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BOTH DOD BASE AND WAR BUDGETS RECEIVE BIG BOOSTS, TOTAL FUNDING AT HIGHEST LEVEL SINCE THE END OF WORLD WAR II

By Steven M. Kosiak

The Bush Administration today announced that it will request some \$483 billion to cover the peacetime costs of Department of Defense (DoD) in fiscal year (FY) 2008.¹ In addition to this funding in DoD's "base" budget, the administration's latest plan includes a request for \$141.7 billion to cover the FY 2008 costs of the Global War on Terror (GWOT), including military operations in Iraq and Afghanistan. Thus, altogether, under the new plan DoD is projected to receive some \$624.6 billion in FY 2008.

This would bring total DoD funding to its highest level in real (inflation-adjusted) terms since FY 1946, the last budget to reflect substantial spending related to World War II. Assuming the administration's request is approved, total funding for DoD would surpass the peak years of the Korean and Vietnam wars by, respectively, some \$40 billion and \$130 billion (FY 2008 dollars).

Moreover, the FY 2008 request would raise DoD's base budget (i.e., the budget exclusive of GWOT funding) above the average levels of the 1980s, the historical high watermark for US peacetime defense funding.² The FY 2008 request for DoD's base budget includes a \$49 billion, or 8.6 percent real (11.3 percent nominal) increase from this year's level.

The administration's FY 2008 request also includes \$22.5 billion for Department of Energy and other non-DoD defense activities. Thus, altogether, the FY 2008 request includes \$647.2 billion for National Defense.

GWOT FUNDING

The administration also announced today that it will request \$93.4 billion in supplemental appropriations to help cover GWOT costs this year. Coming on top of the \$70 billion for the GWOT which Congress included in the FY 2007 defense appropriations act, this would bring total GWOT funding this year to about \$163

¹ This is the *total* amount of funding projected to be provided in DoD's base budget in FY 2008. This total includes \$481.4 billion in DoD *discretionary* budget authority (which excludes a small amount of DoD mandatory funding).

² DoD funding averaged about \$470 billion (FY 2008 dollars) over the FY 1980-89 period. The FY 2008 request for DoD's base budget would still be below the peak year (FY 1985) of the 1980s, when DoD's budget reached \$530 billion (FY 2008 dollars).

billion. This would make the FY 2007 funding level for the GWOT by far the highest to date. Taken together, the administration's FY 2007 and FY 2008 requests would increase total GWOT funding from FY 2001 through the end of FY 2008 (i.e., September 30, 2008) to about \$737 billion. This would make the GWOT more costly than either the Korean or Vietnam Wars. On the other hand, as a share of gross domestic product (GDP) US spending on defense (including both DoD base and GWOT funding) remains well below the levels sustained during those past wars.³

TOPLINE PROJECTIONS FOR FY 2009 AND BEYOND

Under the administration's latest plan, total DoD funding would amount to \$562.9 billion in FY 2009. This total reportedly includes a DoD base budget of some \$513 billion, and GWOT funding of \$50 billion. In terms of the baseline budget, this represents roughly a 3 percent real increase from FY 2008. However, over the FY 2010-12 period, DoD's base budget is projected to stay relatively flat, or even decline slightly, in real terms. By FY 2012, it appears that DoD's base budget would be roughly the same (in FY 2008 dollars) as the budget requested for FY 2008.⁴

END STRENGTH INCREASE

As announced by the administration several weeks ago, the new budget includes funding to begin increasing the size of the Army and Marine Corps. The new plan calls for increasing the *permanent* active duty end strength of the Army and Marine Corps to, respectively, 547,000 and 202,000. These represent increases of 65,000 and 27,000, respectively, from the permanently authorized end strength of the two Services. However, due to the wars in Iraq and Afghanistan, the Army and Marine Corps are already operating above those levels. As a result, the actual increases will be somewhat smaller. The Army plans to add 7,000 troops a year between FY 2008 and FY 2013, while the Marine Corps plans to add 5,000 troops annually through FY 2012. The total cost of implementing these increases could be on the order of some \$100 billion over the next six years.

WEAPONS PROGRAMS

The administration's FY 2008 request includes funding to move ahead with a broad range of new weapons programs. Among other things, it would fund the purchase of 12 F-35, 20 F-22, 18 EA-18G, 24 F/A-18 and 26 V-22 aircraft. It would also provide a boost in funding for the Army's Future Combat System (FCS) and for Navy shipbuilding.

Overall, under the new budget plan funding for procurement in DoD's base budget (i.e., excluding GWOT-related procurement) would rise from \$81.3 billion in FY 2007 to \$101.7 billion in FY 2008, an increase of \$20.4 billion, or some 22 percent in real terms. This would mark nearly a doubling, in real terms, of procurement funding since

³ Total funding for National Defense (which includes DoD, as well as DoE and other defense activities) is projected to amount to about 4.5 percent of GDP in FY 2007. By comparison, at the height of the Korean and Vietnam Wars, spending on national defense accounted for, respectively, 14.2 percent and 9.4 percent of GDP.

⁴ At press time, DoD had not yet released its inflation estimates for FY 2009 and beyond. However, based on GDP inflation projections, funding would be at essentially the same level in FY 2008 and FY 2012.

FY 1997, when such funding reached its post-Cold War low point. Although total procurement funding would remain below the record levels of the 1980s, on a per troop basis (i.e., adjusted for changes in the size of the military's force structure), the FY 2008 procurement budget would approximate the level reached in FY 1985, historically the peak year DoD procurement.⁵

By contrast, under the FY 2008 request, R&D funding would decline by about 2 percent in real terms (staying flat at \$75.1 billion in nominal terms). Despite this decline, FY 2008 R&D funding would remain near record levels—second only to FY 2007. FY 2008 R&D funding would still be \$36 billion—or about 90 percent in real terms—above the level provided in FY 2000.

CONCLUSION

Under the administration's plan announced today, DoD's base budget will grow substantially in FY 2008. The new plan also includes record amounts of funding for the GWOT in FY 2007, as well high levels of GWOT funding for FY 2008. The funding increases in DoD's base budget will help cover the cost of a wide variety of modernization programs, and end strength growth planned for the Army and Marine Corps. It is, however, doubtful whether, even with these large increases, DoD will be able to fully implement its very costly long-term modernization and force structure plans. Moreover, given growing concerns about the federal deficit and the high costs associated with the projected retirement of the baby boomer generation beginning over the next few years, it is unclear how long the United States will sustain the high levels of funding for defense included in the new plan.

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⁵ At press time, it was unclear exactly what the end strength goal is for FY 2008, making it impossible to precisely compare per troop funding.