



Pentagon Budget Faces Uncertain Future *Momentum Accelerates for Reform; Budget Cuts Possible*

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On the first Monday in February, the President typically submits his budget request to Congress for the upcoming fiscal year. For defense budget analysts, this is a time of fear and loathing. The request includes hundreds of pages of information about specific programs that analysts try to dig through as fast as humanly possible in order to present a few digestible nuggets to reporters and congressional staffers. On the first Tuesday in February, a third or fourth cup of coffee is often required – along with a few aspirin.

But this year is different. President Barack Obama has only been in office for a few weeks. Many incoming defense officials have not yet been named, much less confirmed by the Senate. In order to have enough time to complete the “exhaustive line-by-line review” of the federal budget President Obama promised during his campaign, the new administration decided to skip the normal first-Monday-in-February-budget-request-extravaganza. According to press reports, the administration will spend two months preparing an in-depth, detailed fiscal year (FY) 2010 defense budget request – under the guidance of Obama’s new appointees – so that it is ready by March or April.

Press accounts indicate that the Obama administration may request somewhere in the neighborhood of \$527 billion for FY 2010, although it is not clear what this figure includes. A fantasy budget prepared last fall by the Joint Chiefs of Staff under the Bush administration reportedly planned to seek \$584 billion for FY 2010.¹ For reference’s sake, the Bush administration requested \$515 billion for the Department of Defense (DOD) in FY 2009. Some conservatives are using the discrepancy between these two unofficial FY 2010 estimates – a difference of 10% – to preemptively attack President Obama for cutting defense spending in a budget he has not yet finalized or released.²

When it finally does arrive, the FY 2010 budget request will come amidst the worst financial crisis since the Great Depression. The economic maelstrom has brought renewed attention to federal spending priorities and the defense budget, now bigger than at any time since World War II, has emerged as a sector for reform and potential budget cuts.

This backgrounder will frame the debate about Pentagon spending as the Obama administration and Congress move into the FY 2010 budget cycle.

¹ Josh Rogin, “OMB Draws Line on Defense Budget,” *CQ* (February 2, 2009).

² For example, see Robert Kagan, “No Time to Cut Defense,” *Washington Post* (February 3, 2009), <<http://www.washingtonpost.com/wp-dyn/content/article/2009/02/02/AR2009020202618.html>>.

RECAP OF THE FY 2009 DEFENSE BUDGET

The Bush administration requested \$541 billion for the national defense “base budget” in FY 2009, which ends on September 30 of this year. This base budget request excluded funding for Iraq and Afghanistan. The \$541 billion request was comprised of \$515 billion for DOD, \$16 billion for nuclear weapons activities administered by the Department of Energy, and \$10 billion for miscellaneous defense needs.

In September 2008, Congress approved \$513 billion in FY 2009 funding for DOD. Additional base budget funding requested for FY 2009 that is not allocated to DOD – such as the Department of Energy’s \$16 billion for nuclear weapons – is currently being funded at FY 2008 levels through a continuing resolution (or ‘CR’) that expires on March 6. Congress now must decide whether it wants to provide a new level of funding for the remainder of FY 2009 or simply extend the FY 2008 funding level for the rest of the fiscal year.

Last year Congress also passed \$68.5 billion in “bridge” FY 2009 funding that will last until June for ongoing military operations in Iraq and Afghanistan. Since 2001 these conflicts have been financed outside of the normal budget process through supplemental appropriations bills. In a recent transmittal to congressional leaders, Secretary of Defense Robert Gates indicated his belief that an additional \$69.7 billion will be needed for Iraq and Afghanistan in FY 2009.³ This extra \$69.7 billion supplemental, when combined with the \$68.5 billion already passed in 2008, would bring total FY 2009 war funding to \$138.2 billion and aggregate war costs to date to approximately \$934 billion.⁴

Even though an exact FY 2009 budget figure cannot be provided because Congress has not yet completed its work, it appears that final FY 2009 spending on national defense will be close to \$674 billion.

Breakdown of FY 2009 Defense Budget Authority (in billions of constant FY09 dollars)

FY09 Funding	Allocated to?
513	DOD base budget passed in 2008
23	Non-DOD base budget (e.g. nukes) currently being funded at FY08 levels
68.5	First war supplemental passed in 2008
69.7	Second war supplemental to be passed in 2009
674.2	Est. total FY09 defense spending (base + war)

Notes: Estimate based on CRS, DOD, and media reports

³ Rogin, “Gates Estimates Another \$69.7 Billion Needed in Fiscal 2009 for Wars,” *CQ Today* (January 6, 2009), <<http://www.cqpolitics.com/wmspage.cfm?docID=news-000003003277>>.

⁴ Aggregate estimate based on data from Congressional Research Service. Figures include war costs for the Departments of Defense, State, and Veterans Affairs. See *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11* (updated October 15, 2008), 6, <<http://www.fas.org/sgp/crs/natsec/RL33110.pdf>>.

THE BIGGER PICTURE

Over the last decade, U.S. defense spending has risen dramatically. According to data from the Office of Management and Budget, national defense budgets (including war funding) have grown in inflation-adjusted dollars from \$403 billion in FY 1999 to \$708 billion in FY 2008, a 75% increase.

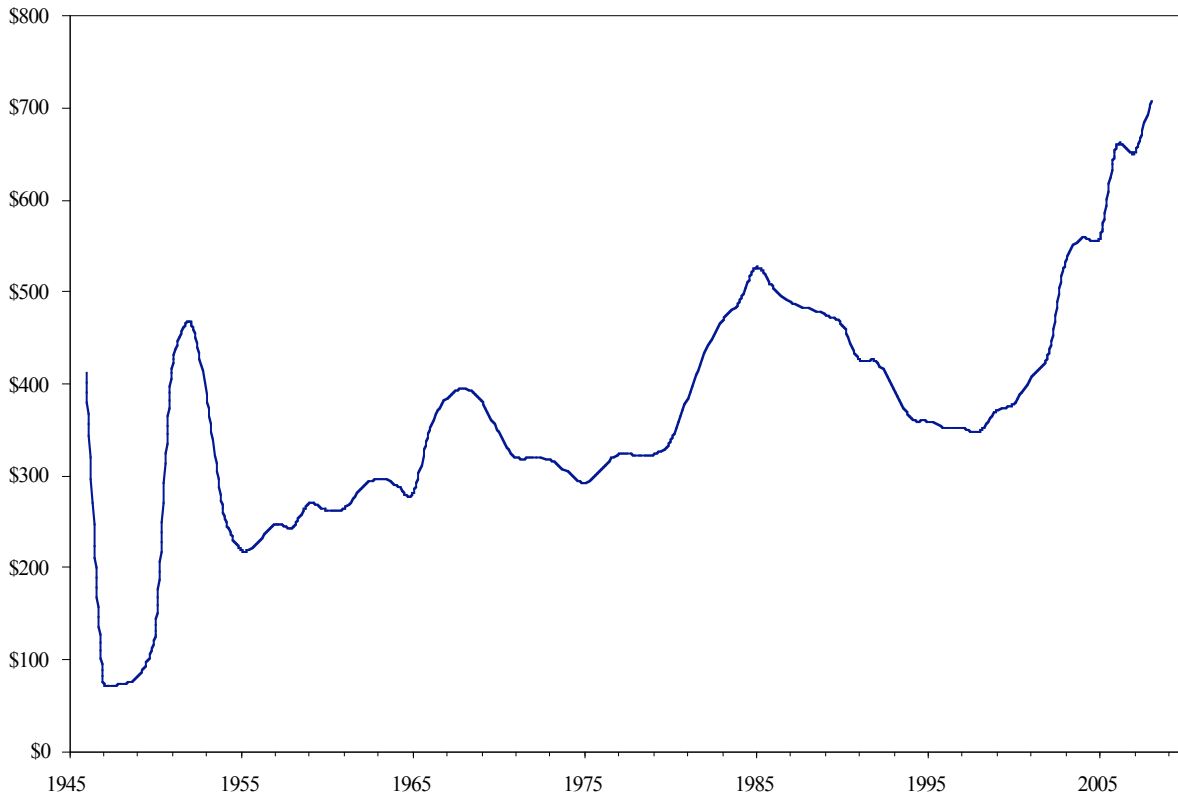
Budget Authority for National Defense, FY 1999-2008 (in billions of constant FY09 dollars)

FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
403	407	437	458	549	568	556	652	646	708

Notes: Figures include war funding. Data from OMB adjusted for inflation using GDP deflator

The United States spends significantly more, in inflation-adjusted dollars, for defense today than it did during the peak years of the Korean War (1953; \$545 billion), the Vietnam War (1968; \$550 billion), or the 1980s Reagan-era buildup (1989; \$522 billion).⁵

Budget Authority for National Defense, FY 1946-2008 (in billions of constant FY09 dollars)



Notes: Figures include war funding. Data from the Center for Strategic and Budgetary Assessments

⁵ Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2009* (Table 6.1), adjusted for inflation using GDP deflator.

When including war funding, the United States also spends more on defense annually than the next 45 highest spending countries combined, including approximately six times more than China (second highest), 10 times more than Russia (third highest), and 99 times more than Iran (22nd highest). Indeed, U.S. defense spending accounts for nearly half of the world's total military spending each year.⁶

CHANGES AHEAD?

A time is rapidly approaching when defense budgets not only will taper off as Iraq war supplementals disappear, but also will compete against ballooning mandatory spending programs for fewer and fewer tax resources – all, of course, amidst an economic crisis. While belts will need to be tightened, defense policymakers should not despair. With a new administration in office, today's perfect budgetary storm presents new opportunities for reform.

Fixing the Pentagon's weapons acquisitions process has emerged as a *cause célèbre* in the defense community. Top-level officials in the Pentagon, White House, and Congress have spoken out publicly about the structural flaws inherent in DOD's development and procurement practices. Look for legislative solutions to this long-running problem to be a principal focus of the House and Senate Armed Services Committees in 2009.

While acquisitions reform is more likely to appeal to inside the Beltway policy wonks, much more attention will certainly be paid to the overall size of Obama's defense budget and to any specific weapons systems budgets he decides to slash. The sheer mass of current defense expenditures is easy for regular Americans to understand and, whether supportive or critical, citizens will debate whether such spending levels are necessary given the economic circumstances and security environment. With defense industry jobs at stake in a sagging economy, however, conversations about cutting weapons systems are no longer the purely academic exercise they were during the Bush years, when military budget reductions were unfathomable. Defense contractors and members of Congress have sounded alarm bells about potential job losses that could accompany any budget cuts. Others have highlighted underfunded domestic programs and argued that alternative types of spending stimulate the economy more than spending on defense.

Recent comments by key policymakers indicate the real possibility that defense spending may be reduced in the near future. "I certainly would expect [defense budget] growth to level off, and my guess would be we'll be fortunate in the years immediately ahead...if we were able to stay flat with inflation," Secretary Gates said last year.⁷ He followed this comment with a sharp assessment in January before the Senate Armed Services

⁶ International Institute for Strategic Studies, *The Military Balance 2008* (London: Routledge, 2008), 443-50.

⁷ "Washington in 5 Minutes: Gates Doubts Big Spending Cuts," *Washington Times* (September 30, 2008), <<http://www.washingtontimes.com/news/2008/sep/30/washington-in-five-minutes-86999801/>>.

Committee: “The spigot of defense funding opened by 9/11 is closing.”⁸ Senate Armed Services Committee chairman Sen. Carl Levin (D-MI) remarked on January 30 that “We have got to face the reality that there’s going to be reductions somewhere in the defense budget.”⁹ Added Levin: “We are going to cut weapons systems.”¹⁰ House Defense Appropriations Subcommittee chairman Rep. John Murtha (D-PA) has made similar statements, including an assessment last year that “There’s going to be less defense spending” in the very near future.¹¹

FOUR WEAPONS SYSTEMS TO WATCH

F-22 Raptor

The Air Force still wants 381 F-22 Raptors, an advanced 5th generation tactical fighter. Pentagon officials have expressed repeatedly their preference that only the planned investment schedule of 183 F-22s be purchased due to budgetary pressures. “The reality is we are fighting two wars, in Iraq and Afghanistan, and the F-22 has not performed a single mission in either theater,” Secretary Gates said in February 2008. “I think that something along the lines of 183 [F-22s] is a reasonable buy.”¹²

Based on the most recent Pentagon estimate, the F-22’s unit cost, which includes both research and development and procurement, is \$398.9 million per plane in FY 2009 dollars.¹³ The final FY 2009 base budget included \$3.4 billion to pay for the last production lot of 20 Raptors, which will bring the total to 183. However, Congress also included \$523 million in advance procurement funding so that the Obama administration could keep the production line open and purchase more aircraft if it so chooses.¹⁴ The FY 2009 Defense Authorization bill stipulated that the new administration must certify no later than March 1 whether or not procuring more F-22s is in the national interest of the United States. In a letter to congressional leaders, Secretary Gates wrote that \$600 million for four F-22s would be requested in the extra \$69.7 billion FY 2009 war supplemental.¹⁵

⁸ Robert Gates, testimony before the Senate Armed Services Committee (January 27, 2009), 12, <<http://armed-services.senate.gov/statemnt/2009/January/Gates%2001-27-09.pdf>>.

⁹ Megan Scully, “Levin Forecasts Cuts in Spending on Weapons Procurement,” *CongressDaily* (January 30, 2009).

¹⁰ William Matthews, “SASC Chair: Cuts, Acquisition Reform Coming,” *Defense News* (January 30, 2009).

¹¹ Chris Strohm, “Murtha Targets Military Bonuses for Fiscal 2010 Cuts,” *CongressDaily* (December 11, 2008), <<http://www.govexec.com/dailyfed/1208/121108cdam1.htm>>.

¹² Gates, testimony before the Senate Armed Services Committee (February 6, 2008).

¹³ Office on the Under Secretary of Defense for Acquisition, Technology and Logistics, *Selected Acquisition Report* (as of September 30, 2008), 5, <<http://www.acq.osd.mil/ara/am/sar/2008-SEP-SARSUMTAB.pdf>>. Conversion to FY 2009 dollars made using DOD deflator for budget authority, in *National Defense Budget Estimates for FY 2009*, Table 5-6, “Procurement” column.

¹⁴ Congressional Research Service, *Defense: FY2009 Authorization and Appropriations* (updated November 3, 2008), 76, <<http://www.fas.org/sgp/crs/natsec/RL34473.pdf>>.

¹⁵ Rogin, “Gates Estimates Another \$69.7 Billion Needed in Fiscal 2009 for Wars.”

Some members of Obama's national security team previously have questioned the wisdom of buying more Raptors. For example, Steve Kosiak, picked to serve as Associate Director for Defense and International Affairs at the Office of Management and Budget, said in March 2008 that there is "a real affordability issue here if they want to buy all 381 F-22s and they want to buy [1,763] Joint Strike Fighters... Obviously you want to buy some next-generation fighters, but it's not clear that short-range aviation is really critical if you're worried about a rising China where distances [across the Pacific] are so great."¹⁶

DDG-1000

The DDG-1000 destroyer is a new class of surface combatant that was intended to provide naval fire-support and land-attack capabilities. The vessel's large size, however, make it more appropriate for open ocean warfare against another naval power. In July 2008, the Navy announced that it had decided to terminate the DDG-1000 program after only two ships, both of which already had been paid for, and instead buy at least eight, and maybe more, additional DDG-51 Arleigh Burke-class destroyers. Press reports indicate that Secretary Gates approved the Navy's plan to cancel the DDG-1000.¹⁷ The outcry from Congress was massive, however, particularly from the congressional delegations from New England where the ships are built. Sensitive to this criticism, the Navy soon reversed itself and decided to push for a third DDG-1000, citing concerns about the "stability of the industrial base" and the need to "continue the development of advanced surface ship technologies."¹⁸

Based on a recent internal Pentagon estimate, the DDG-1000's per ship cost now stands at \$6 billion.¹⁹ In comparison, the DDG-51's unit cost, which includes both research and development and procurement, is \$1.1 billion per ship in FY 2009 dollars.²⁰ The final FY 2009 base budget, covering only part of the cost, provided \$1.5 billion for the third DDG-1000 and instructed the Navy to finance the remaining cost in the FY 2010 budget. The bill also appropriated \$200 million in advance procurement for the DDG-51 if DOD and the Obama administration decide to truncate the DDG-1000 acquisition program in favor of a return to DDG-51s.²¹

Future Combat Systems

Future Combat Systems (FCS) is the Army's principal modernization program, but its advanced technology and overlapping, interwoven development schedules make it a high-risk venture. It consists of a suite of 14 manned and unmanned systems interlinked through a sophisticated communications network. Pentagon plans call for FCS to achieve initial operational capability by FY 2015 and full operational capability by FY 2017, with

¹⁶ Erik Holmes, "Fleet Fight; General's Comments on F-22 Purchase, Pentagon Reaction Indicative of Growing Tension," *Air Force Times* (March 3, 2008).

¹⁷ Christopher Cavas, "Critics Blast Move to End DDG 1000," *Navy Times* (July 27, 2008), <http://www.navytimes.com/news/2008/07/navy_zumwalt_0727082/>.

¹⁸ Jerry Harkavy, "Navy to Seek Third DDG-1000," *Associated Press* (August 19, 2008), <http://www.navytimes.com/news/2008/08/ap_ddg_1000_081808/>.

¹⁹ Christopher Cavas, "New Destroyer Emerges in U.S. Plans," *Defense News* (February 2, 2009).

²⁰ *Selected Acquisition Report* (as of September 30, 2008), 4. *Supra* note 14.

²¹ Congressional Research Service, *Defense: FY2009 Authorization and Appropriations*, 71.

incremental system “spin-outs” being deployed along the way.²² Speculation persists that all 15 FCS-equipped brigade combat teams will not be in the field until 2030.²³

Based on the most recent Pentagon estimate, FCS’s program cost has skyrocketed from \$92 billion in 2003 to \$159 billion today, a 73% increase.²⁴ This cost growth comes despite the fact that the Army deleted four planned FCS systems from its proposed suite, which was to consist of 18 systems but now totals only 14. The final FY 2009 base budget provided \$3.2 billion in research and development funding and \$155 million in procurement funding for FCS.²⁵

FCS has been criticized by the Obama administration on both budgetary and strategic grounds. During the campaign, President Obama pledged to “slow our development of Future Combat Systems.”²⁶ In his appearance before the Senate Armed Services Committee in January 2009, Gates included FCS in his list of “big-ticket weapons systems that have experienced contract or program performance problems.”²⁷ Kosiak told the House Armed Services Committee in 2008 that:

I'm concerned that the design of the Future Combat System may be focused first and foremost on an ability to defeat conventional kinds of opponents, Republican Guard-type opponents that we defeated decisively in Iraq in 2003. This is perhaps the least likely kind of adversary we're going to face in the future and certainly very different from the kinds of adversaries we're currently facing in Iraq and Afghanistan. There's also, I think, a danger that the high cost of the Future Combat System, which is aimed at only equipping about a third of the active duty Army, will make it very difficult to adequately fund other areas of the Army.

FCS raises important questions about future missions for U.S. ground forces, particularly in light of lessons learned in Iraq and Afghanistan. Chief among these are: Will high-tech FCS systems prove useful in stabilization, reconstruction, and counterinsurgency operations where forging close relationships with locals, training indigenous armies, policing, and building civilian institutions and infrastructure are the secrets to success? And is FCS fundable in light of competing budgetary pressures, especially the plan to increase the end strength size of the Army?

Missile Defense

Technical experts, budget analysts, and military strategists have debated the pros and cons of missile defense for decades. In the past few years, Congress repeatedly has reduced funding for expensive and unproven missile defense technologies aimed at

²² Department of Defense, *FY 2009 Budget Request Summary Justification* (February 4, 2008), 180, <http://www.defenselink.mil/comptroller/defbudget/fy2009/FY2009_Budget_Request_Justification.pdf>

²³ Congressional Research Service, *The Army’s Future Combat System (FCS): Background and Issues for Congress* (November 28, 2008), 12.

²⁴ *Selected Acquisition Report* (as of September 30, 2008), 4.

²⁵ Congressional Research Service, *Defense: FY2009 Authorization and Appropriations*, 67.

²⁶ Barack Obama, online video for Caucus for Priorities (October 22, 2007), <<http://www.youtube.com/watch?v=7o84PE871BE>>.

²⁷ Gates, testimony before the Senate Armed Services Committee (January 27, 2009).

countering future long-range threats and reallocated it toward higher priority systems aimed at existing short- and medium-range missiles.

The final FY 2009 base budget provided \$10.5 billion for missile defense research and development, military construction, and procurement. The final appropriation rearranged funding among various ballistic missile defense program elements and was \$328 million less than the Bush administration's request. Within the \$10.5 billion, Congress provided \$618 million for research and development and military construction on the missile defense system in Europe, a \$94 million reduction from the Bush administration's request.²⁸

President Obama vowed in 2007 to "cut investments in unproven missile defense systems."²⁹ As Obama remarked during the campaign, "If we can responsibly deploy missile defenses that would protect us and our allies we should – but only when the system works."³⁰ Sen. Levin noted in January 2009 that he'd "love to see" cuts to the missile defense program.³¹

Given these preferences, Aegis ballistic missile defense (BMD), Patriot Advanced Capability-3 (PAC-3) (funded by the Army, not the Missile Defense Agency), and Terminal High Altitude Area Defense (THAAD) may pass muster in 2009. These programs protect U.S. troops in the field from theater ballistic missiles, a far more realistic threat than long-range intercontinental ballistic missiles.

On the other hand, the Airborne Laser, Kinetic Energy Interceptor, Space Tracking and Surveillance System, and Multiple Kill Vehicle may be in trouble, as well as the ever controversial ground-based midcourse defense (GMD) system slated for deployment in Europe. A December 2008 report from the Center for American Progress estimated that by canceling these unproven systems and freezing the deployment of GMD, DOD would save \$13 billion over the next four years.³²

CONCLUSION

In a time of increasingly scarce defense dollars, it is critical to optimize each and every penny invested in national security. The Holy Grail now is to reform the acquisitions process so that smart decisions are made early on about which weapons systems to buy. In this way at least some positive reform can be salvaged from the current budget crisis.

²⁸ Congressional Research Service, *Defense: FY2009 Authorization and Appropriations*, 62-64.

²⁹ Obama, online video for Caucus for Priorities.

³⁰ Quoted in Elaine Grossman, "Obama Adviser Backs Missile Defense in Europe," *Global Security Newswire* (October 2, 2008), <http://www.globalsecuritynewswire.org/gsn/ts_20081002_2231.php>.

³¹ Matthews, "SASC Chair: Cuts, Acquisition Reform Coming."

³² Lawrence Korb et al., "Building a Military for the 21st Century," *Center for American Progress* (December 2008), 53, <http://www.americanprogress.org/issues/2008/12/pdf/military_priorities.pdf>.

The Obama administration's procurement motto appears to be 'relevance to the current missions'. While the new administration recognizes the importance of preparing for future threats, they regard operations in Iraq and Afghanistan as the top priority. Going forward, this approach may mean an even more personnel-centric defense budget that invests in platforms that are cost-effective and help American troops today, not 25 years down the road.