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BRIEFS

Looking Ahead to the FY 2011 Defense Budget

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Next week the Obama administration will release the 2010 Quadrennial Defense review (QDR) and FY 2011 defense budget request. This comes as DoD strives to balance the demands of the ongoing wars in Iraq and Afghanistan with the need to reset the force and prepare for future adversaries, all while the nation emerges from the most severe economic downturn since the Great Depression. The federal government's record budget deficits will likely exert downward pressure on government spending, including defense spending, for years to come. This is a dramatic shift from the high rate of growth the base defense budget experienced over the past decade, which allowed the Department of Defense to postpone making many difficult decisions—a luxury that is not likely to be afforded in the coming years. This backgrounder places the defense budget within the context of the United States' overall fiscal outlook, reviews how defense dollars have been allocated over the past decade, and highlights budgetary and programmatic issues that will complicate DoD's planning over the Future year Defense Program.

Today over 60 percent of the base defense budget is used for operations and support (O&S) activities, such as recruiting and training for the active duty military, guard, and reserve, supporting the DoD civilian workforce, and funding the peacetime operations and maintenance of equipment. Over the past ten years, O&S funding in the base budget grew at an annual rate of 3.5 percent above the rate of inflation, despite the fact that the number of active duty military and DoD civilian personnel remained relatively constant over this period.

DoD acquisitions consume about 35 percent of the base defense budget today and grew at a real annual rate of 4.6 percent between FY 2000 and FY 2010. Within acquisition, research and development funding grew slightly faster at a real annual rate of 4.9 percent over the decade, compared to 4.4 percent for procurement, reflecting a continuation of the trend toward spending more on developing new weapon systems and less on procuring them in quantity. Within r&D, funding has shifted toward later development activities, such as system development and demonstration, and away from early research activities, such as applied research. R&D funding has also benefited from an average of 5 percent increases in budget authority granted by Congress each year above what DoD requested.

Aircraft procurements consume the largest share of overall procurement funding, at 34 percent for FY 2010. Further increases are expected over the FYDP as the Joint Strike Fighter (JSF) begins production; however, these increases may be tempered in the short-term if production of the JSF is slowed to address cost overruns in its development. Shipbuilding and conversion funding grew at a real annual rate of 4.6 percent over the past ten years to nearly \$14 billion in the FY 2010 budget, which is far less than the estimated \$21 billion in annual funding needed to achieving the 313 ship fleet in the Navy's long-term shipbuilding plan. To achieve a fleet of this size within the fiscal realities of the future, the Navy will need to buy a larger number of lower cost ships, such as the Littoral Combat Ship (LCS), and fewer multi-billion dollar platforms. Ground systems procurement funding also enjoyed substantial increases over the decade, growing at a real annual rate of 5.1 percent. In the wake of the Future Combat Systems' termination, it may be difficult for the Army to maintain a funding wedge for a follow-on program in future years, especially if war-related reset costs migrate into the base budget without a corresponding increase in funding.

The decade's fastest growing area of procurement has been space systems, which more than quadrupled from \$1.0 billion to \$4.6 billion (in FY 2010 dollars), due in part to cost overruns. Six of the seven largest unclassified DoD space programs have cost overruns that total \$35 billion, resulting in both program schedules and costs being pushed further out into the future. Missile defense spending also grew over the decade, but several programs were canceled in 2009 resulting in a 14 percent decline in r&D and procurement funding for FY 2010. The newly announced European missile defense system, which would use sea-based missiles initially, could cost as much as \$19 billion if new ships are procured for this mission or as little as \$300 million if existing ships are converted.

Family housing, military construction, and other funding in the base defense budget grew at a real annual rate of 5.9 percent over the past decade to \$26 billion in FY 2010. Much of this growth was due to the base realignment and closure process, which peaked at \$9 billion in funding in FY 2009. Base realignment and Closure (BRAC)-related funding declined in FY 2010, and FY 2011 is expected to be the final year of funding. The budget for family housing also declined in FY 2010, but much of the apparent drop may be due to the stimulus bill shifting projects that would have been funded in FY 2010 to FY 2009.

Of the \$4.8 trillion in total discretionary budget authority the Department of Defense received from FY 2000 to FY 2009, 21 percent (\$1.02 trillion) was appropriated for the wars in Iraq and Afghanistan. Over the past six years, spending in Afghanistan has averaged \$1.1 million per troop per year. Direct spending on the troops, which includes only the additional pay, benefits, and healthcare service members receive from being deployed, accounts for about \$66,000 of the cost per troop.

One of the main issues that demands attention in the upcoming defense budget is resolving the disconnect between the plans and programs DoD has put forward over the past decade and the resources available to support these programs in the long run. In some respects, this is a trade between funding continued increases in benefits and pay for military personnel—much of which accrues to retirees—and funding the weapon systems troops need for the conflicts they are in today and must be prepared for in the future. If personnel-related costs in the base budget continue growing at the same rate as over the past ten years—and there are many reasons to believe this may be the case—and the top-line budget remains flat or grows only slightly above inflation, there will be less funding available for acquisitions and DoD will be forced to rethink many of its long-term procurements.