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COST GROWTH IN DEFENSE PLANS, WARS IN IRAQ AND AFGHANISTAN COULD ADD SOME \$900 BILLION TO PROJECTED DEFICITS

By Steven M. Kosiak

In October 2005, the Congressional Budget Office (CBO) published "The Long-Term Implications of Current Defense Plans and Alternatives: Summary Update for Fiscal Year 2006."¹ The paper, which is an update of a CBO report originally published in January 2003,² provides a concise description of the Department of Defense's (DoD's) plans through fiscal year (FY) 2024, and rough high- and low-end estimates of their likely cost. Earlier this year, CBO also published an analysis of the President's FY 2006 proposals for the overall federal budget.³

The cost estimates provided by CBO in its October analysis of DoD's long-term plans, combined with the findings of its analysis of the President's overall federal budget submission, raise serious questions about the long-term sustainability of the current defense plan. They also suggest that the Bush Administration and DoD will need to either substantially scale back existing defense plans (perhaps as part of the Quadrennial Defense Review scheduled to be released early next year), or increase the level of resources allocated to defense.

Specifically, CSBA finds that *based on its own analysis of data contained in the two CBO publications*, if the current defense plan experiences the same rates of cost growth in weapons acquisition and operations and support (O&S) activities as DoD's plans historically have:

- The administration's defense budget projections may understate the cost of the current defense plan (including military operations) by some \$800 billion over the coming decade (FY 2006-15).
- If added to the budget, this \$800 billion in funding (i.e., appropriations) would generate additional outlays (i.e., actual spending) of about \$735 billion over the next 10 years.
- If these additional outlays were not offset by a tax increase, or cuts in entitlements or domestic spending, they would increase the size of the federal debt. In turn, this would cause interest payments on the debt to grow by roughly \$185 billion.

¹ Adam Tabler, *The Long-Term Implications of Current Defense Plans and Alternatives: Summary Update for Fiscal Year 2006* (Washington, DC: CBO, October 2005).

² The new CBO analysis updates and expands upon material provided in a series of past CBO publications, including *The Long-Term Implications of Current Defense Plans: Detailed Update for Fiscal Year 2005* (September 2004) and *The Long-Term Implications of Current Defense Plans* (January 2003).

³ CBO, *An Analysis of the President's Budgetary Proposals for Fiscal Year 2006* (Washington, DC: US Government Printing Office, March 2005).

- Altogether, if the additional spending outlined above is needed to execute DoD's long-term defense plans, total deficits over the next decade would increase by some \$920 billion (\$735 billion in program costs plus \$185 billion in related interest costs) above the levels included in the administration's most recent projections.

PROJECTED FUNDING LEVELS AND LIKELY COST OF DOD'S PLANS

The Bush Administration's FY 2006 budget blueprint (as re-estimated by CBO), released in early 2005, includes a total of about \$5.2 trillion in funding for national defense over the coming decade.⁴ As it has in its previous reports on the same subject, the latest CBO analysis of DoD's plans provides both low- and high-end estimates of the cost of implementing those plans. Under the low-end estimate, CBO assumes that DoD will meet its current cost goals for major acquisition programs and O&S activities. This estimate also excludes the cost of military operations. Based on CBO's low-end estimate, the amount of funding projected for defense under the administration latest budget proposal would be roughly adequate to cover the cost of DoD's plans over the next decade.

However, if DoD is unable to meet its current cost goals for acquisition programs and O&S activities, and US forces remain engaged in military operations in Iraq, Afghanistan and elsewhere, substantially more funding would be required. CBO's cost estimates for DoD were presented in constant FY 2006 dollars. CBO's high-end estimate, which assumes historical rates of cost growth in DoD programs and the US military's continued involvement in military operations, projects total costs for DoD of roughly \$5.3 trillion over the period.⁵ This includes roughly \$4.95 trillion to cover DoD's weapons programs and peacetime O&S activities, and about \$365 billion to pay for various military operations.⁶ Assuming that roughly another \$19 billion a year would be needed for Department of Energy and other defense-related activities, CBO's high-end estimate implies that a total of some \$5.5 trillion (FY 2006 dollars) in funding would be required for national defense over the FY 2006-15 period.

In nominal dollars,⁷ the total funding required, based on CBO's high-end estimate, would be some \$6.0 trillion dollars. This is about \$800 billion more than the Bush Administration's 10-year budget projection assumes will be provided for national defense. This figure includes about \$405 billion to cover cost growth in weapons programs and peacetime O&S activities, and \$395 billion for military operations (see the table on page 3).

⁴ National defense (as defined by the 050 federal budget function) includes DoD, Department of Energy and other non-DoD defense-related activities.

⁵ This estimate was derived by the author based on CBO data provided in graphic form in *The Long-Term Implications of Current Defense Plans and Alternatives: Summary Update for Fiscal Year 2006*, p. 3. CBO analysis provides high- and low-end estimates of the cost of DoD's plans over the FY 2006-24 period.

⁶ In its high-end estimate, CBO assumes that military operations in Iraq, Afghanistan and elsewhere related to the war on terrorism would fall from an FY 2006 level of about \$85 billion to roughly \$20 billion annually for FY 2010 and later years.

⁷ For analytical purposes, constant (i.e., inflation-adjusted) dollars are often more meaningful than nominal dollars, because projected changes in constant dollars reflect only changes in real purchasing power. By comparison, projected changes in nominal dollars reflect both changes in real purchasing power and the impact of inflation. However, most federal budget documents and budget and deficit projections are presented in nominal dollars. CBO's funding projections were converted to nominal dollars using DoD inflation estimates.

IMPLICATIONS FOR PROJECTED FEDERAL DEFICITS

Adding \$800 billion in funding to cover cost growth in the administration's defense plans would generate an additional \$735 billion in outlays over the coming decade, above and beyond the levels assumed in the administration's long-term budget projections.⁸ Unless changes were made to the administration's long-term budget plans to either raise taxes, or cut domestic discretionary programs or entitlement spending, the additional spending noted above would increase the size of the federal debt. In turn, this would increase debt service costs. Altogether, it would cause interest payments on the debt to grow by around \$185 billion over the coming decade. Thus, based on CBO's high-end cost estimate, it appears that executing the current defense plan might increase the size of projected deficits over the FY 2006-15 period by a total of some \$920 billion above the levels forecast in the President's FY 2006 budget proposal (released in February 2005).

Potential Impact of DoD Cost Growth on FY 2006-15 Federal Deficits

Source of Cost Growth	Additional Outlays
Higher Weapons Acquisition and O&S Costs	\$350 billion
Military Operations	\$385 billion
Higher Interest Costs	\$185 billion
Total	\$920 billion

Source: CSBA estimates based on CBO data.

WORSENING DEFICIT FORECASTS

The long-term federal budget picture has dramatically worsened over the past three years. In early 2001, CBO projected a 10-year surplus of about \$5.6 trillion over the FY 2002-11 period.⁹ By contrast, CBO's baseline estimate now projects deficits totaling \$2.11 trillion over the next decade (FY 2006-15).¹⁰ The dramatic change in the government's fiscal outlook has resulted from the enactment of large tax cuts, as well as a weak economy and other factors.

Unfortunately, it is likely that the outlook will deteriorate still further in coming years. In addition to further increases in funding for defense, in its February 2005 budget request, the administration proposed extending expiring tax cut provisions and increasing funding in a number of other areas. According to CBO, enactment of the President's proposed budget would push total federal deficits to some \$2.6 trillion over the FY 2006-15 period, and keep the government in the red throughout the entire decade.¹¹ The unbudgeted cost growth in DoD

⁸ The CBO report provides its estimates in the form of *funding* requirements. Funding (Budget authority and Total Obligational Authority) represents the amount of money appropriated by Congress, generally through its annual appropriations bills. *Outlays* represent the amount actually spent each year (e.g., paid out in the form of salaries or progress payments to contractors). Typically, funding appropriated in a particular year is spent (i.e., converted to outlays) over a period of several years. Projections of overall federal spending and deficit (or surplus) levels are made based on outlays rather than the budget authority. Unless otherwise noted, in this analysis "spending" refers to outlays.

⁹ CBO, *The Budget and Fiscal Outlook: Fiscal Years 2002-2011* (Washington, DC: CBO, January 2001), p. 2.

¹⁰ CBO, *The Budget and Economic Outlook: An Update* (Washington, DC: CBO, August 2005), p. 2.

¹¹ CBO, *An Analysis of the President's Budgetary Proposals for Fiscal Year 2006*, p. 3. CBO's re-estimate of the president's proposed budget, and its impact on future deficits, differs only very modestly from OMB's

programs and activities discussed above suggests that, in fact, fully implementing the administration's plans could cause federal deficits to reach some \$3.5 trillion over the coming decade.¹²

Moreover, the fiscal picture is likely to grow substantially worse in the years after 2015 in part because of the retirement of the baby boomer generation (which will necessitate significant increases in spending on Social Security and Medicare). The administration's own budget documents project that the federal government will run deficits continuously over the next 50 years, and that the size of the deficit will grow from about 1 percent of gross domestic product (GDP) in 2015 to 2.7 percent in 2025 and 7.4 percent by 2045.¹³ Others have projected that deficits could increase to as much as 9 percent of GDP by 2025 and 28 percent by 2045.¹⁴

A MORE AFFORDABLE DEFENSE PLAN MAY PROVIDE ADEQUATE SECURITY

The fact that the Bush Administration's current long-term defense plan could cost substantially more to execute than is assumed in the administration's budget plan does not, of course, necessarily mean that additional funding should be provided. There is good reason to believe that by adopting a scaled-back and more transformation-oriented defense plan the United States could avoid (or offset) much of the cost growth assumed in CBO's high-end cost estimate and still adequately meet US security requirements. On the other hand, so long as a large US military presence is required in Iraq and elsewhere, it will be difficult or impossible to make reductions in some programs and activities—especially Army force structure. In any event, as noted above, the administration's own budget projections show that—even without any cost growth in DoD's plans—federal deficits will increase to very high, and almost certainly unsustainable, levels over the next several decades. Thus, providing sufficient funding to support even a smaller and less ambitious defense plan may prove difficult. As such, ensuring that adequate resources are available for defense over the long run will likely require, at some point down the road, either raising taxes or cutting entitlements (e.g., Social Security and Medicare), or a combination of both revenue increases and program cuts.

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estimate. This follows, among other things, from the fact that CBO and OMB make nearly identical assumptions about future economic growth rates.

¹² National defense is only one of several areas in which the administration's budget projections may make unrealistic assumptions about spending requirements. According to CBO, making the tax cuts permanent, reforming the alternative minimum tax and increasing overall discretionary spending at the same rate as the economy grows—which may be more realistic assumptions than those included in the administration's projections—would, taken together, add some \$4 trillion to projected deficits over the coming decade. CBO, *The Budget and Economic Outlook: An Update*, pp. 16-17.

¹³ Office of Management and Budget (OMB), *Fiscal Year 2006 Budget of the US Government, Analytical Perspectives* (Washington, DC: US Government Printing Office, 2005), p. 209.

¹⁴ Center for Budget and Policy Priorities, Committee for Economic Development and Concord Coalition, "Mid-Term and Long-Term Deficit Projections," September 29, 2003, p. 15.