new capabilities, strengthen our partnerships, and honor our enduring commitments to our people and their families. It is their service that makes possible everything we do. We must never lose sight of that.

## **Partnering With Congress**

The Department of Defense has been making the hard choices and mustering the flexibility required by new realities. But to succeed, we need the support and partnership of Congress—especially at a time when demands on our military are surging, our resources are shrinking, and the latitude to manage our own institution is being circumscribed.

Since 2011, DOD has been forced to operate on continuing resolutions every year, impairing our

**... our nation is at "a time for choosing"**



(DoD photo by Glenn Fawcett)

Secretary of Defense Chuck Hagel looks out the window of a Marine helicopter at the Pentagon as he returns from delivering the commencement address at the United States Naval Academy, Annapolis, Md., 23 May 2014.

ability to plan, invest, and reform. As I have reminded Congress several times, no institution can be run effectively on continuing resolutions, especially the institution responsible for the security of this country. We need actual budgets—budgets that give DOD long-term certainty and predictability—and the flexibility to make the internal management choices about what is required to deal with current and future threats for this country.

We must also undertake critical cost-savings measures, especially reducing excess basing and facilities. Despite numerous efforts, and almost 10 years since the last round, DOD has been unable to secure another round of base realignment and closure from Congress. Today, DOD has 24 percent excess capacity in our basing and facilities—excess capacity that is costing us billions of dollars every year that could otherwise be invested in maintaining our military's edge. We need Congress to help end this excess spending.

We also need Congress to support proposed reform to military pay and compensation. No one who wears our nation's uniform is overpaid for his or her service. But since 2001, DOD's pay and benefits for service members have outstripped private-sector compensation growth by about 40 percent. For military personnel, DOD has proposed continued but more moderate pay increases, continued but more moderate growth of tax-free housing allowances, and modest increases to insurance co-payments. Congress has agreed in part with some of these proposals, but we must act on all of them. The longer we defer the tough choices, the tougher they will be to make down the road—and the more brutal the outcome.

Without the ability to make programmatic adjustments such as retiring aging aircraft, and without base realignment and closure, the Defense Department will face a bill of about \$30 billion over fiscal years 2016 to 2020. Denying DOD the

flexibility to make modest adjustments to military compensation is expected to cost tens of billions of dollars more. When factoring in new bills arising from urgent investments—including our new efforts to renew our nuclear enterprise, space infrastructure, and technological modernization—the hole in our budget could grow to more than \$70 billion from 2016 to 2020. That is equivalent to what our Navy will spend to buy all its battle force ships over the next five years, and more than what our Air Force will spend to buy all its aircraft over the next five years.

All of this comes before DOD addresses the possibility of a return to sequestration in fiscal year 2016. Sequestration remains the law of the land, and it will return unless the law is changed. The continuation of sequestration could impose nearly \$1 trillion in cuts to our defense budget over 10 years. We have already begun taking those deep cuts over the last few years. Going back to sequestration would devastate our military readiness and threaten our ability to execute our nation's defense strategy.

Congress has a unique opportunity this year to help the Defense Department, and all the department's leaders will work closely with Congress to address the realities of what this continued fiscal pressure and uncertainty are doing to this institution and to our nation's security.

## Choosing Wisely

Last year marked the 25th anniversary of the fall of the Berlin Wall—a reminder that America, along with its allies, prevailed over a determined Soviet adversary by coming together as a nation, for the good of the nation.

Over decades and across party lines, we worked together to make long-term, strategic investments in innovation and in reform of our nation's military—investments that ultimately helped us force the Soviet regime to fold its hand.

America's leaders made tough choices then—and we must make tough choices now. We must navigate through the current period of transition and realignment, and we must face up to the realities and challenges that our defense enterprise confronts today so that we will be ready for the challenges of the future.

If we make the right investments—in our partnerships around the world, in innovation, and in our defense enterprise—we will continue to keep our nation's military, and our nation's global leadership, on a strong and sustainable path for the twenty-first century.

As President Ronald Reagan once said, our nation is at “a time for choosing”: for Congress, for our political parties, and ultimately for the American people.<sup>4</sup> We must choose wisely. ■

*Chuck Hagel is the 24th secretary of defense and the first enlisted combat veteran to lead the Department of Defense. He served as a squad leader with the Army's 9th Infantry Division in Vietnam, rising to the rank of sergeant and earning numerous military decorations and honors, including two Purple Hearts. He subsequently graduated from the University of Nebraska at Omaha. Secretary Hagel previously served as deputy administrator of the Veterans Administration, and represented the state of Nebraska for twelve years in the United States Senate. This article is adapted from his speech at the Reagan National Defense Forum, 15 November 2014.*

## Notes

1. Henry Kissinger, *World Order* (New York, NY: Penguin Press, 2014).

2. ISIL stands for Islamic State of Iraq and the Levant.

3. U.S. Department of Defense, *Department of Defense Annual Report, Fiscal Year 1982*, by Harold Brown

(Washington, DC: U.S. Government Printing Office, 19 January 1981).

4. Ronald Reagan, “A Time for Choosing” (political speech, Los Angeles, CA, 27 October 1964), available at <http://www.reaganfoundation.org> (accessed 16 December 2014).