Defense Budget Cuts and Non-Traditional Threats to US Strategy: An Update

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Introduction

The US Congress has passed budget legislation that threatens devastating cuts in national security funding if the Congress does not act to find meaningful solutions to the nation’s debt and deficit problems by the end of 2011. These cuts, however, are only one of several non-traditional threats to US security.

This brief analyzes the pattern of cuts in recent, ongoing, and possible future defense and national security spending that affects the US and its ability to project power and aid its friends and allies. It shows, however, that this is only part of the story:

• The US may not face peer threats in the near to mid term, but it faces a wide variety of lesser threats that make maintaining effective military forces, foreign aid, and other national security programs a vital national security interest.

• The US does need to reshape its national security planning and strategy to do a far better job of allocating resources to meet these threats. It needs to abandon theoretical and conceptual exercises in strategy that do not focus on detailed force plans, manpower plans, procurement plans, and budgets; and use its resources more wisely.

• The US still dominates world military spending, but it must recognize that maintaining the US economy is a vital national security interest in a world where the growth and development of other nations and regions means that the relative share the US has in the global economy will decline steadily over time, even under the best circumstances.

• At the same time, US dependence on the security and stability of the global economy will continue to grow indefinitely in the future. Talk of any form of “independence,” including freedom from energy imports, is a dangerous myth. The US cannot maintain and grow its economy without strong military forces and effective diplomatic and aid efforts.

• US military and national security spending already places a far lower burden on the US economy than during the peaceful periods of the Cold War, and existing spending plans will lower that burden in the future. National security spending is now averaging between 4% and 5% of the GDP in spite of the fact the US is fighting two wars versus 6-7% during the Cold War.

• No amount of feasible cuts in US national security spending can have more than a token impact on the US deficit and debt problems.

• The most serious single threat the US faces to its national security comes from the non-traditional threat of entitlements spending, but this federal spending is driven by far more serious problems that cannot be addressed simply by altering federal spending. These are driven by non-traditional threats that extend far beyond government spending:
  • An aging population that does not save or assume responsibility for retirement; and
• Unaffordable rises in the burden medical care puts on the economy which cannot be dealt with by cutting back the level of government spending without addressing the entire problem.

• The steady decline in the size and military capability of our traditional allies poses another critical non-traditional threat. It is clear that no amount of US exhortation will change this situation and the US must reshape its strategy accordingly.

• The rise of threats like terrorism is only one aspect of new shifts in the threats to the US that force it to work far more closely and effectively with non-traditional allies, reshape elements of its military spending and operations to help build up their capabilities, and maintain strong embassy teams and aid efforts to help bring political and economic stability.

• The US must fundamentally rethink its approach to “optional wars.” It is far from clear that it can win the Iraq War, rather than empower Iran, without a strong military and aid presence. It will decisively lose the Afghan and Pakistan conflict if it does not quickly develop plans for a military and diplomatic presence, and help to aid Afghanistan in transitioning away from dependence on foreign military and economic spending during 2012-2020. US troop cuts are not a transition plan, and focusing on withdrawal is a recipe for defeat.

• That said, the US cannot, and should not, repeat the mistake it made in intervening in Iraq and Afghanistan. It must deal with non-traditional threats with a far better and more affordable mix of global, regional, and national strategies that can deal with issues like the turmoil in the Middle East, and South and Central Asia, and terrorism and instability on a global basis. It must rely on aiding friendly states, deterrence, containment, and far more limited and less costly forms of intervention.

• The new budget act poses a potentially crippling threat to US national security. Further major defense spending cuts pose a major additional threat under these conditions. The US has already made major cuts in its defense efforts since FY2009, and plans to implement an additional $250 billion in cuts over the next five years. It cannot absorb major additional cuts under these conditions. The Department of Defense does, however, need to make a major new effort to deal with its own, self-inflicted non-traditional threats.

• Massive rises in the cost per solider on active duty.

• A quarter century of posturing (?), failed efforts to develop effective procurement programs and cost controls.

• A fundamental breakdown in the ability to tie strategy to feasible, affordable programs.

It is also clear that far more integrated planning is needed at some point to address the proper mix of State Department, Department of Defense, various homeland defense, and Intelligence Community efforts. It is unclear that this would produce meaningful budget savings, but it is all too clear that the present compartmented and stovepiped efforts do not produce anything approaching an integrated strategy or efficient use of resources.
“Traditional” (Policy Guidance) Threats
The DoD FY2012 View of Strategic Challenges

- U.S. Troops Remain Deployed
- WMD Proliferation
- Violent Extremists ↔ Non-State Actors
- Rising Peer Competitors
- Security of Global Commons (Piracy / Cyber)
- World-Wide Natural Disasters

An uncertain and dynamic environment that spans the Range of Military Operations

Source: Department of Defense, B02-11-101 v 2.2FY 2012 Budget
Key Military “Threats” and Tasks

- Air-sea threat from China; emerging strategic nuclear power.
- Korea-Taiwan-South China Sea.
- Iran-Shi’ite Crescent-Arab Spring-Petroleum Exports-Libya
- Islamic extremist and violence: terrorism, insurgency, hybrid warfare, nuclear Pakistan, destabalized Yemen
- Force Building and Iraq/Afghan transition
- Residual Russian nuclear threat; radical regime change.
- Broader proliferation: 4th generation chemical, genetic biological, advanced radiological, boosted and thermonuclear, EMP, “weapons of mass effectiveness, cyberwarfare
- Uncertainty factor in dealing with emerging powers with regional economic -- and eventually technological and military – parity.
- Irrational/unpredictable emergence of irregular/asymmetric, conventional, and WMD warfare in a period of constant technological change.
- Armed peacemaking/national building/emergency relief/stability operations.
- Columbia, Mexico, Venezuela-like support/intervention
Resource-Based Challenges

- Dealing with the immediate budget and financial crisis.
- Bringing entitlements, defense discretionary spending, other discretionary spending – and revenues – into a stable, affordable balance.
- Creating a functional system for tying strategic planning to a working PPBS and force planning system actually executed on time, at the promised level, and at the promised cost.
- Structuring US strategy to create an affordable, evolving, civil-military, national security posture that meets critical needs.
- Facing the declining capability and will of traditional allies.
- Strengthening non-traditional alliances.
- Dealing with emerging powers with regional economic -- and eventually technological and military – parity.
- Finding the balance between irregular/asymmetric, conventional, and WMD warfare in a period of constant technological change.
- Coping with ideological and non-state actors at the political and civil as well as the combat and counterterrorism levels.
The Global Economic Threat to US Strategy
Dealing with Emerging Powers with Regional Economic – and Eventually Technological and Military – Parity

- Shrinking US share of global population and economy is not necessarily decline, but is a reality.
- US dependence on global economy grows, and with it dependence on key economic peer competitors. E.G. China
- We cannot define for ourselves what a post-industrial America really means, but we do see growing industrial dependence.
- Civil technology transfer, and diminishing returns steadily erode the US and “Western” (Japan and South Korea) lead.
- China already illustrates the case where any major conflict, and sustained military competition, would pose a massive national security burden. India, ????, will follow.
- Need to rethink regional interests: Central and South Asia? West Africa? Latin America? North America? Gulf?
US Share of World Military Spending: 2009

- US military spending accounts for 46.5 percent, or almost half, of the world’s total military spending.
- US military spending is 7 times more than China, 13 times more than Russia, and 73 times more than Iran.
- US military spending is some 44 times the spending on the six “rogue” states (Cuba, Iran, Libya, North Korea, Sudan and Syria) whose spending amounts to around $16 billion.
- US spending is more than the next top 14 countries at least.
- The United States and its strongest allies (the NATO countries, Japan, South Korea and Australia) spend something in the region of $1.1 trillion on their militaries combined, representing 72 percent of the world’s total.
- The six potential “enemies,” Russia, and China together account for about $169 billion or 24% of the US military budget.

The Globalism of Military Spending in 2009

The Globalism of Military Spending - 2010

- In 2010, global spending was estimated at $1,630 billion, an increase of 1.3 percent over the previous year.

- The United States continues to lead the spenders, with its share of global military expenditure rising to 43 percent. The four other permanent members of the United Nations Security Council remain a significant distance behind, with China ($114 billion) coming second with 7 percent, followed by Britain, France, and Russia with around 4 percent.

- Although the rate of increase in US military spending slowed in 2010—to 2.8 per cent compared to an annual average increase of 7.4 per cent between 2001 and 2009, the global increase in 2010 is almost entirely down to the United States, which accounted for $19.6 billion of the $20.6 billion global increase.

- The USA has increased its military spending by 81 per cent since 2001, and now accounts for 43 per cent of the global total, six times its nearest rival China.

- The global increase in military spending of 1.3 per cent is the slowest annual rate of increase since the surge in global military expenditure began after 2001. Between 2001 and 2009, the annual increase averaged 5.1 per cent.

- In Europe, where military spending fell by 2.8 per cent, governments began to address soaring budget deficits, having previously enacted stimulus packages in 2009. Cuts were particularly substantial in the smaller, more vulnerable economies of Central and Eastern Europe, as well as those with particular budget difficulties such as Greece.

- In Asia, the slower increase of 1.4 per cent in military spending in 2010 partly readjusts growth in military spending to economic growth rates. The Chinese Government, for example, explicitly linked its smaller increase in 2010 to China’s weaker economic performance in 2009.

- The Middle East spent $111 billion on military expenditure in 2010, an increase of 2.5 per cent over 2009. The largest absolute rise in the region was by Saudi Arabia.

- Estimated spending in Africa increased by 5.2 per cent, led by major oil-producers such as Algeria, Angola and Nigeria.

Now:
- World 6,902,423,601
- U.S. 310,894,056 =
- 4.5%

2050:
- World 9,309,051,539
- U.S. 419,850,000 =
- 4.5%

Source: U.S. Census Bureau, International Data Base, December 2010 Update.
Estimate of US Share of Global GDP

US share of world GDP (nominal) peaked in 1985 with 32.74% of global GDP (nominal). The second highest share was 32.24% in 2001.

US share of world GDP (PPP) peaked in 1999 with 23.78% of global GDP (PPP). The share has been declining each year since then.

Percentage of World GDP: 1500-2000

Data from Angus Maddison, University of Groningen, graph from http://www.visualizingeconomics.com/2008/01/20/share-of-world-gdp/.
Europe vs. Asia Demographics

• In 1950, the world population stood at 2.519 billion; shortly after NATO's 50th anniversary in 2000, the world population stood at 6.057 billion. Over those 50 years, the North American (including Canada) share of world population of 172 million (or 6.8 percent share) grew to 314 million (or 5.2 percent).

• The population of the EU (the EU 25 as of 2004)--350 million (at 13.9 percent)--had grown to 452 million, this represented a decline in European population to 7.5 percent of the world population. In effect, Europe registered a significant demographic marginalization within the world. (23)

• Over the next decades, Europe's demographic marginalization will become more rapid and will result in relative economic decline. If NATO still exists in 2050, it will do so in a world with a population projected to be 9.322 billion.

• The North American population is projected at 438 million (or 4.7 percent) with a 26 percent share of GWP; the EU 25, forecast as down from 452 million to 431 million (or 4.6 percent), is projected to only share slightly more than 12 percent of the GWP.

• Significantly, thanks to an increasingly non-European diaspora, U.S. political attention will shift away from Europe and toward Latin America and Asia as these areas become more important. The population of Latin America and the Caribbean, which stood at 519 million in 2000 (up from 167 million in 1950), is projected to surpass Europe by more than 30 percent in 2050, with a population of 806 million (or 8.6 percent).

• In Asia, China counted 1.275 billion people in 2000 (up from 554.8 million in 1950) and is projected to be at 1.462 billion in 2050 (or 15.7 percent). During the same period, India's population of 1 billion in 2000 (up from 357.6 million in 1950) is projected to be 1.57 billion (or 16.8 percent of the world population) in 2050. (24) The two countries together will comprise 32.5 percent of the total world population and will play a larger role in the world economy.

• China's 25 percent share of GWP in 2050 will be roughly equal to that of the United States and twice that of the EU 15. Internal demographic factors and external global shifts increasingly will draw the attention of the United States away from its traditional European focus. Europe's rapid demographic marginalization and diminishing social, economic, and political weight will mean that it will no longer be the "center" of the world or of U.S. attention.

Jeffrey Simon, “NATO’s Uncertain Future: is Demographics Destiny?”, Joint Forces Quarterly, April 2009,
The relative paths of GDP in dollar terms in China and America depend not only on real growth rates but also on inflation and the yuan’s exchange rate against the dollar. Over the past decade real GDP growth averaged 10.5% a year in China and 1.7% in America; inflation averaged 3.8% and 2.2% respectively. Since Beijing scrapped its dollar peg in 2005, the yuan has risen by an annual average of 4.2%. Our best guess for the next decade is that annual real GDP growth averages 7.75% in China and 2.5% in America, inflation rates average 4% and 1.5%, and the yuan appreciates by 3% a year. Plug in these numbers and China will overtake America in 2019. But if China’s real growth rate slows to an annual average of only 5%, then (leaving the other assumptions unchanged) China would become number one in 2022.

BUT, this is PPP GNP. In market terms, the US GDP is now $14.7 trillion and China is $5.9 trillion vs. $10.9 trillion in PPP.

GDP from Manufacturing in U.S. and China

Global Economy Remains Critically Dependent on Rising Oil Exports Through 2035
Strategic Importance of Iraqi Oil: US Petroleum Import Dependence Remains High Through 2035

The net import share of total U.S. energy consumption in 2035 is 17 percent, compared with 24 percent in 2009. (The share was 29 percent in 2007, but it dropped considerably during the 2008-2009 recession.)

Much of the projected decline in the net import share of energy supply is accounted for by liquids.

**Although U.S. consumption of liquid fuels continues to grow through 2035** in the Reference case, **reliance on petroleum imports as a share of total liquids consumption decreases.**

Total U.S. consumption of liquid fuels, including both fossil fuels and biofuels, rises from about 18.8 million barrels per day in 2009 to 21.9 million barrels per day in 2035 in the Reference case.

The import share, which reached 60 percent in 2005 and 2006 before falling to 51 percent in 2009, falls to 42 percent in 2035.
Strategic Importance of Iraqi Oil: Developing Nations Make Massive Increases in Energy Use

EIA’s *International Energy Outlook* shows world marketed energy consumption increasing strongly over the projection period, rising by nearly 50 percent from 2009 through 2035 (Figure 50). Most of the growth occurs in emerging economies outside the Organization for Economic Cooperation and Development (non-OECD), especially in non-OECD Asia. Total non-OECD energy use increases by 84 percent in the Reference case, compared with a 14-percent increase in the developed OECD nations.

Energy use in non-OECD Asia, led by China and India, shows the most robust growth among the non-OECD regions, rising by 118 percent over the projection period. However, strong growth is also projected for much of the rest of the non-OECD regions: 82 percent growth in the Middle East, 63 percent in Africa, and 63 percent in Central and South America. The slowest growth among the non-OECD regions is projected for non-OECD Europe and Eurasia (including Russia), where substantial gains in energy efficiency are achieved through replacement of inefficient Soviet-era capital equipment.

Worldwide, the use of energy from all sources increases over the projection. Given expectations that oil prices will remain relatively high, petroleum and other liquids are the world’s slowest-growing energy sources. High energy prices and concerns about the environmental consequences of greenhouse gas emissions lead a number of national governments to provide incentives in support of the development of alternative energy sources, making renewables the world’s fastest-growing source of energy in the outlook.
The US Economic Burden
Threat to US Strategy
Defense Plans as a Portion of GDP

Source: Congressional Budget Office.

a. The base budget funds the normal activities of the government for national defense, including the development and procurement of weapon systems and day-to-day operations of the military and related civilian workforce. Base-budget data include supplemental and emergency funding unrelated to operations in Afghanistan, Iraq, and the war on terrorism.

b. For 2001 to 2011, supplemental and emergency funding for overseas contingency operations (OCO), such as those in Afghanistan and Iraq, and for other purposes is shown separately from the base-budget data.

c. The CBO projection of the Department of Defense’s (DoD’s) Future Years Defense Plan for 2012 (without funding for overseas contingency operations) incorporates costs that are consistent with DoD’s recent experience. It also assumes that the non-DoD portions of defense discretionary funding remain at 2011 levels, adjusted only for inflation.

d. Assumes proportional reductions in defense and nondefense discretionary budget authority subject to the caps as set in the Budget Control Act of 2011.

e. Assumes that the automatic enforcement procedures delineated in the Budget Control Act would take effect and, therefore, that caps for each year from 2013 through 2021 would be reset to cover defense and nondefense budget authority. Because no adjustment to the caps for 2012 would be made if the automatic enforcement procedures take effect, CBO has assumed that the reductions in 2012 would be proportional.
CBO Estimate Defense Share of Discretionary Spending: 1971-2021 Without 50% Cut

Source: Congressional Budget Office.

CBO, The Budget and Economic Outlook, 2011-2021, January 2011, p. 79
The Deficit and the Debt Threat to US Strategy
CBO Estimate of Impact of Budget Deficit: 1971-2021

Total Revenues and Outlays
(Percentage of gross domestic product)

Source: Congressional Budget Office. (Figure corrected on February 15, 2011.)

Total Deficits or Surpluses—Historically, in CBO’s Baseline, and with a Continuation of Certain Policies
(Percentage of gross domestic product)

Source: Congressional Budget Office.

CBO Estimate of Impact of Federal Debt: 1940-2021

(Percentage of gross domestic product)

Source: Congressional Budget Office.

Note: The projected debt with the continuation of certain policies is based on several assumptions: first, that most of the provisions of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Public Law 111-312) that originally were enacted in 2001, 2003, 2009, and 2010 do not expire on December 31, 2012, but instead continue; second, that the alternative minimum tax is indexed for inflation after 2011; and third, that Medicare’s payment rates for physicians are held constant at their 2011 level.
Legal vs. Probable Real Federal Debt as % of GDP

(Percentage of gross domestic product)

Source: Congressional Budget Office.

Note: The extended-baseline scenario adheres closely to current law, following CBO’s 10-year baseline budget projections through 2021 and then extending the baseline concept for the rest of the long-term projection period. The alternative fiscal scenario incorporates several changes to current law that are widely expected to occur or that would modify some provisions that might be difficult to sustain for a long period. (For details, see Table 1-1 on page 4.)

CBO, CBO’s 2011 Long-Term Budget Outlook, June 2011, p. xi.
DoD Estimate of Budget Deficit

(Federal Deficit in Billions of Dollars)

Source: Department of Defense, B02-11-101 v 2.2FY 2012 Budget
CBO Summary of New Budget Control Act of August 1, 2011

The bill has the following key provisions:

- Establishes caps on discretionary spending through 2021, and effectively calls for $350 billion in cuts over coming 10 years (Same annual levels as Gates $400 billion in cuts over 12 years);
- War Funding, though, is explicitly exempted from caps/sequestration.
  - Allow for certain amounts of additional spending for “program integrity” initiatives aimed at reducing the amount of improper benefit payments;
  - Make changes to the Pell Grant and student loan programs;
  - Require that the House of Representatives and the Senate vote on a joint resolution proposing a balanced budget amendment to the Constitution;
  - Establish a procedure to increase the debt limit by $400 billion initially and procedures that would allow the limit to be raised further in two additional steps, for a cumulative increase of between $2.1 trillion and $2.4 trillion;
  - Reinstall and modify certain budget process rules;
  - Create a Congressional Joint Select Committee on Deficit Reduction to propose further deficit reduction, with a stated goal of achieving at least $1.5 trillion in budgetary savings over 10 years; and
  - Establish automatic procedures for reducing spending by as much as $1.2 trillion ($600 million of which must be in national security) if legislation originating with the new joint select committee does not achieve such savings.

If appropriations in the next 10 years are equal to the caps on discretionary spending and the maximum amount of funding is provided for the program integrity initiatives, CBO estimates that the legislation—apart from the provisions related to the joint select committee—would reduce budget deficits by $917 billion between 2012 and 2021. In addition, legislation originating with the joint select committee, or the automatic reductions in spending that would occur in the absence of such legislation, would reduce deficits by at least $1.2 trillion over the 10-year period. Therefore, the deficit reduction stemming from this legislation would total at least $2.1 trillion over the 2012-2021 period.
### Projections of Discretionary Spending

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<td>CBO's March 2011 Baseline</td>
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<td>1,290</td>
<td>1,318</td>
<td>1,346</td>
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<tr>
<td>Exclude funding for operations in Afghanistan and Iraq and for similar activities</td>
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<td>-161</td>
<td>-164</td>
<td>-167</td>
<td>-170</td>
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### Effect of Proposed Discretionary Caps

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SOURCE: Congressional Budget Office.

NOTES: The calculations above do not include any adjustments for program integrity initiatives.

BA = budget authority; OT = outlays.

a. CBO calculated outlays for 2012 to 2021 by assuming an average aggregate spendout rate for all discretionary spending.
CBO Estimates of Possible Defense Reduction Paths

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<th>Illustrative Paths for Discretionary Budget Authority Subject to the Caps Set in the Budget Control Act of 2011</th>
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<td>In Billions of Dollars</td>
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<td>---------------------------------------------------------------</td>
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<td>Defense^a</td>
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<td>All reductions from defense^b</td>
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<td>552  532  531  516  524  531  541  550  560  569  578  2,634  5,432</td>
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<td>Proportional reductions</td>
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<td>552  538  541  550  560  571  584  597  610  623  637  2,760  5,811</td>
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<tr>
<td>No reductions from defense</td>
</tr>
<tr>
<td>552  562  574  586  599  614  630  646  664  682  700  2,935  6,256</td>
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</tbody>
</table>

CBO, CBO’s Analysis of the Budget Control Act of August 1, 2011.
Defer, Not Solve: Impact of August 2, 2011 Bill

Source: Center on Budget and Policy Priorities, Washington Post, August 4, 2011
Revenue: US Income Distribution
Wealthy Get Wealthier

Shares of Income After Transfers and Federal Taxes, 1979 and 2007

Cumulative Growth in Average After-Tax Income, by Income Group

Capital Gains Distribution and Tax Rates

Revenue: Some US Corporations Pay Little Tax

Revenue: Others Pay No Tax

The Entitlements Threat to US Strategy
The Growing Entitlements-Revenue Gap

(Percentage of gross domestic product)

Extended-Baseline Scenario

Alternative Fiscal Scenario

Source: Congressional Budget Office.

CBO, CBO’s 2011 Long-Term Budget Outlook, June 2011, p. 6.
CBO Estimate of the Impact of Mandatory Programs on GDP versus Defense and Other Spending

Percentage of GDP

Actual  Projected

Medicare and Medicaid

Social Security

Other Spending

National Defense as Percent of Total and Discretionary Federal Spending (Less Interest Payments)

<table>
<thead>
<tr>
<th>Year</th>
<th>% of Total</th>
<th>% of Discretionary Less Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-2002</td>
<td>18.9</td>
<td>50</td>
</tr>
<tr>
<td>2003-2006</td>
<td>21.4</td>
<td>53.4</td>
</tr>
<tr>
<td>2007-2011</td>
<td>21.3</td>
<td>55.6</td>
</tr>
<tr>
<td>2012-2016</td>
<td>18.7</td>
<td>55</td>
</tr>
</tbody>
</table>

Source: US Budgets, and Project on Defense Alternatives, Memo #47, February 2011, p. 3
CBO Estimate of Percentage Rise in the Cost of Mandatory Programs

Revised CBO Estimate of Discretionary versus Mandatory Federal Spending (Less Interest Payments): 2011-2080
The Aging Threat to US Strategy
• **Between now and 2035, the number of people age 65 or older will increase by about 90 percent**, compared with an increase of more than 10 percent in the number of people between the ages of 20 and 64.

• Today, that older population is one- fifth the size of the younger population; at those growth rates, it will be more than one-third the size of the younger group by 2035.

• **In 2035, about 93 million people will collect Social Security benefits, compared with 53 million today, and the average benefit will have grown nearly as rapidly as GDP per person. Spending for the program will climb from 4.8 percent of GDP in 2010 to 6.2 percent of GDP in 2035.**
Aging Impact on the US Population

## Retirement Savings

**AMERICANS WITH NO RETIREMENT SAVINGS RISES**

Half of “Echo Boomers” are off to a slow start

<table>
<thead>
<tr>
<th></th>
<th>ALL ADULTS</th>
<th>GENERATION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>May 2009</td>
<td>Nov. 2010</td>
</tr>
<tr>
<td>Relatively equal mix of stocks/mutual funds and investments such as bonds and money market funds</td>
<td>19%</td>
<td>22%</td>
</tr>
<tr>
<td>Mostly in stocks and/or mutual funds</td>
<td>21%</td>
<td>18%</td>
</tr>
<tr>
<td>Mostly in bonds, money market funds and other stable investments</td>
<td>13%</td>
<td>10%</td>
</tr>
<tr>
<td>Mostly in bank savings and/or CD’s</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Not at all sure</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>I don’t have any retirement savings</td>
<td><strong>30%</strong></td>
<td><strong>34%</strong></td>
</tr>
</tbody>
</table>

**Note:** Percentages may not add up exactly to 100% due to rounding. **Source:** Harris Interactive
By 2035, the growing number of beneficiaries due to the aging of the baby-boom generation will cause scheduled spending to climb to 6.1 percent of GDP, CBO estimates. However, there is uncertainty inherent in CBO’s projections; in 10 percent of simulations, outlays in 2035 are below 5.3 percent of GDP and in 10 percent they exceed 7.3 percent of GDP. In most simulations, outlays in 2035 are projected to account for a much larger share of GDP than in 2010.
Social Security Gap as Percent of GDP without Reform

(Percentage of gross domestic product)

Source: Congressional Budget Office.

Note: Revenues consist of payroll taxes and income taxes on benefits (but not interest credited to the trust funds). Outlays consist of Social Security benefits and administrative costs. Benefits as calculated under the Social Security Act, regardless of the balances in the trust funds, are known as scheduled benefits. If the trust funds became exhausted, payments to beneficiaries would be reduced to make outlays from the funds equal revenues to the funds; such benefits are known as payable benefits. In that case, total revenues would decline slightly because revenues from taxation of benefits would decline.
Sources of Growth in Federal Spending on Major Mandatory Health Care Programs and Social Security, 2011 to 2035

(Percentage of gross domestic product)

Effect of Excess Cost Growth

Effect of Aging

Spending in the Absence of Aging and Excess Cost Growth

Source: Congressional Budget Office.

CBO, CBO’s 2011 Long-Term Budget Outlook, June 2011, p. 11.
Social Security Revenue and Expenditure Impact: 2011-2080

Over-65 Dependence on Social Security (as %)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>65-69</td>
<td>34.5</td>
<td>33.8</td>
<td>33.1</td>
<td>29.7</td>
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<tr>
<td>70-74</td>
<td>45.9</td>
<td>44.4</td>
<td>42.7</td>
<td>40.2</td>
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<td>75-79</td>
<td>48.9</td>
<td>47.1</td>
<td>49.5</td>
<td>46.7</td>
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<tr>
<td>80-84</td>
<td>50.8</td>
<td>48.4</td>
<td>55.6</td>
<td>50.7</td>
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<tr>
<td>85+</td>
<td>52.4</td>
<td>48.1</td>
<td>56.4</td>
<td>54.5</td>
</tr>
</tbody>
</table>

Source: Employee Benefit Research Institute
The Medical Threat to US Strategy
Despite the most severe economic downturn in 80 years, healthcare spending in the U.S. rose an estimated 5.7 percent to $2.5 trillion in 2009, according to Medicare’s actuaries.

The percentage of the GDP spent on healthcare jumped to 17.3 percent from 16.2 percent in 2008—the largest one-year increase since 1960. At the current rate of growth, healthcare costs are predicted to nearly double to $4.5 trillion in 2019. At that point, they will account for 19.3 percent—almost a fifth—of our GDP.
The Impact of Rising Medicare and Medicaid Mandatory spending on Federal Health Care: 2000-2035

(Percentage of gross domestic product)

CBO, CBO’s 2011 Long-Term Budget Outlook, June 2011, p. 46.
CBO Estimate of Cost of Military Medical Care: 1980-2028

Source: Congressional Budget Office.

Notes: Each category shows the CBO projection of the base budget, which incorporates costs that are consistent with the Department of Defense's (DoD's) past experience. Base-budget data include supplemental funding prior to 2002.

Before 2001, pharmaceutical costs were not separately identifiable but were embedded in the costs of two categories: "Purchased Care and Contracts" and "Direct Care and Other." Starting in 2001, most pharmaceutical costs are separately identifiable, but some of those costs may be embedded in the category "TRICARE for Life Accrual."

The amounts shown for the Future Years Defense Program (FYDP) and the extension of the FYDP are the totals for all categories. FYDP period = 2011 to 2015, the years for which the Department of Defense's (DoD's) plans are fully specified.

a. The extension of the FYDP extends DoD's plans and uses DoD's estimates of costs if they are available and cost factors based on the broader U.S. economy if estimates by DoD are not available.
At the time CBO performed its analysis, in 2010, actual data on the Veterans Health Administration’s (VHA’s) obligations for that year were not available. As a result, CBO used VHA’s preliminary estimate of those obligations as the starting point for its projections of health care costs for veterans of overseas contingency operations (recent and ongoing military operations in Iraq and Afghanistan). The projections in the figure above are the same as those presented in the 2010 report of CBO’s analysis, but they have been converted to 2011 dollars. VHA is required by law to manage the provision of its services through an enrollment system; that system assigns veterans to one of eight priority groups for treatment. By comparison with Scenario 1, Scenario 2 incorporates assumptions of a larger number of enrolled veterans of overseas contingency operations and faster growth of medical expenditures per enrollee.
The Decline in Traditional Allies Threat to US Strategy
Facing the Declining Capability and Will of Traditional Allies

- End of the Cold War removes key motives for countries with the same budget and social dynamics as ours.
  - NATO Europe’s GDP rose 55% since 1991 and defense spending dropped 20%.
  - NATO Europe provided 33% of total NATO spending in 1990 and is now 21%.
- Impact of Iraq and Afghanistan on will, trust, and national caveats.
- New NATO strategy in direct contradiction to spending, force size, and probable willingness to execute.
- Japan hit by economic “freeze,” tsunami, and nuclear crisis. Taiwan declining and unwilling to spend. South Korea cutting back.
- Key military threats now in Asia, Middle East, and “out of area.”
- Threats are often complex mixes of irregular forces, non-state actors, failed governance, and deep internal tensions.
- Need to rethink European allies, Japan, South Korea, Australia, Canada in terms of “alliances of the credible and effective.” Re-evaluate Taiwan.
Decline in Allied NATO Manpower:
1990-2010
(In Thousands)

Background on NATO and Europe

- Europe had one quarter of the world's population in 1900, around 15% in 1950 and has only 7% today.

- Its share is expected to go down to 5% by 2050.

- The EU's GDP as a percentage of global GDP has shrunk from 28% in 1950 to 21% today, and may be as little as 18% in 2050.

- Only 4 of the 12 Allies maintain budgets meeting the generally accepted 2 percent of GDP threshold: the United Kingdom and France, with all-volunteer and expeditionary capabilities and experience, and Greece and Turkey, with large conscript forces and mutual defense concerns.

- France pledges to hold its defense budget constant at 2 percent until 2012 but will reduce its defense establishment by 54,000 over the next 7 years. Belgium, Denmark, Germany, and Spain have defense budgets that have declined to 1.3 percent or lower.

- During the post-Cold War period, NATO added 10 new members (in 1999 and 2004) In 1999, the 10 militaries counted 230,000 professionals among their 618,000 troops. By 2004, their total force declined to 409,000 troops, but their professional strength increased to 270,000. By 2008, 8 of the 10 new members had become totally professional (with only Lithuania and Estonia retaining conscription for a small part of their armed forces). As a result, 314,000 of their 317,000 troops were professional soldiers and could be counted toward augmenting European NATO's potential deployable force.

- Among NATO's Cold War European members, the declining cohort and aging problem will be felt most acutely in Italy and Spain, where overall declines of 21 to 25 percent in population are projected. As a result, between 2005 and 2050, Italy's population over the age of 60 will increase substantially from 25.5 to 41.6 percent, and Spain's from 21.4 to 39.7 percent. Although Germany, Greece, and Portugal have overall projected population declines of 10 to 15 percent, they also will experience an aging challenge. Between 2005 and 2050, the 60-and-over population will increase in Greece from 23 to 36.8 percent; in Portugal from 22.3 to 36.3 percent; and in Germany from 25.1 to 35 percent.

The Non-Traditional Alliance Threat to Our Strategy
Strengthening Non-Traditional Alliances

- Greater Middle East, most of Asia, Latin America, Africa, Pacific.
- Afghanistan and Iraq show critical role of local forces; role of US advisory and aid efforts.
- Critical to strategic communications, dealing with different cultures, faiths, and complex national sensitivities.
- Far cheaper and better use of US capabilities to help them do it, when strategic interests coincide.
  - FMS, MAP/FMF, IMET, USMTM/SANG, SOF trainers key military force multipliers.
  - State, INL, USAID, counterterrorism agencies key civil partners.
- Easier for traditional allies to play a key role.
- Key means to prevent, preempt, and contain, and avoid conflicts.
US vs. Traditional and Non-Traditional Military Spending
Comparative Defense Spending in $US Billions

Source: IISS, Military Balance, 2011
Unaffordable Forces? The Rising Cost of ANSF Development
(In Current $US Billions)

The Afghanistan Security Forces Fund (ASFF) directly supports funding to grow, train, equip, and sustain the ANSF. For FY 2010, Congress appropriated $9.2B for the ASFF, which is available through the end of FY2011. As of March 31, 2011, CSTC-A had obligated 85 percent of this amount. In addition, NATO contributions into the ASFF totaled $100M. In February 2011, President Obama requested $12.8B in the FY2012 budget to continue to equip and sustain the ANSF. These funds are essential to the building, training, equipping, and fielding of the security forces. ASFF funds are allocated for the ANA, ANP, and related activities, and then are further broken down into infrastructure, equipment, training, and sustainment. As the ANSF grow, NTM-A/CSTC-A will focus its attention on investment accounts (infrastructure and equipment). Going forward, though, operation accounts (training and sustainment) will become increasingly more important. As part of the transparency effort associated with these funds, the Government Accountability Office, DoD Inspector General, and the SIGAR currently have 20 audits ongoing that are in various states of completion.

- Section 1203 Report, April 2011, p. 41.
Critical Current Shortfalls in Key Trainers

<table>
<thead>
<tr>
<th>Prioritized Capabilities</th>
<th>Start Date</th>
<th>Suggested Manning</th>
<th>Pledges</th>
<th>In-Place</th>
<th>Progress Since 1SEP10</th>
<th>Shortfall After Pledges</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 ALP Training Sustainment Sites (Shaeen, Costal)</td>
<td>APR10</td>
<td>16, 19</td>
<td>SME(9)</td>
<td>EST(4)</td>
<td>RCU(10)</td>
<td>7, 5</td>
</tr>
<tr>
<td>2 ANCCP Training Center (Muthar Larr)</td>
<td>APR10</td>
<td>40</td>
<td>JCR(17)</td>
<td></td>
<td></td>
<td>23</td>
</tr>
<tr>
<td>3 ANCCP Consolidated Fielding Center (Kabul)</td>
<td>DEC10</td>
<td>70</td>
<td></td>
<td></td>
<td></td>
<td>70</td>
</tr>
<tr>
<td>4 ALP Regional Training Centers (Bamyan, Jalalabad, Gardez)</td>
<td>APR10</td>
<td>6, 38, 21</td>
<td>JCR(38)</td>
<td>USA(4)</td>
<td>USA(6)</td>
<td>6, 12, 0</td>
</tr>
<tr>
<td>5 AEP Training Centers (Spin Boldak, Shouz, Sheberghan)</td>
<td>JUL10</td>
<td>36, 15, 15</td>
<td></td>
<td></td>
<td>RCU(28)</td>
<td>7, 15, 15</td>
</tr>
<tr>
<td>6 MI-17 Air Mentor Team (Kandahar, Shindand, Jalalabad, Kabul, Herat, MIs)</td>
<td>MAY10</td>
<td>23, 23, 19, 7, 19, 23</td>
<td>LTU(3), LVA(2), UHR(2), HUN(16), ESP(8)</td>
<td>HUN(7), ITA(17), CCL(17)</td>
<td>11, 0, 19, 7, 0, 0</td>
<td></td>
</tr>
<tr>
<td>7 C27 Air Mentor Team (Kabul, Kandahar)</td>
<td>MAY10</td>
<td>17, 17</td>
<td></td>
<td></td>
<td>GRC(7)</td>
<td>10, 17</td>
</tr>
<tr>
<td>8 CAPTF Advance Fixed Wing AMT (Shindand)</td>
<td>SEP11</td>
<td>5</td>
<td></td>
<td></td>
<td>ITA(5)</td>
<td>0</td>
</tr>
<tr>
<td>9 Armed Forces Medical Academy (AFAMS) (Kabul)</td>
<td>OCT10</td>
<td>28</td>
<td></td>
<td></td>
<td>FPA(12)</td>
<td>16</td>
</tr>
<tr>
<td>10 ANSF National Military Hospital (Kabul)</td>
<td>OCT10</td>
<td>28</td>
<td></td>
<td></td>
<td>GRC(16)</td>
<td>12</td>
</tr>
<tr>
<td>11 Regional Military Hospitals (Kandahar, MIs, Herat)</td>
<td>FEB10</td>
<td>18, 18, 18</td>
<td></td>
<td></td>
<td>BGR(10)</td>
<td>8, 18, 18</td>
</tr>
<tr>
<td>12 Signal School (Kabul)</td>
<td>JUN10</td>
<td>44</td>
<td>NCR(3), SME(2), FIN(2)</td>
<td>SAE(2), NCR(2)</td>
<td>HUN(1), GBR(7), TLR(3)</td>
<td>0, 0, 0, 3</td>
</tr>
<tr>
<td>13 RMTC-HQ Senior Advisor Teams (Kabul, Shorabak, Gardez, MIs)</td>
<td>SEP10</td>
<td>7, 7, 7, 7</td>
<td>HUN(3)</td>
<td>USA(13)</td>
<td>GBR(23), TLR(1), HUN(20)</td>
<td>36, 18, 38, 18</td>
</tr>
<tr>
<td>14 RMTC Trainers (Kabul, Shorabak, Shindand, MIs)</td>
<td>JAN11</td>
<td>38, 38, 38, 38</td>
<td>USA(1)</td>
<td></td>
<td>GBR(23), TLR(1), HUN(20)</td>
<td>36, 18, 38, 18</td>
</tr>
<tr>
<td>15 CONA Academy (Kabul)</td>
<td>FEB10</td>
<td>57</td>
<td>ITA(3), ALS(2), FPA(4), GBR(1)</td>
<td>ALS(4), ITA(2), USA(43), FPA(1), GBR(1)</td>
<td>CCL(19)</td>
<td>0</td>
</tr>
</tbody>
</table>

Total: 819

Source: NTM-A, Year in Review, November 2009 to November 2010, p. 27.
Affordable or Unaffordable ANSF? The US is Already Cutting Back to Below $4 Billion a Year

### PROJECTED ANSF EXPENDITURES, 2008/09-2023/24

<table>
<thead>
<tr>
<th></th>
<th>2006/09</th>
<th>2013/14</th>
<th>2018/19</th>
<th>2023/24</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expenditures by Security Force ($ Billions)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ANA</td>
<td>$3.2</td>
<td>$3.8</td>
<td>$5.0</td>
<td>$6.5</td>
</tr>
<tr>
<td>ANSF</td>
<td>$1.5</td>
<td>$1.7</td>
<td>$2.1</td>
<td>$2.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4.7</strong></td>
<td><strong>$5.5</strong></td>
<td><strong>$7.1</strong></td>
<td><strong>$9.2</strong></td>
</tr>
</tbody>
</table>

### Expenditures Relative to Revenues (PERCENT)

- ANSF Expenditures as a Share of Projected GIRoA Domestic Revenues:
  - 449%
  - 270%
  - 196%
  - 154%

Notes: Numbers affected by rounding. Includes operating and investment expenditures.

a. Estimated actual.
b. World Bank Manpower Level Assumption: ANA strength increases to 240,000 by 2012/13; ANSF strength increases to 100,000 by 2013/14. These differ from the troop levels agreed to at the January 2010 London Conference, which were 371,000 for the ANA and 134,000 for the ANSF by October 2011.
c. Macroeconomic assumptions: Afghanistan’s long-term GDP growth rate averages 6% annually; inflation decreases to 3% in 2012/13 and beyond; GIRoA domestic revenue rises 13% of GDP by 2028/29.


### ESTIMATED DOMESTIC REVENUE COLLECTION, 2006/07-2009/10 ($ Billions, $ Billions)

- **Af 83.3**
- **(Af $1.41)**
- **Af 41.4**
- **($0.91)**
- **Af 33.4**
- **($0.73)**
- **Af 28.8**
- **($0.62)**

Notes: Figures are preliminary estimates. Af 45 = $1.


Sources: Ministry of Finance; Da Afghanistan Bank.

Source: SIGAR, Quarterly Report, July 2010, pp. 92-93
A US Focus on “National Building” is Largely a Myth. The Low Ratio of US Civil Aid to Military Effort: FY2001-FY2011

(In Current $US Billions)

Setting Impossible Goals

Anticipated funding and expected expenditures, 2008-2013

Cumulative budget shortfall $18.6

Dollars in billions

<table>
<thead>
<tr>
<th>Years</th>
<th>Assistance from donors</th>
<th>Domestic revenue</th>
<th>Total expenditures</th>
<th>Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>8</td>
<td>2</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>2009-10</td>
<td>6</td>
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<td>2010-11</td>
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<td>6</td>
<td>16</td>
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</tr>
<tr>
<td>2011-12</td>
<td>2</td>
<td>8</td>
<td>22</td>
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</tr>
<tr>
<td>2012-13</td>
<td>0</td>
<td>10</td>
<td>32</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Afghanistan National Development Strategy - 2008 (data); Defense Imagery (photo).
Transitioning to Mission Impossible

GIROA Spending Expectations Inconsistent with Future Budget Restrictions

GIROA Estimated Total Spending* (On Budget NOT INCLUDING ANSF Spending)

GIROA Revenues

Civilian Assistance

*Source GIROA 1389 Budget, (Total Pending = Operational Budget + Development Budget)

** Source: Afghan National Development Strategy 2008-2013, (Budgeted Core + External Expenditure)

Losing the Wars in Iraq and Afghanistan?

- So far, the US has created a major power vacuum in Iraq and that has largely empowered Iran. **Unless it can reach a meaningful strategic framework agreement with Iraq, and create a strong lasting diplomatic and military advisory and aid program, it will lose the peace in ways that lose the war.**

- The US has not announced any credible transition plans for Afghanistan to maintain progress in the ANSF, avoid withdrawals that do not reflect conditionals in the field, or deal with almost certain crisis that will occur in 2014-2017 because of US and allied withdrawals, massive cuts in spending and aid, the uncertainties surrounding a 2014 election.

  - The US Treasury estimates **the best case impact of cuts in foreign spending in Afghanistan during and after 2014 will be 12% of the GDP** – the same as took place in the US Great Depression.

  - The worst case is 41%.

  - The best case estimate of the impact of fully funding current aid plans is 150,000 jobs over three years. There is little prospect of such funding, or executing such efforts before 2017, and the CIA estimates the Afghan labor force will rise by 392,000 males a year, or 1.96 million by the time such programs take hold.

- President Obama has not submitted any plan or provided any guidance for this aspect of transition in Afghanistan or addressed any part of the problems in Pakistan.
The Defense Budget Cut Threat to US Strategy
CBO Estimate of Real Cost of Defense Plans

(Billions of 2012 dollars)

Source: Congressional Budget Office.

Note: FYDP = Future Years Defense Program; FYDP period = 2012 to 2016, the years for which the Department of Defense's (DoD's) plans are fully specified.

a. Base-budget data include supplemental and emergency funding before 2002.

b. For 2002 to 2012, supplemental and emergency funding for overseas contingency operations (OCO), such as those in Afghanistan and Iraq, and for other purposes is shown separately from the base-budget data. The amount shown for 2012 has been requested but has not been appropriated.

c. The CBO projection of the base budget incorporates costs that are consistent with DoD's recent experience.

d. For the extension of the FYDP (2017 to 2030), CBO projects the costs of DoD's plans using the department's estimates of costs to the extent they are available and costs that are consistent with the broader U.S. economy if such estimates are not available.

Key Terminations: FY2010-FY2012

FY2010
- F-22 production
- Transformational Satellite
- Combat search and rescue helicopter.
- VH-71 Presidential helicopter
- Multiple Kill Vehicle and Kinetic energy Interceptor
- Future Combat Systems Program

Proposed for FY2011
- C-77 procurement
- Second Joint Strike Fighter engine
- Large cruiser (CG(X)
- Navy intelligence aircraft (EP(X))
- Third generation infrared surveillance (3GIRS)

Restructurings for FY2012
- Army’s surface-launched advanced medium range air to air missile (SLAMRAAM)
- Non line of sight launch system (NLOS-LS)
- Expeditionary vehicle
- Restructure F-35 program and increase F/A-18 procurement

OSD Comptroller, FY2012 Budget Request-Overview, February 2011, pp. 45-1 to 4-3
Secretary Gates proposed $178 billion in savings and changes. Military Services were allowed to keep their savings of $100 billion and invest them in high priority requirements. The other $78 billion used for deficit reduction to accommodate a topline reduction of $78 billion for FY 2012 – FY 2016.

$100 billion for shift to high priority requirements:

**Army ($29.5 billion)**
- Reduce infrastructure civilian and military manning ($1.1 billion).
- Save on military construction costs by sustaining existing facilities ($1.5 billion).
- Consolidate e-mail infrastructure and data centers ($0.5 billion).
- Cancel procurement of SLAMRAAM ($1.0 billion).
- Terminate Non-line of Sight Launch System ($3.2 billion).
- Reduce recruiting and retention incentives and other manning initiatives ($6.7 billion).

**Navy ($35.1 billion)**
- Reduce ashore manpower, reassign personnel to operational ships & air units ($4.9 billion).
- Increase use of multiyear procurement contracts for ships and aircraft ($4.0 billion).
- Disestablish Second Fleet headquarters; staffs for submarine, patrol aircraft, and destroyer squadrons; and one carrier strike group staff ($1.0 billion).
- Terminate Expeditionary Fighting Vehicle ($2.8 billion).
- Reduce fossil energy consumption ($2.3 billion).
Air Force ($33.3 billion)

- Reorganization ($4.2 billion), e.g., consolidate four operations and three numbered Air Force staffs, and streamline the Installation Support Center.
- Improve depot and supply chain business processes ($3.0 billion).
- Reduce fuel and energy consumption within the Air Force Mobility Command ($0.7 billion).
- Reduce or terminate programs ($3.7 billion), e.g., terminate Air Force Infrared Search and Track Program.
- Reduce facility sustainment ($1.4 billion).
- Reduce cost of communications infrastructure by 25 percent ($1.3 billion).

SOCOM ($2.3 billion)

- Terminate the Joint Multi-Mission Submersible program ($0.8 billion).
- Consolidate multiple task orders into a single Special Operations Forces Information Technology Contract ($0.4 billion).
- Reduce programs where Service-common equipment meets requirements ($0.2 billion).
Reallocation of $100 Billion: FY2012-FY2016 1/2

Services will use $28 billion in savings to deal with higher than expected operating costs.

Army

• Provide improved suicide prevention and substance abuse counseling for soldiers.
• Modernize battle fleet of Abrams tanks, Bradley Fighting Vehicles, and Stryker vehicles.
• Accelerate fielding of the Army’s new tactical communications network to the soldier level.
• Enhance intelligence, surveillance, and reconnaissance (ISR) assets: Buy more MC-12 reconnaissance aircraft, accelerate procurement of the Army’s most advanced Grey Eagle UAS, and develop a new vertical unmanned air system.

Navy

• Accelerate development of a new generation of electronic jammers.
• Increase the repair and refurbishment of Marine equipment.
• Allocate savings from Expeditionary Fighting Vehicle (EFV) termination to enhance Marine ground combat vehicles.
• Develop a new generation of sea-borne unmanned strike and surveillance aircraft.
• Buy more of the latest model F-18s and extend the service life of 150 of these aircraft as a hedge against more delays in the deployment of the Joint Strike Fighter.
• Purchase six additional ships – including a destroyer, a Littoral Combat Ship, an ocean surveillance vessel, and three fleet oilers.

OSD Comptroller, FY2012 Budget Request-Overview, February 2011, pp. 5-2 to 5-6
Air Force

• Buy more of the advanced Reaper Unmanned Aerial Vehicles (UAVs). Going forward, advanced unmanned strike and reconnaissance capabilities will become an integrated part of the Air Force’s regular institutional force structure.

• Increase procurement of the Evolved Expendable Launch Vehicle to assure access to space for both military and other government agencies while sustaining our industrial base.

• Modernize the radars of F-15s to keep this key fighter viable well into the future.

• Buy more simulators for Joint Strike Fighter air crew training.

• Initiate a program to develop and procure a new bomber that will be long-range, nuclear-capable, and capable of penetrating hostile airspace. This aircraft will have the option of being piloted remotely. It will be developed using proven technologies, an approach that should make it possible to deliver this capability on schedule and in quantity.
$78 Billion in Actual Savings: FY2012-FY2016 1/2

• Combined with a government-wide freeze on civilian salaries and other changes – should yield about $78 billion in savings over the next 5 years.

• Hold DoD civilian hiring at FY 2010 levels ($13 billion). A DoD-wide freeze on civilian workforce levels through FY 2013. Only limited exceptions – most notably, increases in the acquisition workforce in support of DoD’s ongoing acquisition improvement strategy.

• Civilian pay freeze ($12 billion). Following the President’s proposal, Congress has enacted a government-wide freeze on civilian salaries in CY 2011 – CY 2012.

• Defense Health Program ($8 billion). Our DoD leaders are proposing reforms in military health care to better manage medical cost growth and better align the Department with the rest of the country. These will include initiatives to become more efficient, as well as modest increases to TRICARE fees for working age retirees – with fees indexed to adjust for medical inflation. Details are in Chapter 3.

• Defense Agency/Office of the Secretary of Defense ($11 billion). Initiatives include reducing overhead, staffing, and expenses; more efficient contracting and acquisition; and more.

• Disestablish Joint Forces Command ($2 billion).

• Disestablish Business Transformation Agency/reduce intelligence organizations ($0.6 billion).
$78 Billion in Actual Savings: FY2012-FY2016  2/2

• Reduce service support contracts ($6 billion). For example, the offices of the Under Secretary of Defense for Policy and for Acquisition, Technology and Logistics between them will cut nearly 270 contractors. The Defense TRICARE Agency will cut more than 780 contractors, and the Missile Defense Agency more than 360.

• Reports, studies, boards, and commissions ($1 billion). Eliminate about 400 internally-generated reports and cancel all internal and DoD-generated reports with date prior to 2006. Starting in February 2011, every report must include the cost of its production, which will be tracked by a costing database.

• Reduce senior leadership positions ($0.1 billion). Reduce more than 100 flag officers (out of 900) and about 200 Senior Executive Service or equivalent positions (out of about 1,400).

• F-35 JSF restructuring and repricing ($4 billion).

• End strength cut for Army and USMC in FY 2015 – FY 2016 ($6 billion).

• Adjustments to economic assumptions and other changes ($14 billion). Economic adjustments include decreases in inflation rates and lower projected military pay raises for FY 2012 – FY 2016 compared to previously assumed levels. Numerous other changes across a variety of activities account for the rest of this $14 billion in savings.
$400 Billion More During FY2013-2023

On April 2011, President Barack Obama proposes cutting $400 billion from the Pentagon’s budget through the 2023 fiscal year as part of his plan to reduce the nation’s long-term debt – increasing cuts beyond those sought by Defense Secretary Robert Gates in his February 2011 budget documents.

No official statement on cuts emerges before Budget Act of August 1, 2011.

Some fear will cripple defense. Others, like Center For New American Progress propose illustrative cuts:

- Redirect DOD’s planned efficiency savings to reduce the baseline defense budget ($133 billion through 2015)
- Roll back post-September 11 efforts to grow the ground forces and reduce the number of civilian DOD personnel concomitant with the reduction in military end strength ($39.16 billion through 2015)
- Reduce active-duty troops in Europe and Asia by one-third ($42.5 billion through 2015)
- Cancel the V-22 Osprey program ($9.15 billion through 2015)
- Reform military health care ($42 billion through 2015)
- Limit procurement of the Virginia-class submarine and DDG-51 destroyer to one per year; limit procurement of the littoral combat ship to two vessels per year ($20.04 billion through 2015)
- Cut procurement of the Navy and Marine F-35 Joint Strike Fighter variants ($16.43 billion through 2015).
- Institute an across-the-board reduction in research, development, test, and evaluation funding ($40 billion though 2015)
- Reform the military pay system as the Quadrennial Review of Military Compensation recommends ($13.75 billion through 2015)
- Cancel procurement of the CVN-80 aircraft carrier and retire two existing carrier battle groups and associated air wings ($7.74 billion)
- consider retiring two of our existing carrier battle groups.
- Cut the U.S. nuclear arsenal to 311 operationally deployed strategic nuclear weapons ($33.72 billion)

[Lawrence J. Korb, Laura Conley, Alex Rothman; Sensible Defense Cuts: How to Save $400 Billion Through 2015, CFPA, July 6, 2011]
Up to $600 Million More?
Automatic Trigger Impacts of August 1, 2011 Budget Act

The August 1, 2011 legislation effectively calls for $350 billion in cuts over a 10 year period; the same annual levels at the Gates $400 million reduction over 12 years. It also would establish a Congressional Joint Select Committee on Deficit Reduction charged with a goal of reducing the deficit by at least $1.5 trillion between 2012 and 2021.

If, by January 15, 2012, enactment of legislation originating with the joint select committee does not achieve an estimated $1.2 trillion in deficit reduction (including an allowance for interest savings), the bill would require reductions in both discretionary and direct spending to make up for any shortfall in that targeted savings.

The automatic reductions in spending would be spread evenly over the fiscal years 2013 through 2021; half ($600 billion) would come from defense spending and half from nondefense spending, including both discretionary and direct spending.

The reductions would be implemented as follows:

- The reductions in discretionary spending in 2013 would be accomplished by cutting the budgetary resources available for defense and nondefense accounts by the respective percentages necessary to achieve the required reductions for that year.

- The reductions in discretionary spending in 2014 through 2021 would be accomplished by lowering the caps on discretionary budget authority for those years. For the purpose of lowering those caps, the bill would set separate caps on funding for defense and nondefense purposes.

- The reductions in direct spending would be implemented using the procedures specified in the Statutory Pay-As-You-Go (PAYGO) Act of 2010 (title I of P.L. 111-139). Under that act, budgetary resources available for programs subject to the automatic reductions, with the exception of Medicare, would be cut by a uniform percentage sufficient to achieve the total required outlay savings for a year. Many direct spending programs and activities would be exempt, however, including Social Security and other retirement programs, Medicaid, and certain other programs benefiting low-income people. The legislation would limit Medicare cuts to no more than 2 percent.
The Special Joint Committee

• The legislation passed on August 2, 2011 sets up a Special Joint Committee’s that must identify $1.5 trillion in additional deficit reductions by the end of 2011.

• If the Congress does not support its proposals, this would trigger automatic deficit reductions of $1.2 trillion to defense and non-defense programs, equally, by 2013.

  • The Special Joint Committee must support address the cuts that should be made in our national security efforts by November 23, 2011 by a simple majority vote.

  • The Congress as must complete up or down votes by December 23, 2011.

• If the Special Joint Committee’s recommendations are not accepted, the bill would trigger massive cuts that apply to a broad national security category that lumps together agency budgets for the Department of Defense, the Department of Homeland Security, the Department of Veterans Affairs, the National Nuclear Security Administration, the intelligence community management account (95–0401–0–1–054), and all budget accounts in budget function 150 (international affairs) without any need to review the different impact of such cuts or debate their impact.

• It also sets annual caps in budget authority on this security category of $546 billion if the Special Joint Committee’s recommendation are not passed into law or are vetoed, and requires OMB to enforce them.
The Deficit Sequestration Threat to US Strategy
The CBO Re-Estimate of the Challenge: US Federal Revenues and Spending -- Excluding Interest

(Percentage of gross domestic product)

Source: Congressional Budget Office.

Note: Other major health care programs include Medicaid, the Children's Health Insurance Program, and exchanges subsidies and related spending.

CBO, Statement of Douglas W. Elmendorf Director Confronting the Nation’s Fiscal Policy Challenges before the Joint Select Committee on Deficit Reduction U.S. Congress, September 13, 2011, p 35.
The CBO Re-Estimate of the Rising Cost of Entitlements

(Percentage of gross domestic product)

Source: Congressional Budget Office.

Note: Other major health care programs include Medicaid, the Children's Health Insurance Program, and exchange subsidies and related spending.

CBO, Statement of Douglas W. Elmendorf Director Confronting the Nation’s Fiscal Policy Challenges before the Joint Select Committee on Deficit Reduction U.S. Congress, September 13, 2011, p 39.
The Crisis in Defense Spending if Automatic Reductions Take Place

(By fiscal year, in billions of dollars)

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<td>-20</td>
<td>-21</td>
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<tr>
<td>Outlays</td>
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<td>-32</td>
<td>-35</td>
<td>-35</td>
<td>-36</td>
<td>-35</td>
<td>-34</td>
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<tr>
<td>Total</td>
<td>-94</td>
<td>-93</td>
<td>-92</td>
<td>-91</td>
<td>-90</td>
<td>-89</td>
<td>-88</td>
<td>-87</td>
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<td>Outlays</td>
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<td>-78</td>
<td>-86</td>
<td>-88</td>
<td>-90</td>
<td>-89</td>
<td>-88</td>
<td>-87</td>
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Outlays Resulting from
Sequestration of Mandatory Spending

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<tr>
<td>Changes in Debt-Service Costs</td>
<td>-1</td>
<td>-2</td>
<td>-5</td>
<td>-10</td>
<td>-17</td>
<td>-23</td>
<td>-30</td>
<td>-37</td>
<td>-44</td>
<td>-169</td>
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Notes: For enforcement purposes, section 302 of the Budget Control Act establishes a goal of $1.2 trillion in reductions and stipulates that 18 percent of that amount be considered reduced spending for debt service, with the remainder split equally between defense and nondefense spending. In this analysis, the $1.2 trillion goal is allocated as follows:

- Total Goal for Reductions (Billions of dollars) -$1,200B
- Stipulated reduction for debt service -$216B
- Required reduction in defense budgetary resources -$492B
- Required reduction in nondefense budgetary resources -$492B
- between -$500 million and zero.

a. These estimates reflect subsequent changes in spending for some programs that would offset estimated savings stemming from the original reductions.

b. “Debt service” refers to a change in interest payments from a change in projected deficits.
Impact on Total Defense Spending

If none of the specified savings of $1.2 trillion was obtained through legislation originating with the deficit reduction committee, the automatic procedures would reduce budgetary resources for national defense (budget function 050) by about $55 billion a year between 2013 and 2021. Such annual reductions would be split proportionally between mandatory and discretionary defense spending. Because mandatory spending makes up less than 1 percent of all defense spending, however, CBO estimates that only about $150 million would be sequestered from mandatory defense programs over the 2013–2021 period. Consequently, almost all of the required deficit reduction in the defense category would have to be achieved by lowering the caps on future discretionary appropriations for defense activities. (Under the Budget Control Act, the discretionary caps would not constrain spending that is designated by the Congress for overseas contingency operations, such as war-related efforts in Afghanistan or Iraq).

The estimated reduction in defense funding from those automatic cuts would require the cap on new defense appropriations in 2013 to be lowered by 10.0 percent. The percentage reductions in the caps for later years would be successively smaller, amounting to 8.5 percent in 2021.

Projected Budgetary Resources Subject to Automatic Reductions

(By fiscal year, in billions of dollars)

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<tr>
<td>Mandatory outlays subject to sequestration</td>
<td>*</td>
<td>*</td>
<td>*</td>
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<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>2</td>
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<tr>
<td>Limit on discretionary budget authority</td>
<td>546</td>
<td>556</td>
<td>566</td>
<td>577</td>
<td>590</td>
<td>603</td>
<td>616</td>
<td>630</td>
<td>644</td>
<td>5,378</td>
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<tr>
<td>Total</td>
<td>546</td>
<td>556</td>
<td>566</td>
<td>577</td>
<td>590</td>
<td>603</td>
<td>616</td>
<td>630</td>
<td>644</td>
<td>5,330</td>
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<tr>
<td>Nondefense</td>
<td></td>
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<tr>
<td>Portion of Medicare spending subject to 2 percent limit</td>
<td>542</td>
<td>571</td>
<td>598</td>
<td>644</td>
<td>671</td>
<td>700</td>
<td>756</td>
<td>806</td>
<td>860</td>
<td>6,148</td>
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<tr>
<td>All other nonexempt mandatory spending</td>
<td>63</td>
<td>71</td>
<td>80</td>
<td>83</td>
<td>82</td>
<td>83</td>
<td>85</td>
<td>88</td>
<td>90</td>
<td>725</td>
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<tr>
<td>Subtotal</td>
<td>606</td>
<td>642</td>
<td>678</td>
<td>727</td>
<td>753</td>
<td>783</td>
<td>814</td>
<td>894</td>
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<td>6,874</td>
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<tr>
<td>Limit on discretionary budget authority</td>
<td>501</td>
<td>510</td>
<td>520</td>
<td>530</td>
<td>541</td>
<td>553</td>
<td>566</td>
<td>578</td>
<td>590</td>
<td>4,889</td>
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<tr>
<td>Total</td>
<td>1,107</td>
<td>1,152</td>
<td>1,198</td>
<td>1,257</td>
<td>1,294</td>
<td>1,336</td>
<td>1,407</td>
<td>1,472</td>
<td>1,540</td>
<td>11,763</td>
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Percentage Cut to Nonexempt Budget Accounts

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<tr>
<td>Mandatory spending subject to 2 percent limit</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
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<tr>
<td>Other</td>
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Notes:

- = between zero and $500 million.

“Budget authority” refers to the authority provided by law to incur financial obligations, which eventually result in outlays.

For the purposes of this table, “defense” refers to all accounts in budget function 050, and “nondefense” refers to all other budget accounts.

Limits on discretionary budget authority as specified in section 302 of the Budget Control Act.

Sequestration cannot exceed 2 percent for payments made for individual services covered under Parts A and B of Medicare and for monthly contractual payments to Medicare Advantage plans and Part D plans.

Accounts that are exempt from sequestration are listed in the Balanced Budget and Emergency Deficit Control Act of 1985; 2 U.S.C. 905, 906(d)(7).
The Resulting Deficit

Deficits in CBO’s Baseline and Assumptions: Continuation of Certain Policies

(Percentage of gross domestic product)

Source: Congressional Budget Office.

Note: “Extend Tax Policies” reflects the following policy assumptions: Most of the provisions in the 2010 tax act that were originally enacted in 2001, 2003, 2009, and 2010 are extended (instead of being allowed to expire on December 31, 2012, as scheduled), and the alternative minimum tax is indexed for inflation. “Maintain Medicare’s Payment Rates for Physicians” involves preventing the nearly 30 percent reduction in Medicare’s payment rates for physicians’ services that is scheduled to take effect at the end of 2011. "Additional Debt Service" is the amount of interest payments on the additional debt issued to the public that would result from the continuation of the specified policies.

The Resulting Debt

Federal Debt Held by the Public

(Percentage of gross domestic product)

Source: Congressional Budget Office.

Note: The projected debt with the continuation of certain policies is based on several assumptions: first, that most of the provisions of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Public Law 111-312) that originally were enacted in 2001, 2003, 2009, and 2010 do not expire on December 31, 2012, but instead continue; second, that the alternative minimum tax is indexed for inflation after 2011; and third, that Medicare’s payment rates for physicians are held constant at their 2011 level.
The Optional War Cost Threat to US Strategy
CBO Breakdown of Post War Baseline Costs

(Billions of 2012 dollars)

Source: Congressional Budget Office.


(In $US billions)

Total Cost of Wars through FY2011:
Afghanistan: $386
Iraq: $755
Other: $125
Total: $1,266

Source: Congressional Budget Office
## US Cost of Wars (2001-2012): CRS

**Total Cost of Wars through FY2011:**
- **Afghanistan:** $557.3
- **Iraq:** $823.4
- **Other:** $34.1

**Total:** $1,414.8

### Total Cost of Wars through FY2011:

<table>
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<tr>
<th>Years</th>
<th>FY01 &amp; 02</th>
<th>FY03</th>
<th>FY04</th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12 Req</th>
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<tr>
<td>Other</td>
<td>13</td>
<td>13.5</td>
<td>3.7</td>
<td>2.1</td>
<td>0.8</td>
<td>0.5</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
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<tr>
<td>Afghanistan</td>
<td>20.8</td>
<td>14.7</td>
<td>14.6</td>
<td>20</td>
<td>19</td>
<td>39.2</td>
<td>43.4</td>
<td>59.5</td>
<td>93.8</td>
<td>118.6</td>
<td>113.7</td>
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<tr>
<td>Iraq</td>
<td>0</td>
<td>53</td>
<td>75.9</td>
<td>85.6</td>
<td>101.7</td>
<td>131.3</td>
<td>142.1</td>
<td>95.5</td>
<td>71.3</td>
<td>49.3</td>
<td>17.7</td>
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Source: Congressional Research Service
This year’s Budget request includes key efforts to transition from military to civilian-led missions including:

- A drawdown of all U.S. troops in Iraq by December 31, 2011, in accordance with the U.S.-Iraq Security Agreement, and transfer or closure of over 500 bases to the Government of Iraq.

- Establishing two additional regional consulates and two Embassy Branch Offices and having the State Department take responsibility for over 400 essential activities that DOD currently performs.

- Establishing police and criminal justice hub facilities and security cooperation sites to continue enhancing security forces and ministry capabilities; carrying on efforts started by DOD.

- Beginning the responsible drawdown of U.S. forces in Afghanistan by July 2011.

<table>
<thead>
<tr>
<th>Real Growth</th>
<th>FY11-12</th>
<th>FY11-16 Average</th>
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<tbody>
<tr>
<td>CR</td>
<td>+3.6%</td>
<td>+1.0%</td>
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<tr>
<td>Request</td>
<td>-0.7%</td>
<td>+0.2%</td>
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</table>

FY 2010 – FY 2016 Base Growth
- Nominal Growth: 2.5%
- Real Growth: 0.5%

Baseline Real Growth
- FY01: 7.6%
- FY02: 7.6%
- FY03: 0.0%
- FY04: 1.9%
- FY05: -0.6%
- FY06: 2.3%
- FY07: 7.9%
- FY08: 5.5%
- FY09: 0.7%
- FY10: 2.4%
- FY11: -0.7%*
- FY12: 1.0%
- FY13: 0.5%
- FY14: 0%
- FY15: 0%
- FY16: 0%

Notes:
- FY 2012–FY 2016 reflects levels included in the President’s FY 2012 Budget Request; FY 2009 Non-War Supplemental was appropriated through the American Recovery and Reinvestment Act of 2009
- FY 2011 reflects the addition of the annualized 2011 Continuing Resolution and an adjustment to the President’s FY 2012 Budget Request

Cutting War Estimates to Create False Top Line?  
Project on Defense Alternatives: FY2001-FY2016

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<td>National Defense Discretionary (050) w/o OCO</td>
<td>551.9</td>
<td>578.4</td>
<td>595.9</td>
<td>612.1</td>
<td>624.5</td>
<td>637.6</td>
<td>15.5%</td>
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<td>Overseas Contingency Operations (OCO)</td>
<td>162.3</td>
<td>117.6</td>
<td>50</td>
<td>50</td>
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<td>-69.2%</td>
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<td>714.2</td>
<td>696</td>
<td>645.9</td>
<td>662.1</td>
<td>674.5</td>
<td>687.6</td>
<td>-3.7%</td>
</tr>
<tr>
<td>Non-defense Discretionary Spending</td>
<td>543.4</td>
<td>546.7</td>
<td>542.2</td>
<td>546</td>
<td>553.1</td>
<td>566.4</td>
<td>4%</td>
</tr>
<tr>
<td>Total Discretionary Spending</td>
<td>1257.6</td>
<td>1242.7</td>
<td>1188.1</td>
<td>1208.1</td>
<td>1227.6</td>
<td>1254</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Total Discretionary Spending w/o OCO</td>
<td>1095.3</td>
<td>1125.1</td>
<td>1138.1</td>
<td>1158.1</td>
<td>1177.6</td>
<td>1204</td>
<td>9.9%</td>
</tr>
<tr>
<td>National Defense w/o OCO as % of Discretionary Spending w/o OCO</td>
<td>50.4%</td>
<td>51.4</td>
<td>52.4</td>
<td>52.9</td>
<td>53</td>
<td>53</td>
<td></td>
</tr>
</tbody>
</table>

**Sources:** Budget of the US Government, Fiscal Years 2012; Undersecretary of Defense (Comptroller), Fiscal Year 2012 Budget Request.
CBO Estimate of Defense as Percent of GDP Without Wars

(Percentage of gross domestic product)

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>FYDP Period</th>
<th>Beyond the FYDP Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2025</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2030</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office.

Note: FYDP = Future Years Defense Program; FYDP period = 2012 to 2016, the years for which the Department of Defense's (DoD's) plans are fully specified.

a. Base-budget data include supplemental and emergency funding before 2002.

b. For 2002 to 2012, supplemental and emergency funding for overseas contingency operations (OCO), such as those in Afghanistan and Iraq, and for other purposes is shown separately from the base-budget data. The amount shown for 2012 has been requested but has not been appropriated.

c. The CBO projection of the base budget incorporates costs that are consistent with DoD's recent experience.

d. For the extension of the FYDP (2017 to 2030), CBO projects the costs of DoD's plans using the department's estimates of costs to the extent they are available and costs that are consistent with the broader U.S. economy if such estimates are not available.

CBO Estimate of Defense Costs With Wars

(Billions of 2012 dollars)

Source: Congressional Budget Office.

Note: FYDP = Future Years Defense Program; FYDP period = 2012 to 2016, the years for which the Department of Defense’s (DoD’s) plans are fully specified.

a. Base-budget data include supplemental and emergency funding before 2002.

b. For 2002 to 2012, supplemental and emergency funding for overseas contingency operations (OCO), such as those in Afghanistan and Iraq, and for other purposes is shown separately from the base-budget data. The amount shown for 2012 has been requested but has not been appropriated.

The base budget plus OCO funding includes actual funding for the base budget plus supplemental and emergency funding for 2002 to 2011 (the solid portion of the line). For 2012 to 2030 (the dashed portion of the line), it includes CBO’s projection of base-budget costs plus the OCO funding requested for 2012 and an illustrative example of OCO funding for 2013 to 2030 (under an assumption that the number of deployed troops decreases to 45,000 by 2015 and remains at that level thereafter).

c. The CBO projection of the base budget incorporates costs that are consistent with DoD’s recent experience.
The Rising Cost Per Soldier
Threat US Strategy
CBO Estimate of Personnel and O&M Cost Pressures

(Billions of 2012 dollars)

Source: Congressional Budget Office.

Notes: Base-budget data include supplemental and emergency funding before 2002.

FYDP = Future Years Defense Program; FYDP period = 2012 to 2016, the years for which the Department of Defense’s (DoD’s) plans are fully specified.
CBO Breakdown of O&M Cost Per Active-Duty Service Member

(Thousands of 2012 dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Base Budget</th>
<th>Base Budget Plus OCO Funding</th>
<th>Trend Estimated from 1980 to 2001</th>
<th>CBO Projection</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>50</td>
<td>150</td>
<td>150</td>
<td>200</td>
</tr>
<tr>
<td>1990</td>
<td>100</td>
<td>200</td>
<td>200</td>
<td>250</td>
</tr>
<tr>
<td>2000</td>
<td>150</td>
<td>250</td>
<td>250</td>
<td>300</td>
</tr>
<tr>
<td>2010</td>
<td>200</td>
<td>300</td>
<td>300</td>
<td>350</td>
</tr>
<tr>
<td>Beyond the FYDP Period</td>
<td>300</td>
<td>350</td>
<td>350</td>
<td></td>
</tr>
</tbody>
</table>

Source: Congressional Budget Office.

Note: FYDP = Future Years Defense Program; FYDP period = 2012 to 2016, the years for which the Department of Defense’s (DoD’s) plans are fully specified.

a. Base-budget data include supplemental and emergency funding before 2002.

b. For 2002 to 2012, supplemental and emergency funding for overseas contingency operations (OCO), such as those in Afghanistan and Iraq, and for other purposes is shown separately from the base-budget data. The amount shown for 2012 has been requested but has not been appropriated.

c. The CBO projection of the base budget incorporates costs that are consistent with DoD’s recent experience.

d. For the extension of the FYDP (2017 to 2030), CBO projects the costs of DoD’s plans using the department’s estimates of costs to the extent they are available and costs that are consistent with the broader U.S. economy if such estimates are not available.
Ongoing Manpower Cuts: FY2012-FY2016

On January 6, 2011 Secretary Gates explained his decision to reduce the size of the Active Army and Marine Corps in FY 2015 and FY 2016, saving about $6 billion. The U.S. Army’s permanent active duty end strength would decline by 27,000 troops, while the Marine Corps would decline by somewhere between 15,000 to 20,000, depending on the outcome of their force structure review. These projected reductions are based on an assumption that America’s ground combat commitment in Afghanistan would be significantly reduced by the end of 2014 in accordance with the President’s strategy.

The Figure below shows these end strength reductions compared to FY 2012 levels, and the FY 2007 baseline levels at which the Army and Marine Corps had been operating. As shown, after these proposed reductions in FY 2015 and FY 2016, both Services will be well above FY 2007 levels.

<table>
<thead>
<tr>
<th>End Strength-Base Budget (thousands)</th>
<th>FY 2007 Baseline</th>
<th>FY 2012 Request</th>
<th>Change</th>
<th>FY 2015 – FY 2016 Proposal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Plan</td>
</tr>
<tr>
<td>Army*</td>
<td>482</td>
<td>547</td>
<td>+65</td>
<td>520</td>
</tr>
<tr>
<td>Marine Corps**</td>
<td>175</td>
<td>202</td>
<td>+27</td>
<td>187</td>
</tr>
</tbody>
</table>

* Excludes end strength funded in FY 2012 OCO budget for 14,600 additional Active Army soldiers – a temporary wartime allowance – to help the Army meet its commitments in Iraq and Afghanistan.

** Marine Corps will decline somewhere between 15,000 and 20,000 in FY 2015 – FY 2016.
The Tricare Threat to US Strategy

(Billions of 2012 dollars)

Source: Congressional Budget Office.

Notes: Supplemental and emergency funding for overseas contingency operations (OCO), such as those in Afghanistan and Iraq, is included for 2011 and earlier but not for later years.

Military compensation and healthcare expenses have expanded by nearly 80 percent since 2001, despite a comparatively small 5 percent increase in force size.

The RDT&E & Procurement Threat to US Strategy
The Declining Industrial Base: Manufacturing in the U.S. Economy

Semi-Affordable Acquisition, Maybe

(Billions of 2011 dollars)

Source: Congressional Budget Office.

Notes: Base-budget data include supplemental funding prior to 2002. Additional funding for overseas contingency operations (OCO) may be requested in 2011.

FYDP = Future Years Defense Program; FYDP period = 2011 to 2015, the years for which the Department of Defense's (DoD's) plans are fully specified.

a. The CBO projection of the base budget incorporates costs that are consistent with DoD's past experience.
b. The extension of the FYDP extends DoD's plans and uses DoD's estimates of costs if they available and cost factors based on the broader U.S. economy if estimates by DoD are not available.
CBO Estimate of Squeeze on Procurement and RDT&E

Source: Congressional Budget Office.

CBO, Long Term Implications of 2011 Future Years Defense Program, February 2011, p. 5
CBO Estimate of Possible “Acquisition Squeeze”

(Billions of 2012 dollars)

Source: Congressional Budget Office.

Note: FYDP = Future Years Defense Program; FYDP period = 2012 to 2016, the years for which the Department of Defense’s (DoD’s) plans are fully specified.
CBO Estimate the “Squeeze” Will focus on Land Forces: Possible Impact of “Air-Sea Battle”

(Billions of 2012 dollars)

Source: Congressional Budget Office.

Notes: The amounts shown for the Future Years Defense Program (FYDP) and the extension of the FYDP are the totals for all categories.

FYDP period = 2012 to 2016, the years for which the Department of Defense's (DoD's) plans are fully specified;

MDA = Missile Defense Agency.

$78 Billion in Equipment Cost Escalation in 2008-2010

- The total cost of DOD’s 2010 portfolio of major defense acquisition programs has grown by $135 billion, or 9 percent, over the past 2 years, of which about $70 billion cannot be attributed to changes in quantities of some weapon systems.

- Ten of DOD’s largest acquisition programs account for over half the portfolio’s total acquisition cost growth over the past 2 years.

- Fewer than half of the programs in DOD’s 2010 portfolio are meeting established performance metrics for cost growth.

- DOD’s buying power has been reduced for almost 80 percent of its portfolio of major defense acquisition programs.

- On average, the majority of cost growth materialized after programs entered production, meaning they continued to experience significant changes well after the programs and their costs should have stabilized.

Building Down From $1 Trillion in Procurement Over the Last 10 Years

Defense Procurement Funding in Billions of Dollars

Source: Data from the Department of Defense. Greenbook for FY2012. Table 2.1. Graph from the Stimson Center.
$78 Billion in Equipment Cost Escalation in 2008-2010

Changes in Total Acquisition Cost and Program Acquisition Unit Cost for 10 of the Highest-Cost Acquisition Programs

<table>
<thead>
<tr>
<th>Program</th>
<th>Total acquisition cost (fiscal year 2011 dollars in millions)</th>
<th>Program acquisition unit cost (fiscal year 2011 dollars in millions)</th>
<th>Percentage change over the last 2 years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008 estimate</td>
<td>2010 estimate</td>
<td>Change over the last 2 years</td>
</tr>
<tr>
<td>Joint Strike Fighter</td>
<td>249,690</td>
<td>283,674</td>
<td>33,984</td>
</tr>
<tr>
<td>DDG 51 Destroyer</td>
<td>77,382</td>
<td>94,344</td>
<td>16,961</td>
</tr>
<tr>
<td>C-17A Globemaster III</td>
<td>75,046</td>
<td>82,347</td>
<td>7,301</td>
</tr>
<tr>
<td>Virginia Class Submarine (SSN 774)</td>
<td>83,194</td>
<td>82,193</td>
<td>-1,002</td>
</tr>
<tr>
<td>F-22 Raptor</td>
<td>75,200</td>
<td>77,393</td>
<td>2,193</td>
</tr>
<tr>
<td>V-22 Joint Services Advanced Vertical Lift Aircraft (Osprey)</td>
<td>56,659</td>
<td>56,061</td>
<td>-598</td>
</tr>
<tr>
<td>F/A-18E/F Super Hornet</td>
<td>52,824</td>
<td>54,625</td>
<td>1,801</td>
</tr>
<tr>
<td>Trident II Missile</td>
<td>50,611</td>
<td>51,410</td>
<td>799</td>
</tr>
<tr>
<td>Joint Mine Resistant Ambush Protected (MRAP)</td>
<td>22,792</td>
<td>36,375</td>
<td>13,583</td>
</tr>
<tr>
<td>CVN 21 Future Aircraft Carrier</td>
<td>30,513</td>
<td>34,186</td>
<td>3,673</td>
</tr>
</tbody>
</table>

Total | 773,911 | 852,607 | 78,696 | – | – | – |

Source: GAO analysis of DOD data

Nunn-McCurdy Breaches in Cost Escalation

- Since 1997, there have been 74 Nunn-McCurdy breaches involving 47 major defense acquisition programs...40% after a production decision had been made…Of the 47 programs that breached, 18 programs breached more than one time. Thirty-nine were critical breaches and 35 breaches were significant breaches.

- Other GAO studies showed 1 In 3 major programs escalated in cost by 50% or more since 1977 – 47 of 134 programs at a cost of $135 billion with $70 billion over the last two years.

Figure 1: Critical and Significant Breaches by Calendar Year, 1997-2009

Source: GAO analysis of DOD data.
Enhancement Priorities: FY2012  1/2

**Nuclear Deterrence and Infrastructure:** strong funding to ensure our nuclear posture covers the broad spectrum of deterrence and strategic stability as we implement New START, ratified by the Senate in December 2010.

**Long-Range Strike:** Family of Systems: A key component of will be a new Air Force bomber. Continues to study and fund other options for long-range strike missions, e.g., the FY 2012 budget funds Conventional Prompt Global Strike (CPGS) with related efforts to invest in new ISR systems, modernize the B-2 bomber to improve its survivability, expand inventories of standoff cruise missiles, and enhance survivable communications and electronic warfare systems.

**Army Modernization:** Ensures equipment is adaptable, expandable, interoperable and protects soldiers.

- Modernizing the Army’s helicopter fleet with enhancements like a digitized cockpit, new engines for improved lift and range, and an advanced flight control system.
- Modernizing our Combat Vehicles to include: development efforts for the Ground Combat Vehicle and a replacement to the M113 Family of Vehicles; procuring Nuclear, Biological, Chemical Reconnaissance Stryker Vehicles; upgrading the engine and armor on the Abrams tank; and improving the lethality, survivability, and sustainability of the Bradley Fighting Vehicle.
- Fielding of the Army's new tactical communications network down to the soldier level.
- Funding the equipment for a 13th Combat Aviation Brigade.
- Procuring PAC-3 air defense missiles and upgrading Stinger missiles with enhanced lethality and range.

**Shipbuilding:** $24.6 billion for new ship research and development, construction, refueling, and overhaul – to support a realistic, executable shipbuilding portfolio. Procurement of 11 ships in FY 2012, and 56 ships for FY 2012 – FY 2016, averaging 11 ships per year over 5 years (excluding oceanographic ships). Army will procure one Joint High Speed Vessel (JHSV) in FY 2012, which is the last of 5 Army JHSVs.

OSD Comptroller, FY2012 Budget Request-Overview, February 2011, pp. 45-1 to 4-3
Enhancement Priorities: FY2012 2/2

- Build one DDG 51 destroyer, two Virginia class submarines, four of the Littoral Combat Ship (LCS), the last LPD-17 Amphibious Transport Dock ship, two JHSV’s (one Army funded and one Navy funded), and one Mobile Landing Platform (MLP).
- Fund Advance Procurement for the CVN 79 aircraft carrier, Virginia class submarines, and the FY 2013 DDG 51 class destroyer.

**KC(X) Tanker:** Acquire 179 new KC-X aerial refueling tankers procured at a maximum rate of 15 aircraft per year, would replace about 1/3 of the current tanker fleet.

**Space Programs:** $10.2 billion for the DoD Space Program to include nearly $0.5 billion to develop spacecraft and sensors for the Defense Weather Satellite System (DWSS). National Polar-orbiting Operational Environmental Satellite System (NPOESS) involving three agencies: DoD, Department of Commerce, and NASA; Evolutionary Acquisition for Space Efficiency (EASE).

**Science and Technology (S&T):** $12.2 billion to fund 2% real growth in Basic Research (and maintains stable funding in the rest of S&T (Functions 6.2 and 6.3). Request is almost 25 percent higher than the FY 2000 request.

**Missile defense:** defend the Homeland against limited ballistic missile attacks; defend against regional missile threats to U.S. forces, allies and partners; rigorously test new capabilities before they are deployed; develop new capabilities that are fiscally sustainable; field missile defenses that are adaptable and flexible to adjust to future threats; and expand our international efforts. Includes $10.7 billion for BMD programs – including $8.6 billion for the Missile Defense Agency.
CBO Estimate of Air Force Acquisition Budgets

(Billions of 2012 dollars)

Source: Congressional Budget Office.

Notes: The amounts shown for the Future Years Defense Program (FYDP) and the extension of the FYDP are the totals for all categories.

FYDP period = 2012 to 2016, the years for which the Department of Defense's (DoD's) plans are fully specified.
F-22: Force Multiplier vs. Force Killer

High Marginal Costs are Driving Down the Number of Aircraft that Can be Procured

Figure 4: US Air Force Tactical Aircraft Fighter Procurement

Russell Rumbaugh, What We Bought: Defense Procurement FY01-FY10, Stimson Center. October, 2011. Pg. 11
Cost Escalation:

- 9/2001: $233 billion for 2,866; full rate production in 2008
CBO Estimate of Navy-Marine Corps Acquisition Budgets

(Billions of 2012 dollars)

Source: Congressional Budget Office.

Notes: The amounts shown for the Future Years Defense Program (FYDP) and the extension of the FYDP are the totals for all categories.

FYDP period = 2012 to 2016, the years for which Department of Defense's (DoD's) plans are fully specified.

Cost Control: The SSN as a Case Study

Cost per Thousand Tons for the Lead Ship of Various Classes of Submarines

(Millions of 2011 dollars)

Source: Congressional Budget Office based on data from the Department of the Navy.

Notes: The years shown here indicate the year in which each lead submarine (the first of each class to be built) was or will be authorized.

Costs are per thousand tons of estimated final Condition A-1 displacement (the weight of the ship complete, ready for service in every respect, including onboard repair parts and liquids in machinery at operating levels, but without any solid ballast, liquid ballast, or residual water).
Cost Control: Buys the Fleet?

GAO Summary of Army FCS Program

Since it started development in 2003, the Future Combat System (FCS) was at the center of the Army’s efforts to modernize into a lighter, more agile, and more capable combat force.

The Army expected to develop this equipment in 10 years, procure it over 13 years, and field it to 15 FCS-unique brigades. The Army had also planned to spin out selected FCS technologies and systems to current Army forces.

In June 2009, after 6 years and an estimated $18 billion invested, the Under Secretary of Defense for Acquisition, Technology, and Logistics issued an acquisition decision memorandum that canceled the FCS acquisition program, terminated manned ground vehicle development efforts, and laid out plans for follow-on Army brigade combat team modernization efforts.

These initiatives included plans for the development of:

- GCV,
- multiple increments of brigade modernization, and
- an incremental tactical network capability.
CBO Estimate of Army Acquisition Budgets

(Billions of 2012 dollars)

Source: Congressional Budget Office.

Notes: The amounts shown for the Future Years Defense Program (FYDP) and the extension of the FYDP are the totals for all categories.

FYDP period = 2012 to 2016, the years for which the Department of Defense's (DoD's) plans are fully specified; C4ISR = command, control, communications, computers, intelligence, surveillance, and reconnaissance.

GAO Summary of Army E-IBCT Program (3/2011)

- Significant performance shortfalls, particularly system reliability, were revealed during the September 2009 Limited User Test. The pervasive reliability problems in equipment during testing made it difficult to complete a full assessment of performance and the contribution of these systems to military utility.

- Recent limited user tests conducted by the Army and assessed by the Director, Operational Test and Evaluation that were performed during fiscal year 2010 yielded startling results—most Increment 1 systems showed little or no military utility. In response, the Army has terminated several systems and only two were approved for additional procurement—the small unmanned ground vehicle and the network integration kit.

- These events have raised questions about the Army’s process for establishing requirements. And while the small unmanned ground vehicle performed well in tests, the military utility of the costly network integration kit remains in doubt, and the Army has stated that the kit is not a viable, affordable, long term solution. For us, that raises questions about the desirability of continued procurement of the kit.

- Although never clearly defined, E-IBCT Increment 2 was anticipated to include upgrades to Increment 1 systems, continued development of other FCS systems such as the Common Controller and larger unmanned ground vehicles, and further development of elements of the FCS information network.

- Because Increment 1 systems have been deemed to provide little military utility, the Army and DOD decided to cancel the entire E-IBCT program, which effectively put an end to both increments.

- Nevertheless, the Army continues to assess whether additional investments are warranted in the remaining systems and capabilities from the FCS program.
GAO Summary of Army GCV Program (3/2011)

• In August 2010, the initial request for proposals for GCV was rescinded because of concerns that the program was pursuing a high-risk strategy, with questionable requirements and little concern for costs.

• In response, the Army issued a revised request for proposals in November 2010 that shifted the focus to more mature technologies to achieve the desired 7-year schedule. This strategy eliminated or reduced many of the requirements cited as unstable or not well understood.

• The Army has now prioritized the GCV requirements into three groups—a “must have” category, a second group of requirements where the Army intends to be flexible in what it accepts, and a third group deferrable to later increments.

• Questions remain about the urgency of the need for the GCV. In its August 2010 report, the Red Team that was convened by the Army questioned the urgency of the need for the GCV within 7 years. The report concluded that the funds that have migrated from the FCS program were driving the events and activities of the program, versus a true capabilities gap.

• Further, the team reported that the Army had not provided the analysis supporting the need to rapidly replace the Bradley vehicle. The Army is currently conducting portfolio reviews across many of its missions.
Resource Management, Cost Control, and Strategic Focus as Partial Solutions
Bringing Entitlements, Defense Discretionary Spending, Other Discretionary Spending – and revenues – into a stable, affordable balance

- Requires hard social choices about mandatory spending
  - Raise age limits, force efficiency and triage, or increase revenues.
  - Aging population, rising real medical costs pose major national threat.
  - So does any failure in economic growth.
- Discretionary spending can be cut, but does not solve budget problem.
- Real burden of defense on US economy is not a driving factor in historical terms. But,
  - Wars are unpopular and projections assume “victory” in 2014.
  - Perceptions of waste and mismanagement are critical.
  - Assumes a “one major regional contingency” force structure is enough.
Creating a Functional System for Tying Strategic Planning to a Working PPBS and Force Planning System Actually Executed on Time, at the Promised Level, and at the Promised Cost

- Must force system to actually execute plans at projected cost.
- High cost programs have to work. Must stop confusing force multipliers with force degraders.
- Top Down Accountability: “Fish rot from the head down.”
- Need real strategies and not concepts: Force plans, personnel plans, modernization plans, timescales, and costs.
- Need to make hard trade-offs, and by mission – not by service.
- Plan annually in rolling five year (ten? fifteen?) periods.
- Shift PPBS system away from services to major commands
Creating a Functional PPBS/QDR/QDDR

Six commanders have specific mission objectives for their geographical areas of responsibility:

United States Northern Command
United States Pacific Command
United States European Command
United States Southern Command
United States Africa Command
United States Central Command

USNORTHCOM
USEUCOM
USPACOM
USCENTCOM
USAFRICOM

Three commanders have worldwide mission responsibilities, each focused on a particular function:

United States Strategic Command
United States Transportation Command
United States Special Operations Command

- After ten years of war, still do not have meaningful integrated efforts, or clear definition of “hold, build, and transition.”
- Challenge of Withdrawal in Iraq and Transition to State is prelude to Afghanistan.
- Turmoil in Middle East shows risk of overdependence on security sector.
- Failure of QDDR illustrates the challenge. So does delay in civilian “surge” in Afghanistan. (1,100 military in 2009 vs. several hundred civilians now.)
- Need for integrated strategy and PPBS for OCOS and regional/national operations.
- Not simply a matter of State, USAID, and civilian partners abroad. Key trade offs involve some $77 billion in Homeland Security and GWOT.
Finding the Balance Between Irregular/Asymmetric, Conventional, and WMD Warfare in a Period of Constant Technological Change

- “Hybrid Warfare” is mindless if not tied to force posture and resource choices.

- Nuclear, cyber, biotechnology, weapons of mass effectiveness, increases in strike range, and unconventional delivery all change the map and nature of military power.
  - Counterproliferation can simply shift the activity to covert and/or alternative means.
  - Same with missile defense, preemptive/preventive strikes.

- Every key US and allied capability, resource dependence, and critical facility redefines the target mix.

- If you can’t ban the crossbow, you have to find an affordable way to live with it.
Coping with Ideological and Non-State Actors at the Political and Civil as Well as the Combat and Counterterrorism levels.

- Middle East crises are a warning that no population is passive or can be continuously repressed.
- Face at least two decades of demographic pressure, inadequate governance, religious and ideological challenges to come.
- Struggle for the future of Islam is internal, not a clash between civilizations, but shows the scale of the spillover effect.
- Impacts on key imports of resources, global economy (which steadily equals our economy.)
- Immigration, travel, speed and complexity of global transport, communications/Internet, financial training systems, and IT add to the problem.
- Steadily increases need to see through other’s eyes, define security to meet their interests and values.
Creating a Unified National Security Budget

- National strategy, defense QDR, State QDDR, and DNI strategies are not coordinated, tied to resources, and linked to coordinated regional and country plans.

- State Department resources are under even more intense budget pressure than DoD at time developments like “Arab Spring” show integrated State-DoD programs are critical.

- Department of Homeland Security alone cost $37 billion in FY2012 budget request. OMB estimates that total cost with DoD and 29 other departments and agencies is $71.6 billion.
Even if one ignores the non-DoD expenditures going to the OCO account for the wars in Iraq and Afghanistan, and the security benefits of conventional foreign aid and diplomatic activity, more than 20% of direct spending goes to national security.

- $3,593M for international organizations and peacekeeping
- $1,512M for INL
- $708 million for non-proliferation.
- $5,550 for foreign military financing.
- $3,364 for Treasury activity heavily tied to counterterrorism.

Source: OMBhttp://www.whitehouse.gov/omb/budget/Overview
Uncertain Transparency: The National Intelligence Program

No unclassified way to reliably estimate size, cost, national security functions, or budget justification.

There are 17 federal organizations in the Intelligence Community:

- Central Intelligence Agency
- Defense Intelligence Agency
- Department of Energy (Office of Intelligence and Counterintelligence)
- Department of Homeland Security (Office of Intelligence and Analysis)
- Department of State (Bureau of Intelligence and Research)
- Department of the Treasury (Office of National Security Intelligence)
- Drug Enforcement Administration (National Security Branch)
- Federal Bureau of Investigation
- National Geospatial-Intelligence Agency
- National Reconnaissance Office
- National Security Agency/Central Security Service
- Office of the Director of National Intelligence
- US Air Force
- US Army
- US Coast Guard
- US Marines
- US Navy

No reliable cost data.

- US officially put cost at over $80 billion for FY2010,
- Some sources put at $75 billion in FY2009, and 200,000 personnel – including contractors.
- Unclear how much of DoD operations, RDT&E, and general procurement funding relating to intelligence, surveillance, and reconnaissance (IS&R) is counted in intelligence budget.
- Zero effective transparency through DDI.

US dominates global efforts. Christian Hippner of the Department of Intelligence Studies at Mercyhurst College in Pennsylvania estimated global spending on intelligence at $106 billion a year in 2010m, and the number of people (working for 246 different agencies around the world) at 1.13 million.


Total funding for homeland security has grown significantly since the attacks of September 11, 2001.

For 2012, the President’s Budget includes $71.6 billion of gross budget authority for homeland security activities, a $2.6 billion (4 percent) increase above the 2011 annualized continuing appropriations level.

Excluding mandatory spending, fees, and the Department of Defense’s (DOD) homeland security budget, the 2012 Budget proposes a net, non-Defense, discretionary budget authority level of $43.8 billion, which is an increase of $0.8 billion (2 per-cent) above the 2011 annualized continuing appropriations level.

A total of 31 agency budgets include Federal homeland security funding in 2012. Six agencies—the Departments of Homeland Security, Defense, Health and Human Services (HHS), Justice (DOJ), State (DOS), and Energy (DOE)—account for approximately $68.1 billion (95 per-cent) of total Government-wide gross discretionary homeland security funding in 2012.

Source: OMB, http://www.whitehouse.gov/omb/budget/Analytical_Perspectives
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