



Preparing for a Deep Defense Drawdown

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Defense Budgeting to Beat the “Double Whammy”

A methodology for making the right tradeoffs in defense for the decade ahead

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The Defense “Double Whammy”

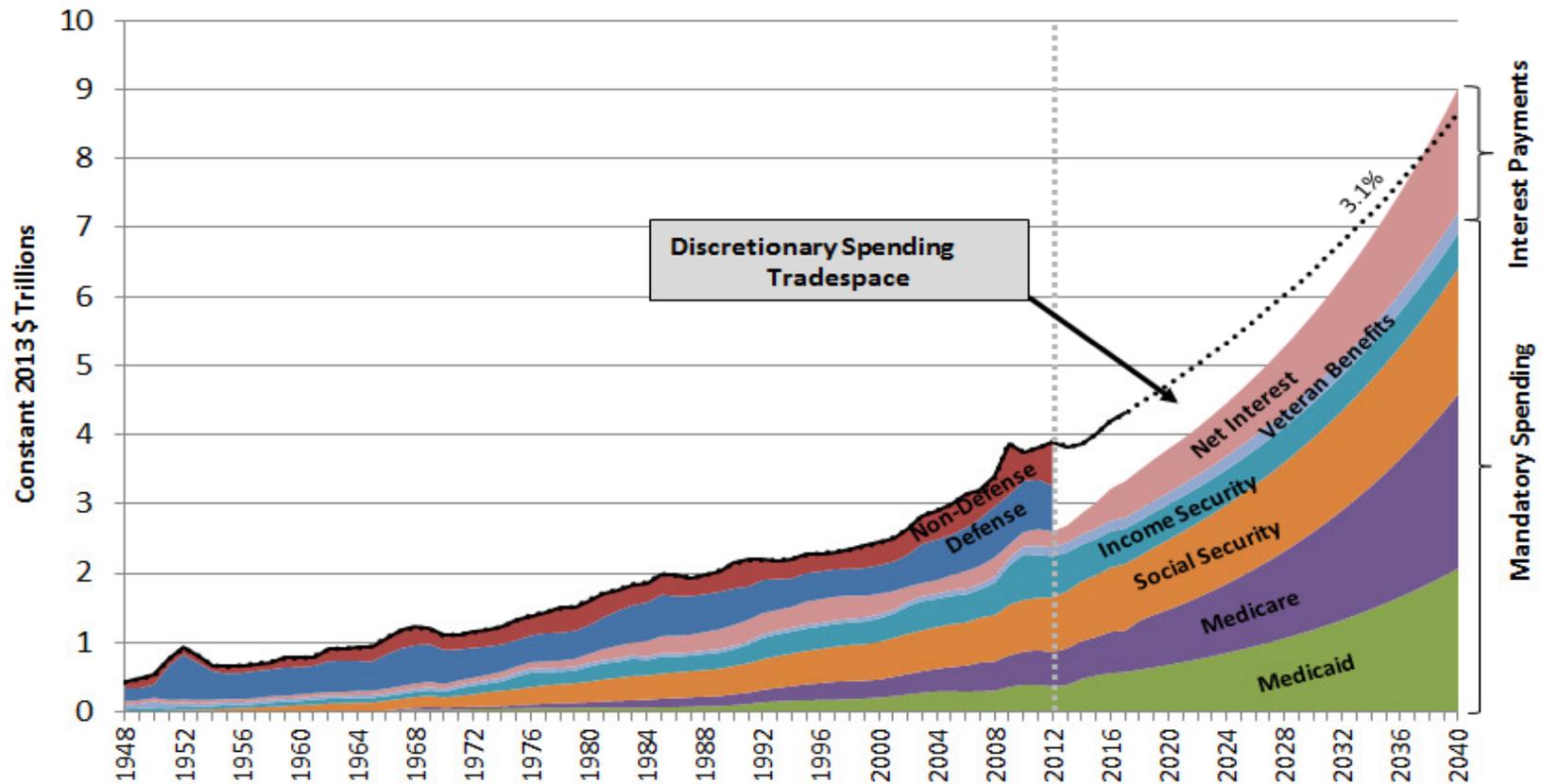
- The Department of Defense faces a “double whammy,” the product of both:
 - Fewer defense dollars -- the caps on discretionary spending imposed by the Budget Control Act (BCA) and the sequester cuts (or whatever replaces them)
 - A weaker defense dollar -- the aggregate impact of internal cost growth has reduced the purchasing power of defense dollars in terms of their ability to “buy” military capabilities
- Although it is not widely understood, these two factors will combine to make what looks like a 20% reduction to the defense budget feel more like a 40% reduction.

The future military will be smaller, but it doesn't have to be hollow and ineffective

Fewer Defense Dollars

- Downward pressure on the entire U.S. budget is driving decreases in the defense topline:
 - Mandatory spending and interest payments are projected to consume the entirety of the U.S. budget by 2036 if current trends continue
- In response to U.S. budget pressures, Congress passed the Budget Control Act (BCA) to reduce discretionary spending. The BCA enacted two rounds of defense cuts:
 - \$487B reduction from FY12-FY21 to comply with BCA budget caps
 - \$492B additional reduction from FY13-FY21 in event of sequestration
- A January 2013 fiscal cliff agreement delayed the threat of sequestration until March 2013, but even a future deal to lift sequestration would still likely involve defense budget cuts:
 - In December 2012 fiscal cliff negotiations, President Obama reportedly offered \$100 billion in defense spending cuts (part of a \$200 billion total offer in discretionary spending cuts) in lieu of sequestration

Unrelenting Pressure on the Defense Topline

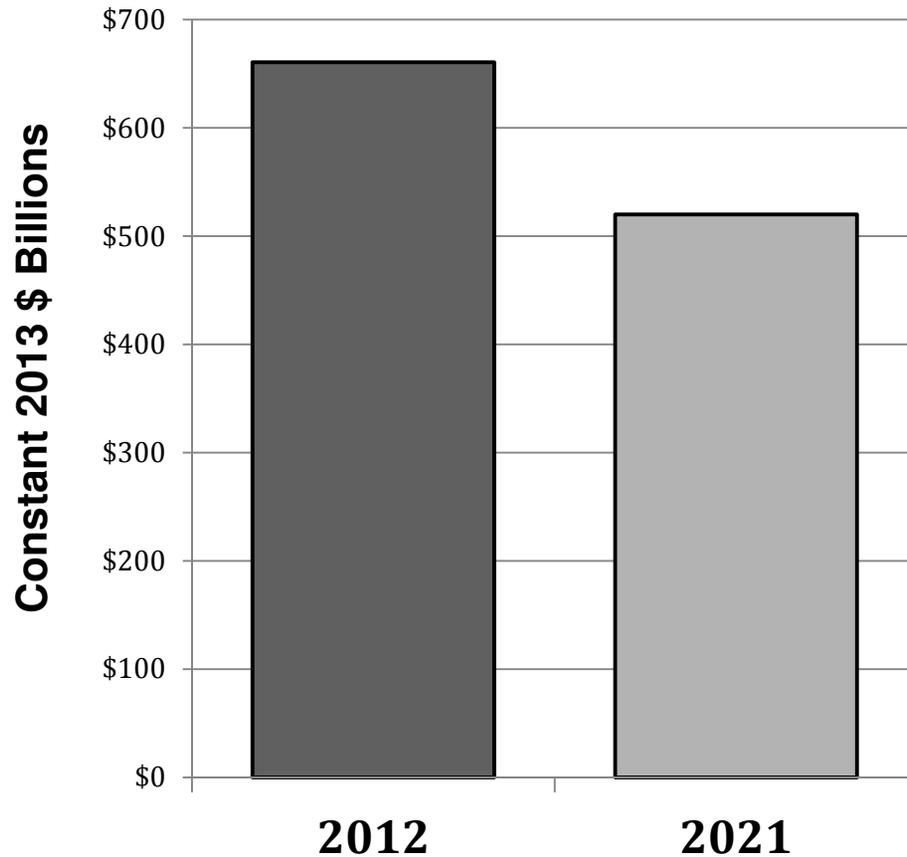


Note: Topline assumes that total federal spending from 2018 to 2040 grows at 3.1 percent above GDP (the average annual growth rate planned for 2013–2017 in the FY2013 budget request).

Sources: Congressional Budget Office, *Budget and Economic Outlook: Fiscal Years 2011 to 2021, January 2012*; Office of Management and Budget, *Historical Tables, February 2012*. Available at <http://www.whitehouse.gov/omb/budget/Historicals>; Department of Defense, *National Defense Budget Estimates for Fiscal Year 2013 (Green Book)*, Office of the Under Secretary of Defense (Comptroller), March 2012.
Independent analysis based on CBO federal spending projections from 2022-2040

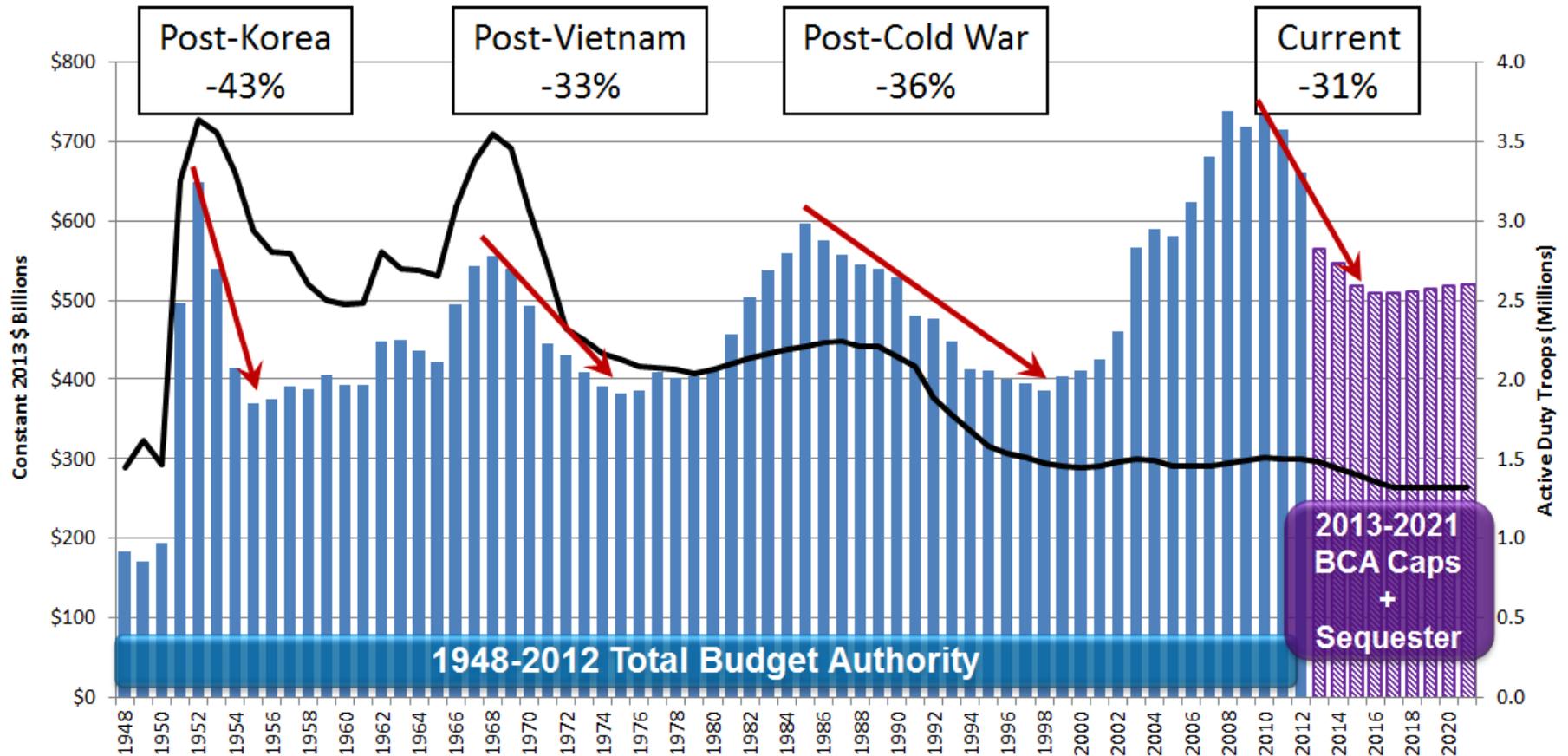
Projecting the Defense Topline

\$660B \$520B



- Study team assumptions for defining the 2021 defense topline:*
- BCA Caps - \$487B cut (FY12-FY21)
 - Sequester Cuts - \$492B cut (FY13-FY21)
 - OCO drawdown to 30k troops by 2017 and flat after that (per CBO), equaling \$20B in 2021

Defense Drawdowns Compared



Note: Topline in out-years includes the Congressional Budget Office (CBO) estimate of overseas contingency operations (OCO) based on a phased drawdown to 30,000 troops in 2017 and remaining flat thereafter.

Sources: Department of Defense, *National Defense Budget Estimates for Fiscal Year 2013 (Green Book)*, Office of the Under Secretary of Defense (Comptroller), March 2012; Congressional Budget Office, *Long-Term Implications of the 2013 Future Years Defense Program*, July 2012. Analysis by CSIS Defense and National Security Group.

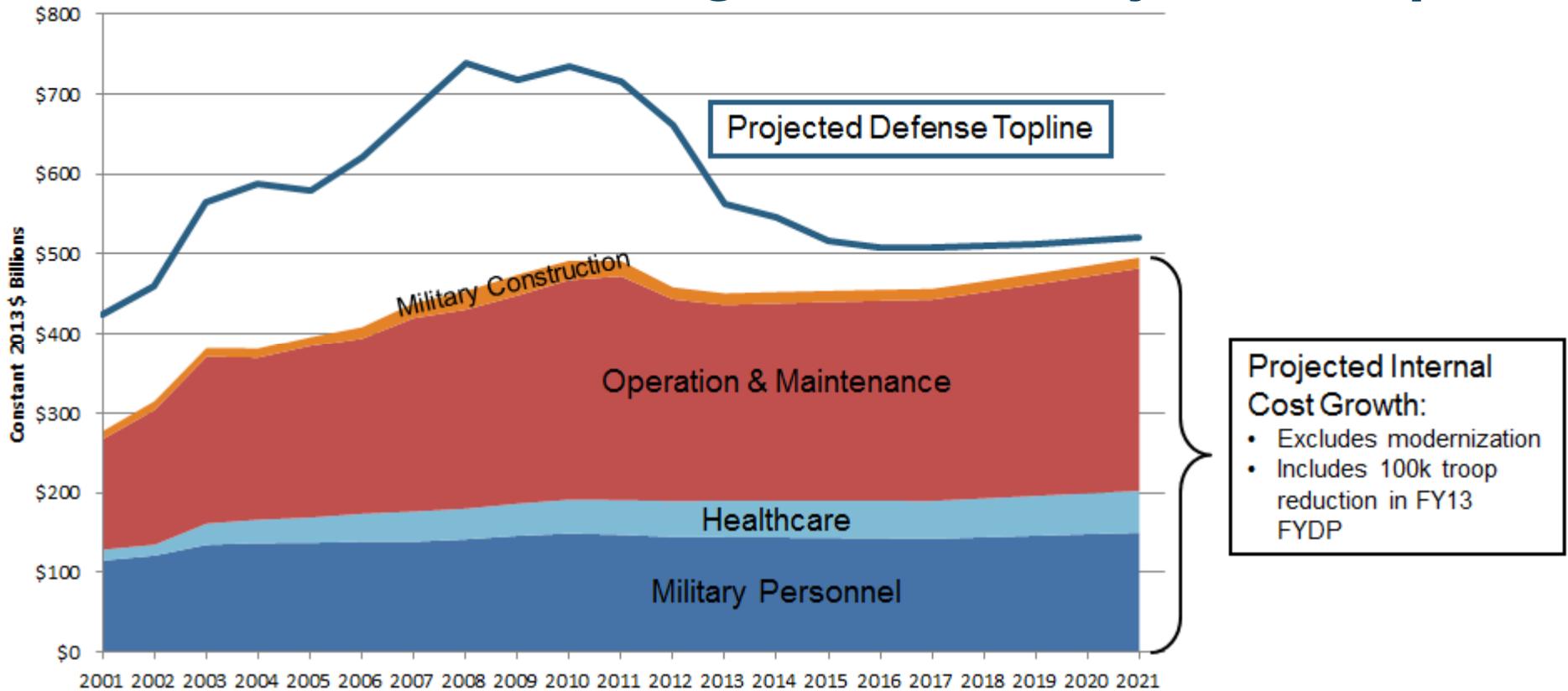
Internal Cost Growth

- This defense drawdown will be much more serious than prior ones. Uncontrolled DoD cost growth is “hollowing out” the defense budget from within:
 - Personnel costs in base budget “increased by nearly 90 percent or about 30 percent above inflation [since 2001], while the number of military personnel has increased by only about 3 percent”¹
 - O&M costs per active duty service member are increasing steadily:
 - Between 1980 and 2001 rose from \$55,000 to \$105,000 (in constant 2012 dollars). In DoD’s 2012 base budget request rose to \$147,000.
 - Projected to “grow at more than one and one-half times the historical (pre-2001) rate through the (FYDP) period, reaching \$161,000 in 2016”²
- Declining purchasing power is measured in how much military capability it can “buy” per dollar
 - Although the projected defense topline in 2021 would be about \$100B higher than after past drawdowns, it would buy an active-duty force that is 34% smaller than in 1978

1. Department of Defense, “Defense Budget Priorities and Choices,” January 2012, http://www.defense.gov/news/Defense_Budget_Priorities.pdf.

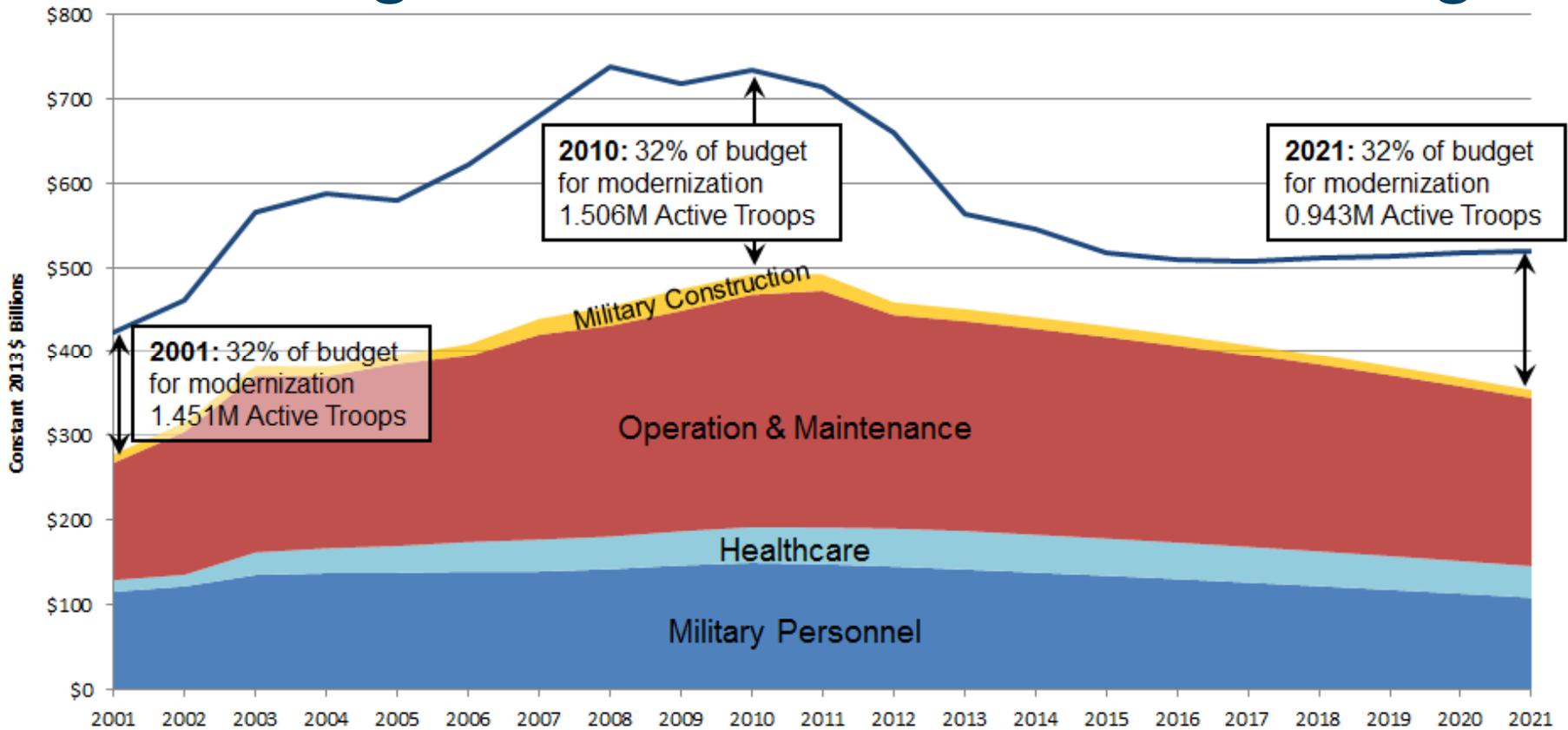
2. Congressional Budget Office, “Long Term Implications of the FY2012 Future Years Defense Program.”

Internal Cost Growth against the Projected Topline



“If DoD wants to maintain end strength at currently planned levels but cannot reduce the growth rate of personnel and O&M costs below their historical norms, then personnel and O&M costs could consume 80% of the budget by FY21.”
 –CSBA Senior Fellow Todd Harrison (also a CSIS Defense Drawdown Working Group member)

Restoring Modernization to the 2021 Budget



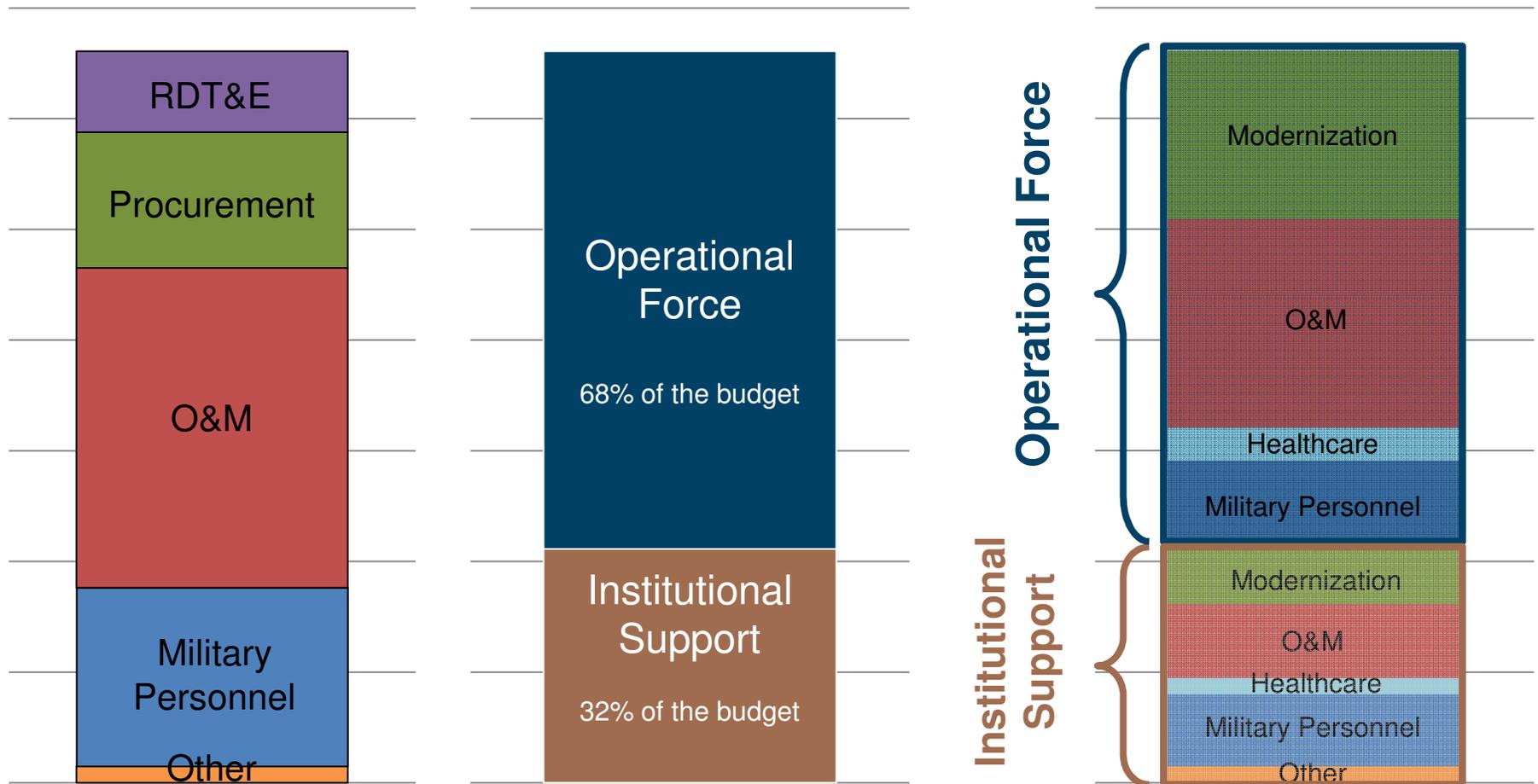
Need to cut an additional 455,000 beyond the planned FY13-17 reduction of 102,000

Analytic Approach: Introducing Key Concepts

Build **Affordable Force Alternatives** for 2021 by re-conceptualizing costs into two categories, assigning “cost caps,” and re-allocating resources:

- **Institutional Support:** Cost of support infrastructure (e.g., training, recruiting, facilities, administration) that any future military will need to produce capabilities.
 - Cost Cap: Determine how much DoD “**should**” spend (~30%)
 - Apply any Institutional Support savings to spend on Operational Forces
- **Operational Forces:** Cost of forces assigned to the Combatant Commands and used in direct support of troops engaged in military operations.
 - Cost Cap: Determine how much DoD “**can**” spend (~70%), then divide into two sub-categories:
 - Common Core Capabilities, which any U.S. military **must** possess in order to address key 2021 threats and to conduct key 2021 military missions
 - Strategy Options, each intended to provide policymakers with additional baskets of capabilities and capacity beyond those resident in the CCCs. Each Strategy Option would represent a different priority that policymakers **could** seek to add, if affordable.

Re-Conceptualizing the Defense Budget

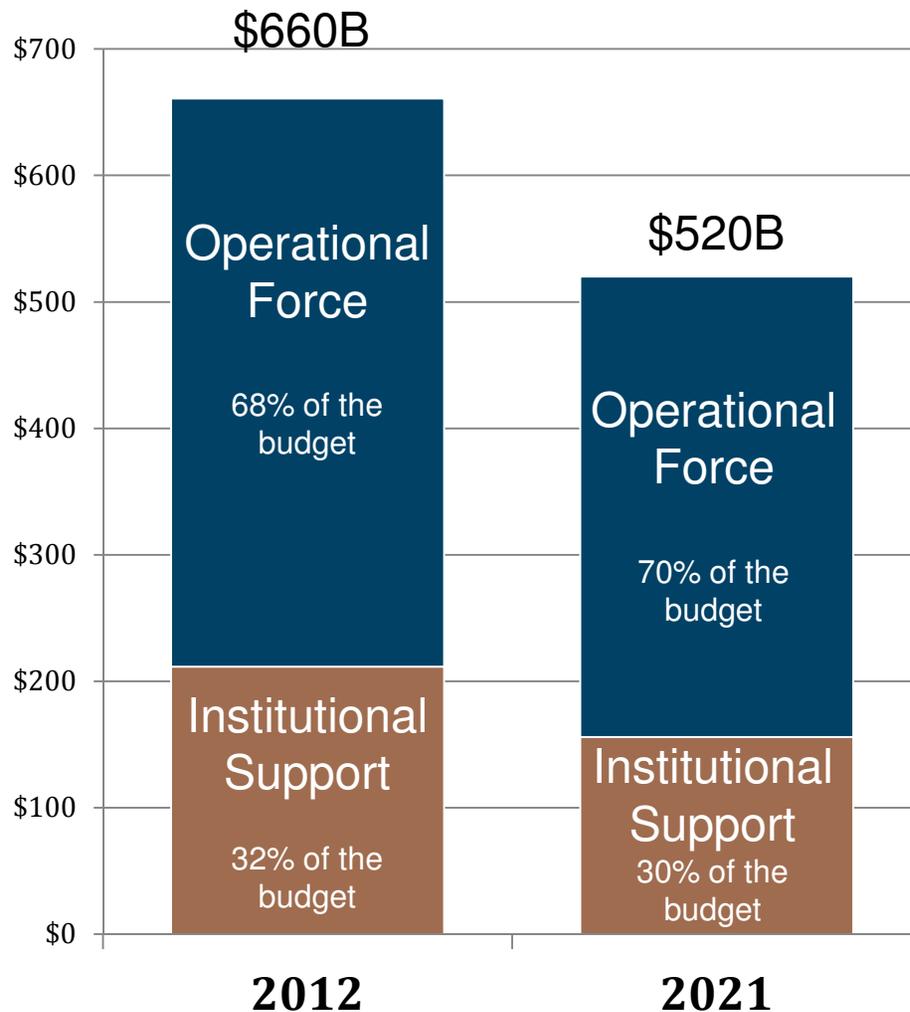


Re-Conceptualizing the Defense Budget (Cont'd)

Defining the Operational Force and Institutional Support			
Appropriation	Operational	Institutional	Methodology
Personnel	55%	45%	Used the division of personnel from the Defense Manpower Data Center, as split between "Forces" and "Infrastructure," then multiply by the cost per person in personnel account.
O&M	74%	26%	Divided O&M budget (O-1) based on Budget Activity: Operational Forces were considered anything in the "Operating Forces" and "Mobilization" activities, and Institutional Forces were the "Training and Recruiting", "Admin & Servicewide Activities", and "Environmental Restoration".
Procurement	75%	25%	Divided Procurement budget (P-1) by budget subactivity. Institutional: Support equipment and facilities, trainer aircraft, staff & infrastructure, base maintenance & support, chem and munition destruction. Everything else was considered Operational.
RDT&E	75%	25%	Institutional: all S&T budget activities - Basic Research, Applied Research, Advanced Technology Development - as well as "RDT&E Management Support". Operational included all other activities, which are ACD&P, SDD, and Operational Systems Development
Construction & Family Housing	0%	100%	All Construction and Family Housing activities were categorized as Institutional.
Total	68%	32%	

Note: This figure was further confirmed by using another DoD breakdown of forces: the Major Force Programs (MFP). In 2012, the MFP's associated with Institutional Support (Research and Development, Central Supply and Maintenance, Training & Medical, Admin & Assoc, and Support of Other Nations) also totaled 32% of the budget.

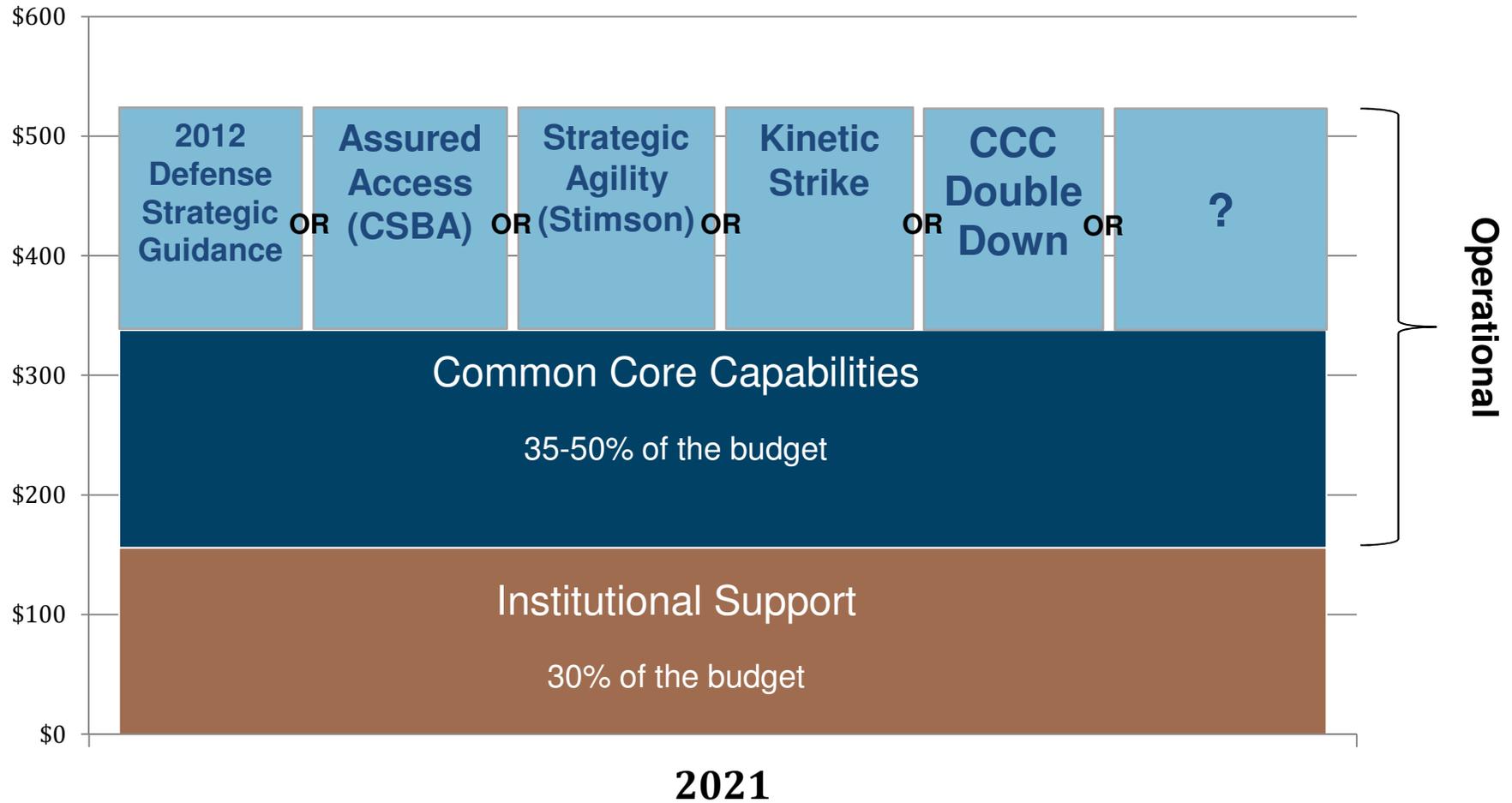
A “Should Cost” Approach



“Did Cost” for 2012:
 Institutional Support was 32% of the 2012 defense budget, based on CSIS judgments

“Should Cost” for 2021:
 Institutional Support will be held at no more than 30% of the 2021 defense budget, or \$156B

2021 Affordable Force Alternatives



A Game Plan for the 2013-14 QDR (1 of 2)

Step 1: Re-affirm DoD's Presidentially-endorsed 2012 Defense Strategic Guidance (DSG) or amend the strategy based on new developments (e.g., changes in the security environment, new leadership priorities).

Step 2: Define the projected defense budget topline and identify the macro-tradeoffs needed to cope with the dual challenge of a declining budget and internal cost growth.

- End-strength vs. modernization; readiness vs. end-strength, etc.

Step 3: Implement “cost caps” to constrain spending on institutional support functions *at 30% of the defense budget*.

A Game Plan for the 2013-14 QDR (2 of 2)

Step 4: *With 35-50% of the defense budget*, identify those capabilities that would best help DoD achieve its strategy (as amended).

- Judge risk to DoD's ability to achieve its strategy based on these capability choices. Make any necessary revisions in order to get the best capabilities within the 50% cost cap.

Step 5: *With the remaining 20-35% of the defense budget*, identify different ways of achieving the strategy (as amended).

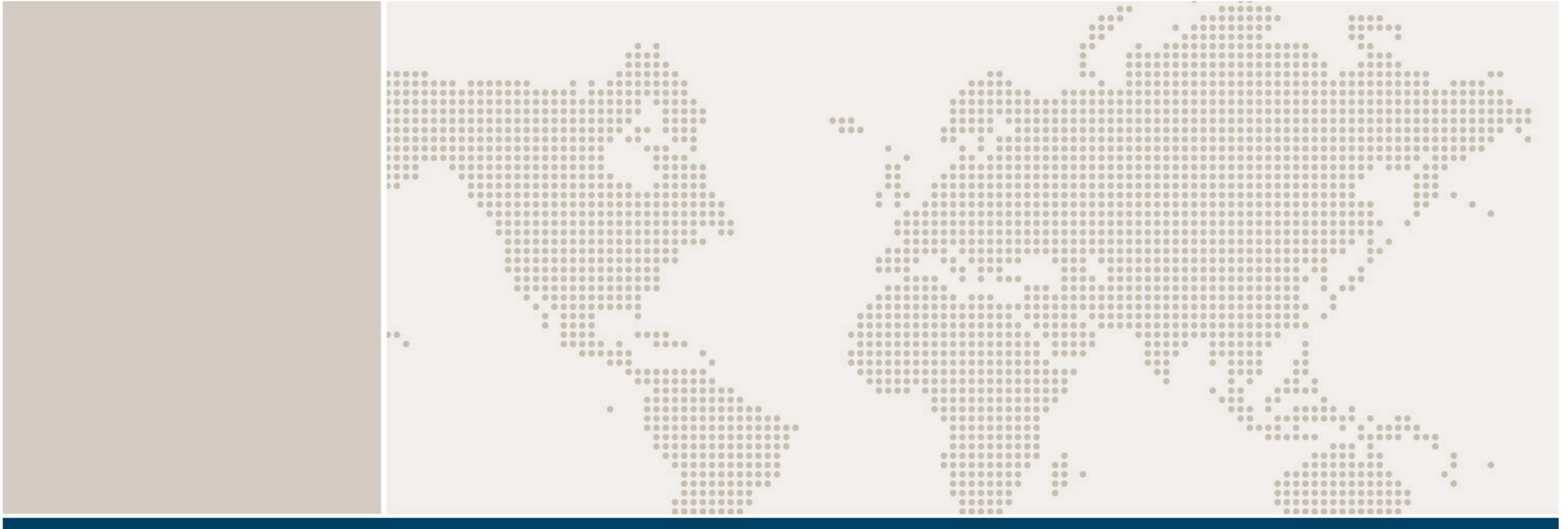
- Judge risk to DoD's ability to achieve its strategy based on these capability choices. Make any necessary revisions in order to get the best capabilities within the 20% cost cap.

Step 6: Explicitly determine whether DoD's affordable force structure provides sufficient capability to execute the strategy (as amended).

- If it does not, re-amend the strategy.

Final Thoughts

- In the 2013-14 QDR, DoD must come to grips with how much capability it can really buy with both fewer and weaker defense dollars.
- The traditional question for defense planning is “how much is enough?”
 - In other words, “how big of a budget and how big of a military do you need to execute the strategy?”
- In this era of austerity, with severe pressures on the defense budget, the first question is not “how much is enough,” but “how much is affordable?”
- And then we have to ask -- realistically and dispassionately -- what strategy can we execute with these constrained resources?
 - Aligning ends, ways and means during an age of austerity may mean doing less with much less.



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