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FY 2006 DEFENSE BUDGET REQUEST: DOD BUDGET REMAINS ON UPWARD TRAJECTORY

By Steven Kosiak

The Bush Administration today announced that it will request \$419 billion for the Department of Defense (DoD) in fiscal year (FY) 2006. Under the administration's plan, DoD's budget would increase to \$502 billion by FY 2011, the last year projected in its latest Future Years Defense Program (FYDP). These totals do not include funding for Department of Energy (DoE) and other defense-related programs that are included in the federal government's official National Defense (050) budget function.¹ The FY 2006 DoD budget request represents roughly a 3 percent real (i.e., inflation-adjusted) increase from the level provided for DoD through regular appropriations in FY 2005—exclusive of the \$25 billion provided for military operations in the FY 2005 DoD appropriations act.²

REQUEST DOES NOT INCLUDE FUNDING FOR MILITARY OPERATIONS IN IRAQ, AFGHANISTAN AND ELSEWHERE

The administration's budget request does not include funding to cover incremental costs—i.e., costs above and beyond those DoD would normally incur in peacetime—related to the US military's involvement in operations in Iraq and Afghanistan, as well as certain homeland security activities. The \$25 billion included in DoD's regular FY 2005 appropriations bill was only a down payment on the cost of military operations this year.³ At the end of January, the administration announced that it will soon submit a request for an additional \$80 billion in supplemental appropriations, including \$75 billion for DoD, to cover the full cost of military operations in FY 2005.

Despite the fact that the US military seems likely to incur war costs of a similar magnitude in FY 2006, the administration's request includes no funds to cover those costs. At some point this year, or in early FY 2006, the administration will need to request a supplemental appropriation to cover these costs. Assuming the size of the US military's presence in Iraq and

¹ The funding totals for DoE and other defense activities were not available at press time.

² At press time, DoD had not yet released its latest inflation estimates. Thus, this estimate represents only a rough approximation of the level of real growth reflected in the budget request.

³ Although this \$25 billion was provided in the FY 2005 defense appropriations act and some 90 percent of this funding will be available for obligation in FY 2005, OMB has scored the funding as FY 2004 appropriations because Congress stipulated in the appropriations act that DoD could begin obligating the money in FY 2004.

Afghanistan will remain at roughly today's levels through the end of next year (an assumption made by Army planners⁴), the Congressional Budget Office (CBO) recently estimated that war costs would total about \$85 billion in FY 2006.⁵ If the administration were to request such a sum, it would bring DoD's total FY 2006 budget to over \$500 billion.

NEW PLAN WOULD SLOW GROWTH IN REGULAR DOD BUDGET

Under the administration's new plan, funding for DoD provided through regular annual appropriations bills would grow by roughly 10 percent in real terms over the FY 2006-09 period. After that, it would remain essentially flat in real terms (i.e., grow only at the rate of inflation). At that level, funding for DoD would be comparable to the levels reached during the Reagan administration—historically, the peacetime peak for the DoD budget. The proposed FY 2006 request would be roughly 15 percent higher than the average Cold War budget in real terms. Under the administration's new long-term plan, DoD's budget would increase to about 20 percent above Cold War levels by 2009.

Although DoD's budget would continue to grow in real terms to near record levels, under the latest plan the total amount of funding provided to DoD over the FY 2006-09 period would be slightly less than was projected for those same years in the February 2004 FYDP. The FY 2006 request is about \$3 billion less than was projected for FY 2006 in last year's plan. Altogether, some \$13 billion less would be provided over the FY 2006-09 period than was included for those same years in last year's plan. This represents a reduction of about 1 percent compared to last year's plan for those same years.

SOME ACTIVITIES FUNDED THROUGH SUPPLEMENTAL APPROPRIATIONS MAY NOT BE DIRECTLY RELATED TO WAR

As noted above, the administration plans to request an \$80 billion supplemental appropriation for FY 2005, sometime early this year, which will include \$75 billion for DoD. Although most of this funding will be needed to cover costs directly related to military operations (e.g., costs associated with activating reserve personnel, sustaining combat operations, overhauling equipment, and replacing destroyed or worn-out equipment), some of the programs and activities funded through this supplemental may not be directly related to costs incurred as a result of military operations. For example, some costs related to the Army's "modularity" initiative—which involves increasing the number of deployable combat brigades by reorganizing the Army's current force structure—will reportedly be funded through supplemental

⁴ Bradley Graham, "Army Plans To Keep Iraq Troop Level Through '06," *The Washington Post*, January 25, 2005, p. A1.

⁵ CBO, "An Alternative Path Assuming Continued Spending for Military Operations in Iraq and Afghanistan and in Support of the Global War on Terrorism," February 2005, p. 3.

appropriations in FY 2005 and FY 2006.⁶ Since this step is central to the Army's current plans to transform its forces, and would presumably be carried out whether or not US forces were currently engaged in military operations, arguably these costs should be funded through the regular DoD appropriations act, not supplemental appropriations. Similarly questionable is the administration's plan to reportedly fund a permanent increase in Army active duty end strength through supplemental appropriations in FY 2005 and FY 2006.⁷

The fact that some costs not directly related to the war in Iraq and other military operations may be funded through supplemental appropriations in FY 2005 and FY 2006 (and possibly future years) also makes it difficult to discern how seriously the topline reductions in DoD's regular annual budget projected for the next several years (compared to last year's plan) should be taken.

GROWTH IN WEAPONS PROGRAMS SCALED BACK

Under the new plan, FY 2006 funding for weapons procurement would stay flat (compared to FY 2005) in nominal terms at \$78 billion (equating to a real decline of about 2 percent). A total of about \$14 billion less would be provided for weapons procurement over the FY 2006-09 period than was projected in last year's plan. The plan calls for buying fewer F/A-22 fighters, DD(X) destroyers, LPD-17 amphibious ships, Virginia-class attack submarines, and V-22 tilt-rotor aircraft than previously projected. Many of these cuts may be appropriate given DoD's need to both transform the US military to confront new kinds of challenges, and make its plans more affordable.

Notwithstanding these proposed cuts, the new plan still calls for increasing procurement funding over the long term. Although it would decline in FY 2006, under the new plan procurement funding is projected to grow in FY 2007 and later years, reaching \$119 billion in FY 2011. Moreover, many of the proposed reductions in planned weapons purchases are projected to occur only toward the end of the decade.

DEFENSE SPENDING BUILDUP MAY NOT BE SUSTAINABLE GIVEN BLEAK DEFICIT FORECASTS

Over the past four year years, the long-term fiscal picture for the federal government has dramatically deteriorated. In January 2001, CBO projected federal budget surpluses totaling about \$5.6 trillion over the FY 2002-11 period. By comparison, CBO now projects that the federal government will run deficits totaling some \$855 billion over the coming decade.⁸ Moreover, as CBO acknowledges, its "baseline" projection makes a number of assumptions that may be unrealistic; for example, that tax cuts currently set to expire in 2010

⁶ Amy Klamper, "Critics: Army Transformation Costs Should Be in Budget, Not Supplemental," *Congress Daily/Govexec.com*, January 26, 2005.

⁷ Bradley Graham, "US to Pull 15,000 Troops Out of Iraq," *The Washington Post*, February 4, 2005, p. A12.

⁸ CBO, *The Budget and Economic Outlook: Fiscal Years 2006 to 2015*, January 2005, p. 8.

will not be extended. Projections based on more realistic assumptions about tax cuts and other factors suggest that total deficits could total some \$4-5 trillion over the next 10 years.⁹ It seems unlikely that Congress will cut the administration's defense budget request for FY 2005. However, over the longer term, once a decision is made to address the ballooning federal deficit, history strongly suggests that cuts in defense spending—or at a minimum slower rates of growth in defense spending—will be part of the solution adopted. The 12 percent real reduction in defense spending that occurred between FY 1985 and FY 1990, before the end of the Cold War, in large part reflected a bipartisan effort to begin reducing deficits.

CURRENT PLANS MAY NOT BE AFFORDABLE

Even if DoD were able to achieve the funding levels projected in the administration's new plan over the next six years and could sustain those funding levels in the face of ballooning federal deficits, DoD would probably not be able to execute its very ambitious modernization efforts and other plans. If history is any guide, DoD's major weapons acquisition programs are unlikely to meet projected cost goals. Similarly, operations and support activities (e.g., military pay, health care, and a wide variety of operations and maintenance functions) are likely to cost more than anticipated.

As noted earlier, under the administration's new plan, funding for DoD is projected to reach \$502 billion by FY 2011. However, estimates by CBO, CSBA and others suggest that executing existing plans could require substantially higher DoD funding levels, perhaps an additional \$50 billion or more a year over the long term. On the other hand, the United States may be able to adequately meet its security requirements with more affordable, and less expensive, modernization and force structure plans,¹⁰ especially if those plans focus on transforming US forces—making them better able to meet future challenges.

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⁹ For example, according to CBO, making the tax cuts permanent, continuing military operations in Iraq and elsewhere (even at a reduced level) and reforming the Alternative Minimum Tax, would increase deficit totals for the decade to \$3.8 trillion. If, in addition, discretionary appropriations were increased at the same rate as the gross domestic product over this period, total deficits would grow to \$5.5 trillion. *Ibid.*

¹⁰ Although it will be impossible to reduce the size of the Army and Marine Corps while US forces are heavily engaged in Iraq and elsewhere (and an increase in end strength may even be needed), the administration has proposed some cuts in the Navy and cuts in the Air Force should be possible.