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FY 2005 DEFENSE BUDGET REQUEST: DoD STAYS THE COURSE ON SPENDING PLANS, LONG-TERM SUSTAINABILITY IN DOUBT

By Steven Kosiak

The Bush Administration has announced that it will request \$401.7 billion for the Department of Defense (DoD) in fiscal year (FY) 2005. Under the administration's plan, DoD's budget would increase to \$487.7 billion by FY 2009, the last year projected in its latest Future Years Defense Program (FYDP). These totals do *not* include funding for Department of Energy and other defense-related programs that are included in the federal government's official National Defense (050) budget function.¹ According to DoD, the FY 2005 DoD budget request represents about a 7 percent increase from the level provided for DoD through regular appropriations in FY 2004 (i.e., excluding the \$65 billion FY 2004 emergency supplemental enacted to cover the cost of military operations in Iraq, Afghanistan and elsewhere). Overall, the administration's latest budget request and FYDP appear to closely resemble the funding plans released in February 2003.

DoD Funding Well Above Cold War Levels

After being cut deeply in the first half of the 1990s, following the end of the Cold War, the defense budget has been on an upward path since FY 1998. The administration's request would bring the defense budget to its highest level in real (inflation-adjusted) terms, since the early 1990s. Moreover, the proposed FY 2005 budget would be roughly 10 percent higher than the average Cold War budget in real terms.² Under the administration's long-term plan, funding for defense would increase to about 20 percent above average Cold War levels by 2009.³

Request Does Not Include Funding for Military Operations in Iraq, Afghanistan and Elsewhere

The administration's budget request does not include funding to cover the incremental costs—i.e., costs above and beyond those DoD would normally incur in peacetime—likely to result from the US military's involvement in operations in Iraq and Afghanistan, as well as certain homeland security activities (e.g., Operation Noble Eagle) being carried out in the United States in 2005. Just how much funding will be required to cover these costs is impossible to predict with any precision today, since it is far from clear how large a US presence will be needed in Iraq and Afghanistan in 2005. However, given the administration's current plans and timetable for operations in those countries, it seems likely that at least several tens of billions of dollars will be required to cover these costs. Based on DoD 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 Ibid.

Congressional Budget Office (CBO) data, CSBA estimates that a reasonable range for the cost of these various military operations for next year might be \$30-50 billion, even assuming it is possible to substantially reduce the number of personnel deployed in Iraq and Afghanistan. DoD Comptroller, Dov Zakheim, recently indicated that the administration would probably need to submit a supplemental request to cover the FY 2005 costs of ongoing military operations by January 2005.⁴

Defense Spending Buildup May Not Be Sustainable Given Bleak Deficit Forecasts

Over the past three 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 \$1.9 trillion over the coming decade.⁵ 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 will not be extended. Projections based on more realistic assumptions about tax cuts and other factors suggest that total deficits could total some \$5 trillion over the next 10 years.⁶ It seems highly 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.

Even Without Future Cuts to DoD’s Topline, Current Plans May Not Be Affordable

Even if DoD were able to achieve the funding levels projected in the administration’s plan over the next five 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. Under the administration’s plan, funding for DoD is projected to reach \$487.7 billion by FY 2009. However, estimates by CBO, CSBA and others suggest that executing existing plans could require substantially higher DoD funding levels, perhaps as much as an additional \$50-100 billion a year over the long term.

Increasing End Strength

The administration recently announced that, using emergency authority granted after the terrorist attacks of September 11, 2001, it would increase the active duty end strength of the Army from the

⁴ Tony Capaccio, “Deficit Cut Won’t Curb Defense Spending, Zakheim Says,” Bloomberg.com, January 26, 2004.

⁵ CBO, *The Budget and Economic Outlook: Fiscal Years 2005 to 2014*, January 2004, p. 7.

⁶ See, for example, Richard Kogan, David Kamin and Joel Friedman, “Deficit Picture Grimmer than New CBO Projections Suggest,” Center on Budget and Policy Priorities, January 28, 2004, p. 1.

congressionally authorized level of about 480,000 to 510,000.⁷ Army Chief of Staff, General Peter Schoomaker, has indicated that he expects the additional personnel to be required for about four years, but that this would depend on how quickly US deployments in Iraq and Afghanistan can be reduced.⁸ The Army intends to use the additional troops to help reduce the stress caused by current operations in those two countries, where a total of more than 130,000 troops are now deployed. Over the longer term, however, the Army hopes to address any manpower shortages through restructuring its forces (e.g., by increasing the number of brigades in each division from three to four), rather than by permanently increasing end strength. The budgetary impact of this decision is difficult to estimate, among other things because it is unclear the extent to which these additional active duty troops represent a real increase in deployable manpower or, alternatively, are meant to reduce the number of reserve personnel activated. It is unclear whether this plan will satisfy widespread calls in Congress to increase the US military's end strength by as many as 80,000 troops. However, given the very high costs associated with military personnel (total compensation per active duty troop currently averages about \$100,000 a year⁹), the administration and Congress should consider any such proposals very carefully, and should focus the greatest attention on opportunities for managing existing forces more efficiently, rather than adding personnel.

Funding for Modernization and Transformation

The FY 2005 defense budget request reportedly includes about \$75 billion for weapons procurement and \$69 billion for research and development (R&D).¹⁰ These figures appear to be roughly consistent with the levels projected for FY 2005 in last year's defense plan. The request would bring R&D funding to its highest level ever. A critical question is whether, over the long run, DoD will be able to reach its goals for increasing procurement funding. Actually executing its very ambitious modernization plans would require raising procurement funding to over \$100 billion by the end of the decade. In addition to the risk that DoD's topline will not grow as projected, because of deficit pressures, there is a significant risk that personnel costs and operations and maintenance (O&M) cost will grow more rapidly than anticipated—causing DoD to shift funding away from procurement to help fund these accounts. The danger of this happening is especially great if a decision is made to increase substantially active duty end strength. Fortunately, there is good reason to believe that DoD could adequately meet its security requirements with a more affordable, and less expansive, modernization plan.

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⁷ The Army plan calls for using "stop loss" orders to keep deployed units at or above 100 percent of authorized strength until new troops can be recruited. Vernon Loeb, "Army Expansion Could Last 5 Years," *Washington Post*, January 30, 2004, p. A19.

⁸ Ibid.

⁹ Carla Tighe Murray, "Military Compensation: Balancing Cash and Non-Cash Benefits," CBO, January 16, 2004, p. 1.

¹⁰ Capaccio, p. 2.