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## DEPARTMENT OF DEFENSE BUDGET PRIORITIES, FY 2007<sup>1</sup>

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Mr. Chairman and members of the committee, it is a great honor to have the opportunity to appear before you today to discuss the administration's fiscal year (FY) 2007 defense budget request, the 2006 Quadrennial Defense Review (QDR) and related issues.

Today we face a remarkable range of challenges to our national security. There is the terrorist threat, which was demonstrated so cruelly and tragically on September 11, 2001; the ongoing wars in Iraq and Afghanistan; the threat posed by the proliferation of weapons of mass destruction (WMD); and the possibility that, over time, the United States will face a major power competitor.

Meeting and managing these challenges effectively while also addressing competing demands on our national resources, such as preparing for the retirement of the baby boomer generation towards the end of this decade, is a complex and difficult task. But it is a task that falls very much within the purview of this committee. It is my hope that I might be able to help you, in some small way, with this task through my testimony today.

My remarks highlight a handful of observations, questions and conclusions concerning US funding for defense and the latest Department of Defense (DoD) plans, as reflected in the QDR and the FY 2007 defense budget request. Specifically, I would like to emphasize the following:

- Funding levels for defense are, today, very high by historical standards, and are projected to continue to grow under the administration's latest plan.
- The level of funding provided through special war-related appropriations has grown enormously in recent years and now accounts for a major portion of DoD's overall budget.
- The true cost of ongoing military operations is unclear, and there is a danger that DoD is coming to rely on special war-related appropriations to cover some of the military's peacetime modernization, readiness and force structure costs.
- Notwithstanding today's high defense budget levels, due to cost growth in many weapons programs, deficit concerns and other factors, the administration's defense plan is probably not affordable over the long run.

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<sup>1</sup> Testimony before the House of Representatives Committee on the Budget.

- The 2006 QDR includes a substantially revised, and improved, diagnosis of the challenges facing the United States, as well as some positive programmatic adjustments.
- Unfortunately, taken together, the 2006 QDR and FY 2007 defense budget request would do little to improve the affordability of DoD's long-term plans.
- The administration has deferred most of the hard choices that will eventually have to be made to ensure that DoD's plans, including many of the new initiatives outlined in the QDR, are affordable over the long run.

For the remainder of my time, I would like to discuss and expand upon these points.

### Today's Defense Budget is Very High by Historical Standards

The Bush Administration has requested some \$441 billion to cover DoD's peacetime modernization, readiness and force structure costs in FY 2007. In addition, the administration plans to amend its request to include \$50 billion as a down payment to cover the cost of military operations next year. Thus, altogether, under the latest plan DoD is projected to receive some \$491 billion in FY 2007. It is likely that at some point in FY 2007, the administration will submit a supplemental request for additional war-related funding as well. The administration's FY 2007 request also includes \$22 billion for Department of Energy (DoE) and other defense-related programs, bringing the total projected for national defense to \$463 billion, exclusive of war-related funding, or \$513 billion including such funding.

The administration also recently submitted a \$70 billion request for supplemental appropriations to pay for military operations in Iraq and Afghanistan in FY 2006. Since Congress already provided \$50 billion for war costs in the recently enacted FY 2006 defense appropriations act, this would bring total funding for military operations this year to \$120 billion, and total funding for national defense to some \$562 billion. In real (inflation-adjusted) terms, this would mark the highest level of funding for defense since the height of the Korean War (FY 1952). If the administration were to request a similar size supplemental in FY 2007, the defense budget would be even higher next year.

Nor are today's high defense budget levels solely the result of wartime spending. Exclusive of war-related funding, the FY 2007 budget request represents about a 7 percent nominal and a 4.4 percent real (inflation-adjusted) increase from this year's level. Including the projected \$50 billion in war-related funding, the FY 2007 budget for national defense would mark roughly a 50 percent real increase from FY 1998 (the budgetary low-point of the 1990s).

Moreover, under the administration's new plan, the peacetime defense budget (i.e., the defense budget exclusive of funding designated as war-related) would increase in nominal terms by 7 percent in FY 2007 and by an average of 2-4 percent annually over the FY 2008-11 period. This is a much slower rate of increase than has occurred over the past five years. Nevertheless, as a result of this continued growth, by FY 2011, funding for defense would, in real terms, be comparable to the levels reached during the years of the Reagan administration—historically, the peacetime peak for the defense budget.

## Special War-Related Appropriations Account for a Growing Share of Defense Spending

Since 2001, the administration and Congress have provided DoD a total of about \$331 billion for military operations. This includes about \$226 billion for Iraq, \$76 billion for Afghanistan and \$29 billion for homeland security-related and other activities. As noted above, the administration recently submitted a supplemental request for an additional \$70 billion to help cover the cost of military operations in FY 2006, and plans to amend its FY 2007 defense budget request to include \$50 billion as a down payment on FY 2007 costs related to military operations. This would bring the total amount received by DoD for military operations to some \$451 billion.

The vast majority of this funding has been provided through special appropriations. Until FY 2004, the funding was provided almost solely through emergency supplemental appropriations. However, in FY 2005, to its credit, Congress insisted on funding military operations, at least partially, through the annual defense appropriations act. And this committee, of course, played a key role in forcing this change. Supplemental appropriations are an appropriate vehicle for covering the cost of unanticipated emergencies, such as natural disasters or the initial phases of combat operations. However, when major military operations become long-term deployments likely to be sustained over a period of years, the use of supplemental appropriations is no longer appropriate. And it is a positive development that the administration is also finally showing a willingness to embrace the use of the annual defense appropriations act to cover at least some of the costs of ongoing military operations.

During the 1990s, the US military was involved in a variety of different operations, including deployments in Somalia, Haiti, Bosnia, Kosovo and southwest Asia (e.g., enforcing no-fly zones against Saddam Hussein's Iraq). However, in terms of troop levels and costs, these were relatively small operations. As a result, on average, during that decade funding for military operations accounted for well under one percent of annual funding for defense. By contrast, since the invasions of Afghanistan and, especially, Iraq, funding for military operations has come to account for a major share of DoD's annual budget. For FY 2006, funding for military operations is projected to account for about 20 percent DoD's overall budget.

## DoD May Be Using War-Related Appropriations to Cover Some Peacetime Costs

Although most of the funding included in war-related special appropriations is clearly 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 these funds are being used to cover essentially peacetime programs and activities of the Department of Defense.

Just how much of the funding designated for military operations is actually being used to cover normal peacetime force structure, readiness and modernization costs is difficult to estimate. However, the amount may be substantial. In early 2005, the Congressional Budget Office (CBO) projected that sustaining US forces in Iraq and Afghanistan at essentially today's level would require about \$85 billion in FY 2006. Even excluding \$6 billion in DoD funding included in the administration's latest supplemental request to help train and equip Iraqi and Afghan security forces, this suggests that the administration's projected funding total of \$120 billion for military operations in FY 2006 may be too high by as much as nearly \$30 billion.

Some of this extra funding may be needed to cover costs associated with repairing or replacing military equipment worn out or destroyed in Iraq and Afghanistan. But it seems unlikely that these costs would absorb all of this additional funding (in a March 2005 report, CBO estimated that DoD might have a \$13-18 billion backlog of equipment needing replacement or repair).

An example of one program that is currently being funded through supplemental appropriations but is clearly not directly related to the war is the Army's modularity initiative. This initiative involves increasing the number of deployable combat brigades by reorganizing the Army's current force structure. Since the modularity initiative 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, these costs should, rightly, be funded through the regular annual DoD appropriations act, not emergency war-related appropriations. DoD has, implicitly at least, conceded this point by stating that, in future years, funding for Army modularity will, indeed, be included in DoD's annual (i.e., peacetime) budget request.

The fact that some costs unrelated to the wars in Iraq and Afghanistan are being covered by funds designated as war-related should be a cause for concern. Among other things, it is difficult to discern how seriously to take the topline projections for DoD's peacetime budget included in the latest Future Years Defense Program (FYDP). In particular it raises the possibility that the Services, if they believe they can rely on supplemental appropriations to cover such costs, will develop long-term plans that are far less realistic than they might otherwise be.

#### DoD Faces Substantial Plans/Funding Mismatch

Over the past four year years, the long-term fiscal picture for the federal government has dramatically deteriorated. In January 2001, the Congressional Budget Office projected federal budget surpluses totaling about \$5.6 trillion over the FY 2002-11 period. By comparison, in its January 2006 report, CBO projects that the federal government will run deficits totaling some \$832 billion over the coming decade. 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 over the coming decade will not be extended. Projections based on more realistic assumptions about tax cuts and other factors suggest that total deficits could total some \$3-4 trillion over the next 10 years.

It seems unlikely that Congress will cut the administration's defense budget request for FY 2007. However, over the longer term, once a decision is made to address seriously 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.

Moreover, 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 growing federal deficits, DoD would probably not be able to execute its very broad and costly modernization 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.

Under the administration's new plan, funding for national defense is projected to reach \$526 billion in FY 2011, exclusive of war costs. However, estimates by CBO, CSBA and others suggest that executing existing plans could require substantially higher defense budget levels, perhaps an additional \$75 billion or more a year over the long term. DoD's plans are likely to become affordable only if and when decisions are made not only to invest in new forces and technologies, but to divest from more traditional forces and programs—decisions which the QDR and the FY 2007 defense budget request have largely deferred.

### The 2006 QDR Includes An Improved Diagnosis and Some Welcome New Initiatives

In conjunction with the administration's submission of its FY 2007 defense budget request, it has also released the results of the 2006 QDR. The QDR includes a substantially revised diagnosis of the challenges facing the United States, and the US military in particular (compared to the 2001 QDR and earlier reviews). Among other things, it argues for placing a greater emphasis on irregular warfare and the dissuasion of major power competitors.

Consistent with these new priorities, the QDR also proposes a number of potentially important programmatic changes, including increasing the number of active duty Special Operations Forces (SOF) battalions by one-third and accelerating the fielding of a new long-range strike aircraft from 2037 to 2018. These are welcome changes. Given recent experience in Afghanistan and Iraq, and the suitability of SOF units for certain critical counter-terrorism and other missions, the need to expand our SOF units seems clear. Likewise, the administration's recommendation that the acquisition and fielding of a new deep strike aircraft be moved up nearly 20 years appears to be appropriate. In both of our recent wars in the Middle East access to forward bases from which short-range fighters can operate effectively has been limited. And it is possible that in a future conflict, for political or military reasons (e.g., the proliferation of cruise and ballistic missiles), such access will be even more constrained. Nevertheless, the Services have, for too long, been focused on strengthening our short-range fighter capabilities—an area where we currently enjoy enormous superiority—and have neglected the need to improve and expand our long-rang strike capabilities.

Unfortunately, there is good reason to question whether the funding required to implement these changes will be found, and thus, over the long run, whether these new initiatives will ever move from paper recommendations to reality.

### 2006 QDR and FY 2007 Budget Request Would Do Little to Improve Affordability of Defense Plans

It seems, at best, questionable that many of the new initiatives proposed by the administration will ever reach fruition, because the QDR did very little to address DoD's long-standing plans/funding mismatch. It was especially disappointing in this regard in terms of major acquisition programs.

The QDR recommended scaling back or terminating a number of weapons programs, including the J-UCAS unmanned combat aircraft, the E-10 surveillance aircraft and the B-52H standoff jammer. But these are relatively small programs. The largest weapons programs, such as the F-22 and F-35 fighter programs, the Army's Future Combat System (FCS), and the Navy's DD(X) destroyer survived essentially untouched. Moreover, as noted earlier, under the latest plan some new acquisition programs

would be started, including the development of a new (manned or unmanned) deep-strike aircraft nearly two decades earlier than previously projected.

Overall, under the new budget plan funding both for procurement and R&D would increase in FY 2007. Funding for procurement would rise from \$76 billion in FY 2006 to \$84 billion in FY 2007, while R&D funding would grow from \$71 billion to \$73.2 billion. Under the administration's latest plan, funding for procurement is projected to grow substantially over the FY 2008-11 period, while funding for R&D would begin to decline in real terms toward the end of the FYDP. In practice, however, it may be difficult for DoD to sustain a substantial increase in funding for procurement, given cost growth in military personnel, operations and maintenance, R&D and other areas of the defense budget.

The QDR has proposed some potentially significant reductions in end strength and force structure. In particular, the QDR recommends cutting about 40,000 full-time equivalent military personnel from the Air Force, reducing the number of B-52H bombers from 95 to 56, retiring 50 Minuteman ICBMs, and accelerating the retirement of the F-117 fighter and the U-2 reconnaissance aircraft. Whether these are the right areas of force structure to cut is debatable, but some such reductions are probably appropriate.

Historically, the US military has frequently cut end strength and force structure in order to find sufficient funding to pay for its modernization efforts. In many cases, the acquisition of new, much more capable (and typically far more costly) weapons systems mean that less than one-for-one replacement is necessary. This approach probably makes sense for the Air Force, as well as the Navy.

However, the personnel and force structure cuts included in the QDR are, by themselves, too modest to both substantially alleviate DoD's existing plans-funding mismatch and offset the additional costs associated with the new programs and initiatives included in the QDR.

#### Conclusion: Hard Choices Are Left to Next Administration

As noted at the outset of this testimony, the United States faces a variety of serious security challenges, as well as growing fiscal constraints. Effectively addressing both these security concerns and fiscal constraints will, among other things, require transforming the US military to make it both more capable and more cost-effective. Doing this will, in turn, require making some hard choices.

The good news is that the latest QDR and the FY 2007 defense budget request include some potentially significant and positive new programs and initiatives. The bad news is that they fail to recommend the level of divestment in more traditional areas that is likely to be necessary to make these new initiatives affordable over the long run.

In other words, transforming the US military to meet irregular, catastrophic and disruptive challenges to US security, as recommended in the QDR, is as much about divesting from traditional weapons programs and force structure as it is about investing in new technologies and forces. And unfortunately, the latest plan is largely silent on the question of divestment. As a result the hard decisions that should have been central to this QDR have been largely kicked down the road, where they will have to be made by a future administration.