

DECEMBER 2017



Analysis of the FY 2018 Defense Budget

Authors

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SEAMUS DANIELS

A Report of the

CSIS INTERNATIONAL SECURITY PROGRAM'S DEFENSE OUTLOOK SERIES

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Introduction

The Fiscal Year 2018 (FY 2018) defense budget cycle has been unusual in several ways. The budget request was submitted unusually late in the process, coming near the end of May, which makes it the latest a budget has been submitted to Congress since the president was first required to submit budget requests in FY 1923. When the budget was released, DoD also announced that it does not contain a projection for future years (the future years defense program or FYDP) that is normally submitted with a budget. However, many of the budget materials submitted by the Office of Management and Budget (OMB) and the Services do contain FYDP projections, prompting the Defense Department Comptroller to warn that, “The secretary [Mattis] has not spent any time at all looking at anything beyond F.Y. ‘18 to date.”¹

The budget request also came during a year when the Department of Defense (DoD) and much of the rest of the government operated for more than seven months under a continuing resolution (CR). FY 2017 was the longest CR for defense in more than 40 years, which meant that DoD did not yet know the level of funding for FY 2017 when it developed and finalized its FY 2018 request. Further complicating matters, the request exceeds the Budget Control Act (BCA) budget cap for defense by \$54 billion. The Obama administration submitted budgets in excess of the caps in three out of the five years that the BCA caps were in effect, but the difference between the request and the cap has not been this large since FY 2014. This budget request was also submitted while several strategy reviews were getting underway, including the Defense Strategy Review, the Nuclear Posture Review, and the Ballistic Missile Defense Review. Each of these reviews could lead to significant changes in future DoD plans and budgets.

Given the somewhat unusual circumstances of the FY 2018 budget cycle, this year’s budget analysis takes a different approach. Instead of looking at the details of what the budget request funds or does not fund, it focuses on long-term trends in the defense budget and force structure and identifies key issues facing the Defense Department as it prepares for the FY 2019 budget cycle.

1 “Department of Defense News Briefing on the President’s Fiscal Year 2018 Defense Budget” (Washington, DC: Department of Defense, May 23, 2017), <https://www.defense.gov/News/Transcripts/Transcript-View/Article/1191830/departments-of-defense-news-briefing-on-the-presidents-fiscal-year-2018-defense/>

Overview of the Defense Budget

The Trump Administration's FY 2018 defense budget proposes a significant increase in funding. As shown in Table 1, the budget requests a total of \$647 billion in funding for the Department of Defense, a 5.4 percent increase over the \$614 billion in funding enacted in FY 2017. The request also includes \$21.8 billion for atomic energy defense activities (primarily funded through the Department of Energy) to maintain the nation's arsenal of nuclear warheads and bombs as well as \$8.4 billion in defense-related activities that are funded through other federal agencies. The total national defense budget requested – which includes DoD, atomic energy defense activities, and other defense-related activities – is \$677 billion. The BCA budget cap for defense applies only to the base, discretionary portion of the national defense budget. For FY 2018, the defense budget cap is \$549 billion, and the portion of the request that is subject to the cap is \$603 billion. This means that for Congress to enact the budget as requested by the Trump administration, it needs to increase the defense budget cap by \$54 billion.

The budget request contains other defense-related funding beyond just the national defense budget. In particular, it includes \$183 billion for veterans' benefits and services, which funds disability pensions, veterans' healthcare, GI Bill benefits, and other veterans' services. Veterans' benefits and services is one of the fastest growing areas of the federal budget, increasing at a compound annual growth rate of 7.6 percent over the past ten years (or 5.9 percent annually when adjusted for inflation).² The budget also sets aside \$89 billion in the Treasury to cover unfunded liabilities in both the military retirement trust fund and the military retiree healthcare trust fund, and it includes \$21.5 billion in tax expenditures (i.e., lost revenue) for military allowances and veterans benefits that are exempt from federal taxes.

2 All adjustments for inflation in this report are made using the GDP Chained Price Index published by OMB in Historical Table 10.1 rather than the deflators used by the Defense Department. The defense deflators count some of the growth in labor costs for military and civilian employees as inflation and therefore understate the growth in these accounts over time.

Table 1: Summary of Defense-Related Funding in the FY 2018 Request (budget authority in then-year dollars)³

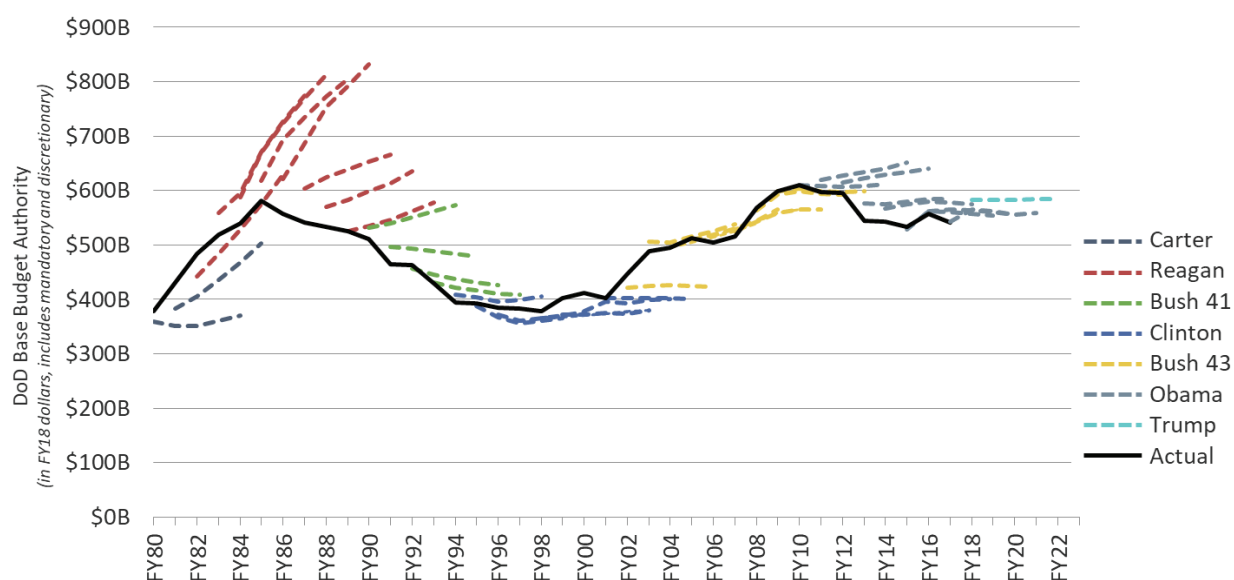
	FY 2016	FY 2017 (ENACTED)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
DOD (BASE DISCRETIONARY)	\$521.7B	\$523.2B	\$574.5B	\$586.6B	\$598.9B	\$611.5B	\$624.3B
DOD (BASE MANDATORY)	\$6.8B	\$7.9B	\$7.8B	\$7.9B	\$8.2B	\$8.4B	\$8.3B
DOD (OCO)	\$58.6B	\$82.8B	\$64.6B	\$52.0B	\$39.0B	\$24.0B	\$10.0B
<i>SUBTOTAL DOD</i>	\$587.1B	\$613.9B	\$646.9B	\$646.5B	\$646.1B	\$643.9B	\$642.6B
ATOMIC ENERGY DEFENSE ACTIVITIES (DISCRETIONARY)	\$18.9B	\$18.9B	\$20.6B	\$21.1B	\$21.5B	\$22.0B	\$22.4B
ATOMIC ENERGY DEFENSE ACTIVITIES (MANDATORY)	\$1.3B	\$1.2B	\$1.2B	\$1.2B	\$1.2B	\$1.2B	\$1.3B
OTHER DEFENSE- RELATED ACTIVITIES (DISCRETIONARY)	\$7.7B	\$8.2B	\$7.9B	\$8.3B	\$8.6B	\$8.5B	\$8.2B
OTHER DEFENSE- RELATED ACTIVITIES (MANDATORY)	\$0.6B	\$0.6B	\$0.6B	\$0.6B	\$0.6B	\$0.6B	\$0.6B
<i>SUBTOTAL NATIONAL DEFENSE</i>	\$615.5B	\$642.8B	\$677.1B	\$677.7B	\$678.0B	\$676.2B	\$675.1B
VETERANS BENEFITS AND SERVICES (DISCRETIONARY)	\$71.1B	\$74.7B	\$79.1B	\$83.4B	\$83.4B	\$83.4B	\$83.4B
VETERANS BENEFITS AND SERVICES (MANDATORY)	\$92.7B	\$102.4B	\$104.4B	\$108.6B	\$121.0B	\$128.6B	\$136.3B
AMORTIZATION OF UNFUNDED LIABILITIES	\$82.6B	\$83.4B	\$88.9B	\$91.1B	\$94.0B	\$97.1B	\$100.2B
MILITARY AND VETERANS TAX EXPENDITURES	\$21.1B	\$22.1B	\$21.5B	\$21.9B	\$22.6B	\$23.5B	\$24.3B
TOTAL DEFENSE- RELATED	\$883.0B	\$925.4B	\$971.0B	\$982.6B	\$999.1B	\$1,008.7B	\$1,019.3B

³ Data derived from the OMB Budget Database, <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/budauth.xls> and Tax Expenditures, https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/ap_13_expenditures.pdf.

Months after the budget request was submitted, the administration submitted a budget amendment for FY 2018 that included \$5.9 billion in additional funding that is not shown in Table 1. It includes emergency supplemental funding of \$4.0 billion for “urgent missile defeat and defense enhancements to counter the threat from North Korea” and \$674 million in Navy funding “to repair damage to the USS John S. McCain and the USS Fitzgerald.” The amendment also includes \$1.2 billion in additional OCO funding to support higher force levels in Afghanistan commensurate with the president’s revised Afghanistan strategy. Both the emergency supplemental and OCO funding do not count against the budget cap under the BCA.⁴

As previously mentioned, the Defense Department warned during the release of the FY 2018 request that the FYDP projection had not been reviewed by the Defense Secretary and was subject to change. While the lack of attention to the FYDP by the Defense Secretary is unusual, the fact that the FDYP is subject to change is not unusual. As shown in Figure 1 below, the FYDP often changes significantly from one budget request to the next. The FYDP tends to be a lagging indicator of where the budget is headed, because many other factors that ultimately affect the budget are external to DoD, namely Congress and broader issues in the overall federal budget. The FYDP is best viewed as a statement of administration policy rather than a prediction of where the budget is headed in future years. In the FY 2018 budget request, the base budget FYDP for DoD appears to be a simple straight-line extrapolation of the FY 2018 funding level, which only grows with inflation. Moreover, it projects a declining Overseas Contingency Operations (OCO) budget over the next five years, as shown in Table 1, that is not accompanied by a commensurate increase in the base budget.

Figure 1: Comparison of Prior FYDPs with Actual Funding Levels



4 “FY 2018 Budget Request for Emergency Requirements,” (Washington, DC: Department of Defense, 2018), https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/DOD_budgetamendment_package_nov2017.pdf.

Budgetary Uncertainty

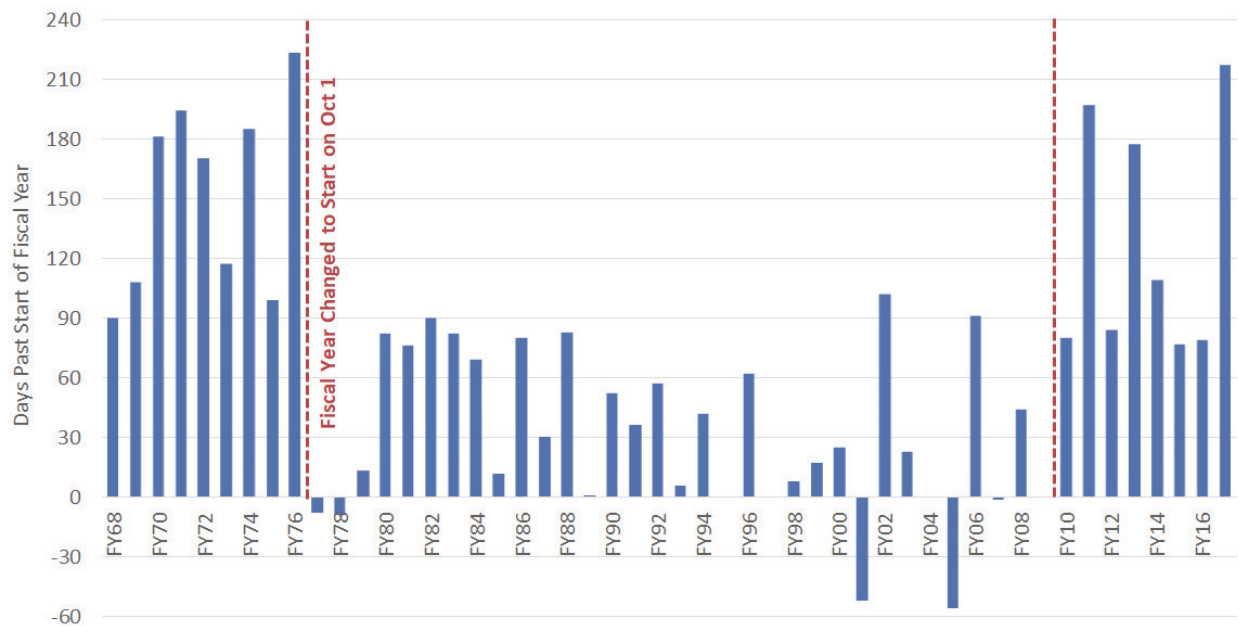
One of the main budget issues that leaders in DoD and Congress have lamented in this budget cycle is the uncertainty and inefficiency caused by both the use of continuing resolutions and the caps imposed by the BCA. Starting the fiscal year on a continuing resolution, however, is not unusual for DoD. As shown in Figure 2, in 41 of the past 50 years DoD has started the new fiscal year under a continuing resolution. The problem became so acute in the early 1970s that Congress passed a set of sweeping reforms to the budget process known as the Budget Impoundment and Control Act of 1974. This act delayed the start of the fiscal year from July 1 to October 1 beginning in FY 1977, which effectively gave Congress three additional months each year to pass appropriations bills. The change worked initially. In the nine years before it went into effect (FY 1968 to FY 1976), defense appropriations were enacted an average of 152 days after the start of the fiscal year. Over the next 33 years (FY 1977 to FY 2009), defense appropriations were late by an average of only 32 days. But since FY 2010, DoD has started each year on continuing resolutions that have lasted an average of 128 days. The longest CRs were in FY 2017 (217 days), FY 2011 (197 days), and FY 2013 (177 days). CRs that last many months into the fiscal year can have a deleterious effect on the efficiency with which programs and activities are executed.⁵

The submission of the budget request to Congress has also been unusually late in recent years, as shown in Figure 3. Since 1990, the president has been required to submit the budget request to Congress by the first Monday in February. It has also become custom that the first budget of a new administration is delayed by several months to give the new team time to review and revise the draft budget handed over by the outgoing administration. The Obama administration only submitted two budgets on time (FY 2011 and FY 2016), giving it a worse track record for timely budget submissions than any previous administration. However, the Trump administration's FY 2018 request was submitted on May 23, 2017, which is the latest a president's budget has ever been submitted since Congress first began requiring the President to submit a budget in FY 1923.⁶

5 For additional discussion, see "What the Continuing Resolutions Means for Defense Spending in FY 2018," <https://www.csis.org/analysis/what-continuing-resolution-means-defense-spending-fy-2018>.

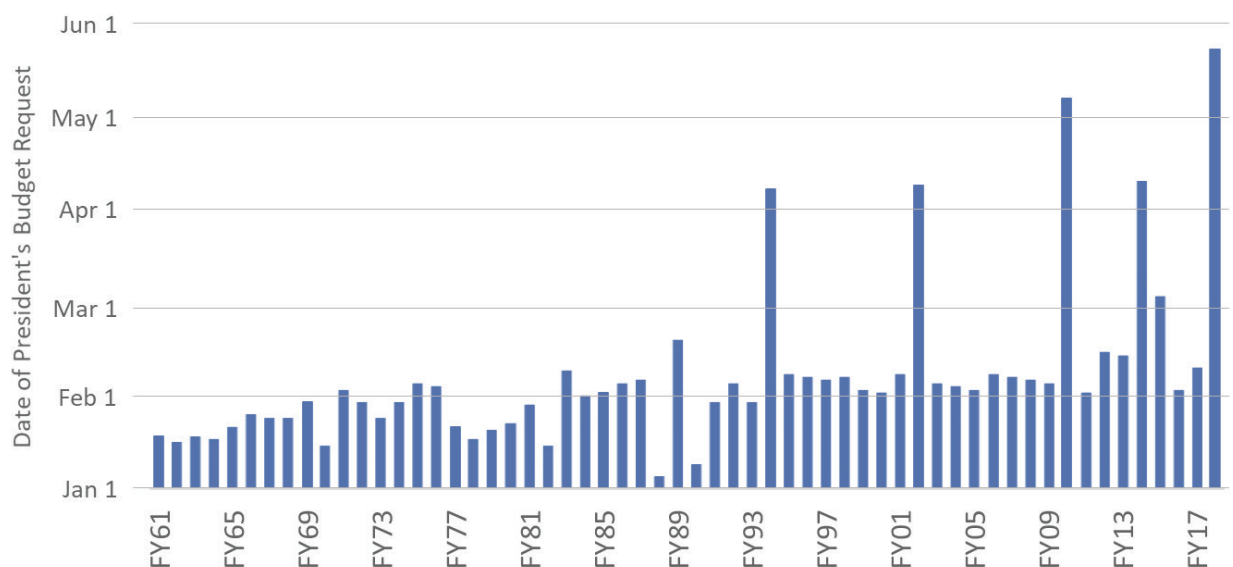
6 U.S. Library of Congress, Congressional Research Service, *Submission of the President's Budget in Transition Years*, by Michelle D. Christensen, RS20752 (2012), <https://fas.org/sgp/crs/misc/RS20752.pdf>.

Figure 2: Delays in Defense Appropriations, FY 1968 to FY 2017



It is debatable whether the delays in the budget request have been caused by delays in enacting appropriations from the prior year, are contributing to delays in appropriations for the coming year, or both. Regardless of whether it is a cause, effect, or some combination of the two, delays in submitting the budget request give Congress less time to consider the budget before the new fiscal year begins and contribute to greater uncertainty and instability in the budget formulation and execution process.

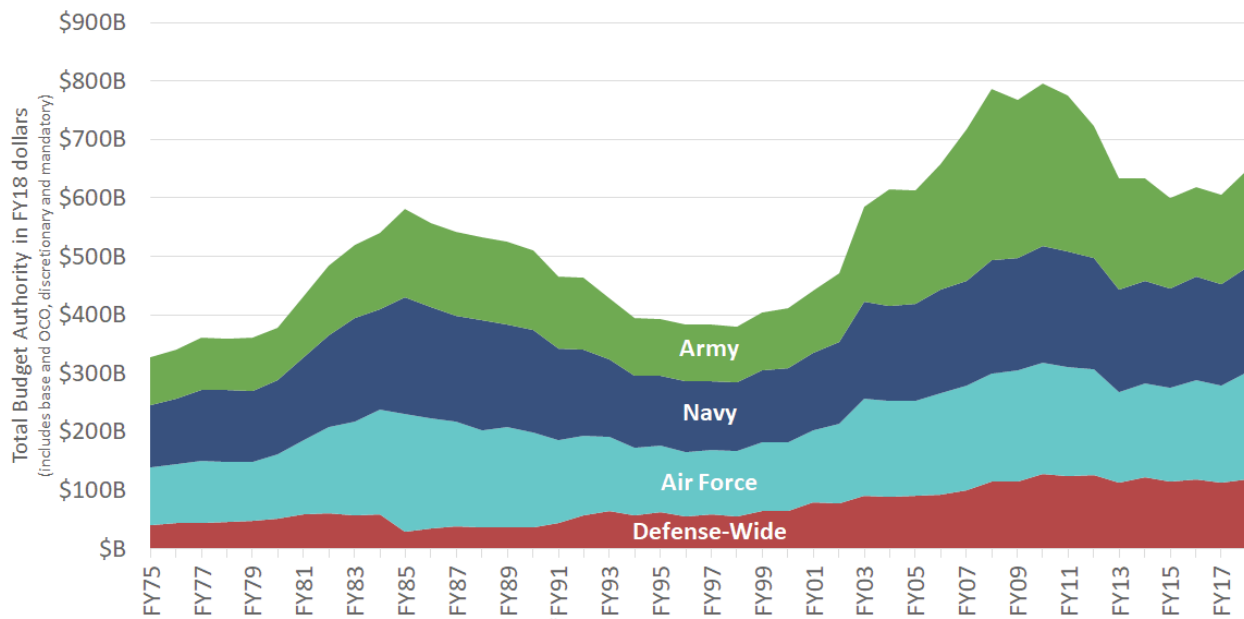
Figure 3: Delays in Submitting the President's Budget Request



Trends in Force Structure and Funding by Service

Some of the most striking trends in the defense budget relate to the shares of the overall budget that are allocated to each of the military Services and the force levels of each of the Services. The Services' shares of the budget have varied considerably over the past four decades through two waves of funding increases and declines. Force structure, however, has declined markedly in each of the Services since the end of the Cold War despite the fact that overall funding, even when adjusted for inflation, is higher. The following sections explore these trends by Service in more detail.

Figure 4: DoD Budget by Service⁷

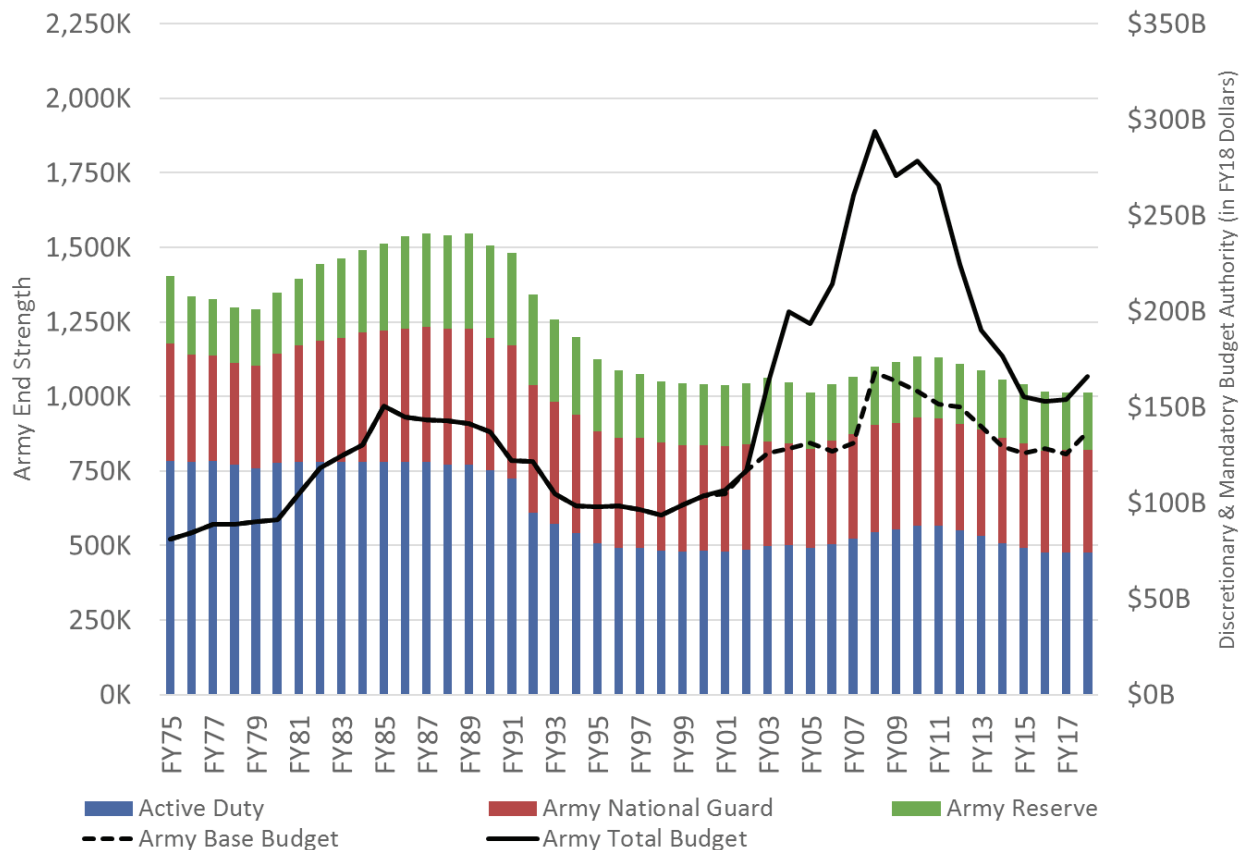


7 Data derived from the DoD Green Book http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2018/FY18_Green_Book.pdf. Data for FY 1991 is adjusted by allocating reimbursements for the costs of the Gulf War (which are counted as negative budget authority) from defense-wide to each of the Services in rough approximation to the costs incurred by each Service.

ARMY

As shown in Figure 5, the Army's budget grew significantly after the terrorist attacks of September 11, 2001, increasing by 176 percent (adjusted for inflation) from FY 2001 to its peak in FY 2008. Even if funding for the wars in Iraq and Afghanistan is excluded, the Army's base budget grew 60 percent above inflation during this period, which is well above the other Services. However, from FY 2008 through the FY 2018 request, the Army's budget has been cut relatively more than the other Services, falling by 43 percent in real terms (or 18 percent excluding OCO funding).

Figure 5: Army End Strength and Budget, FY 1975 to FY 2018



Similarly, as Figure 5 shows, the Army's active duty end strength began to grow in FY 2001 due to operations in Afghanistan and Iraq, increasing by 18 percent from FY 2001 to its peak in FY 2010. The Army's total end strength (including the Army National Guard and Army Reserve) grew by 9 percent in that same period. However, from FY 2010 through the FY 2018 request, the size of the total force has fallen by approximately 11 percent (or 16 percent for active duty forces) as the number of deployed forces in Afghanistan and Iraq has subsided. In FY 2015, the Army's active duty end strength reached the lowest level since the end of World War II. The Army National Guard, however, has been relatively protected during the most recent drawdown, growing from an average of 29 percent of total Army end strength in the 1980s to 34 percent today.

The Trump administration and many Republicans in Congress have called for growing the Army's active end strength to 540,000.⁸ The challenge for the Army is finding a way to afford this growth in force structure given the other pressures within its budget. The base budget requested for the Army in FY 2018 would return the budget to near where it was in FY 1992, adjusted for inflation. Yet, the size of the force is 24 percent smaller in total end strength than it was in FY 1992. Moreover, the Army has noted in congressional testimony that two-thirds of its Brigade Combat Teams (BCTs) are not at an acceptable level of readiness because of personnel shortages, maintenance backlogs, and insufficient training. The Army has further stated that "only three [BCTs] could be called upon to fight tonight in the event of a crisis," implying that the other 95 percent of the Army's BCTs are not fully ready.⁹ Given these trends, future growth in Army force structure may be constrained by the higher costs of forces today and the ability of the Army to maintain the readiness of its existing force structure.

NAVY

The Navy's budget (which includes the Marine Corps) experienced significant growth in the 2000s. Unlike the Army, though, the Navy's growth was primarily in its base budget, as shown in Figure 6. From FY 2001 to its peak in FY 2010, the overall Navy budget grew by 52 percent (adjusted for inflation) or 36 percent if war-related funding is excluded. While the budget has declined somewhat in recent years, the FY 2018 request would boost the Navy's base budget to near the peak it experienced in FY 2010.

As shown in Figure 6, the current size of the Navy's fleet is relatively small by historical standards. From its peak in FY 1987 to the trough in FY 2015, the Navy's ship count fell by more than half. This decrease is due in large part to the near elimination of small surface combatants, which fell by 96 percent from FY 1987 to FY 2015. When compared to the Navy's budget, however, a disturbing trend is evident. Between FY 1987 and FY 1997 the fleet size decreased by 40 percent (38 percent in battle force ship count), and the Navy's budget fell by a corresponding 35 percent, adjusted for inflation. But as the number of ships declined by another 20 percent from FY 1997 and FY 2010, the Navy's base budget grew by 49 percent.

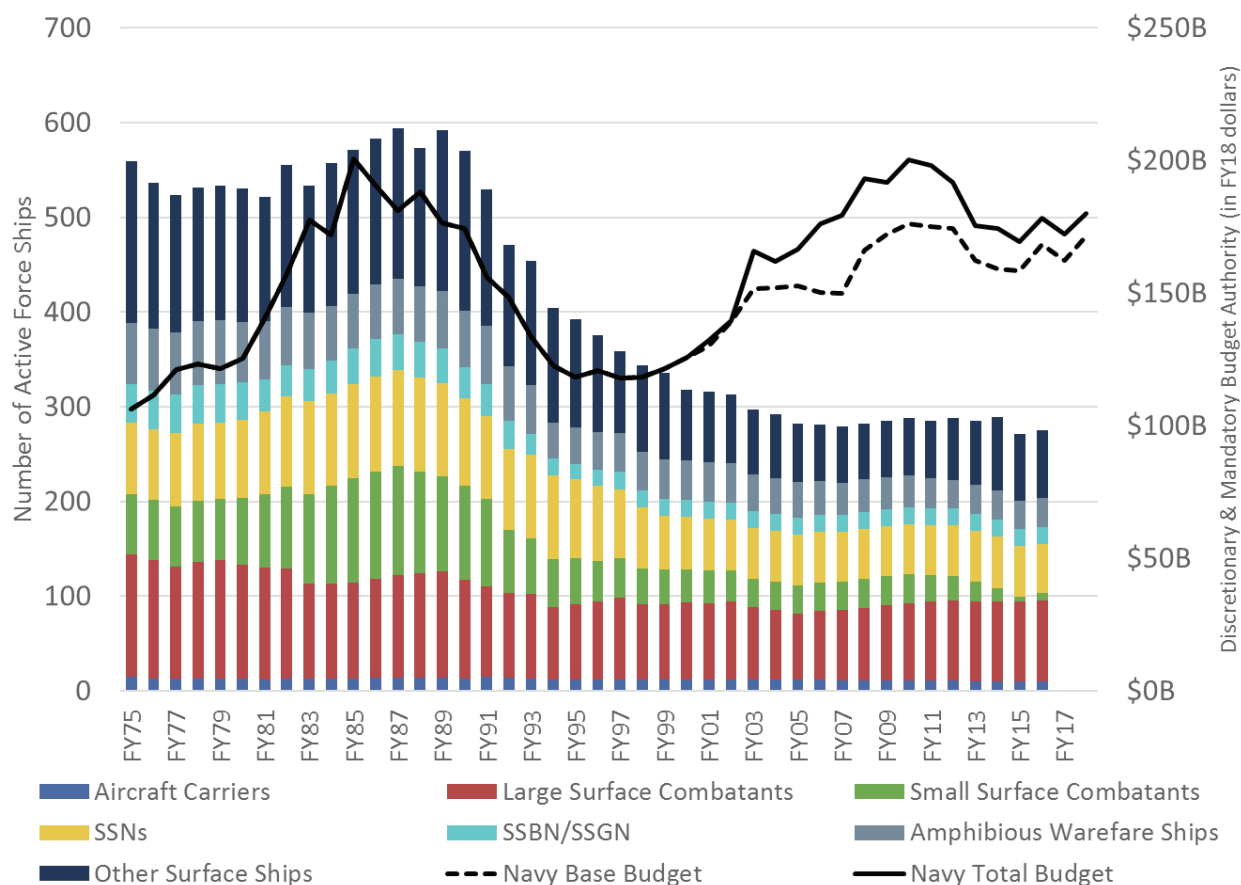
Like the Army, the Navy's budget request for FY 2018 is near the level it was in FY 1992 in inflation adjusted dollars, but the size of the fleet is more than a third smaller. The Trump administration's plans to grow the fleet to 355 ships—an increase of 27 percent—may be tempered by funding demands within the existing fleet.¹⁰ The Navy's readiness has come into question over the past

8 "Transcript of Donald Trump's speech on national security in Philadelphia," *The Hill*, September 7, 2017, <http://thehill.com/blogs/pundits-blog/campaign/294817-transcript-of-donald-trumps-speech-on-national-security-in>

9 U.S. Congress, House of Representatives, *State of the Military; Testimony before the Armed Services Committee*, 115th Cong., 1st sess., 2017, (Statement of General Daniel Allyn, Vice Chief of Staff, U.S. Army) <http://docs.house.gov/meetings/AS/AS00/20170207/105530/HHRG-115-AS00-Wstate-AllynD-20170207.pdf>

10 For more information on the Navy's plan for the 355-ship navy, see: <https://fas.org/sgp/crs/weapons/RL32665.pdf>

Figure 6: Navy Active Force Ships and Budget, FY 1975 to FY 2018¹¹



year, with several deadly accidents in the 7th fleet. The challenge for the Navy in addressing its readiness issues is that funding is already at a relatively high level when adjusted for the size of the fleet. Adjusted for inflation, Navy O&M – the portion of the budget most directly linked to readiness – is roughly double today what it was in the 1980s and 1990s on a per ship basis.¹² A recent report from the Government Accountability Office found that readiness shortfalls are the result of a high operational tempo for naval forces, which limits availability for training and maintenance.¹³ While a larger fleet would help bring supply and demand back into balance, it will take at least 10 to 15 years before these plans are realized.¹⁴ In the meantime, the Navy may need to scale back operational deployments and presence missions in order to rebuild readiness.

11 Data reflects the total number of active ships in the fleet compiled from the [Naval History and Heritage Command](#) rather than the total number of battle force ships. Data for FY 2017 and FY 2018 was taken from the [Naval Vessel Register](#).

12 Seamus Daniels, “Assessing Navy Readiness Funding,” *CSIS Defense360*, (Washington, DC: Center for Strategic and International Studies, November 1, 2017), http://defense360.csis.org/wp-content/uploads/2017/11/171101_Daniels_NavyReadiness.pdf

13 U.S. Government Accountability Office, *Navy Readiness: Actions Needed to Address Persistent Maintenance, Training, and Other Challenges Facing the Fleet*, by John Pendleton, GAO-17-798T (Washington, DC, 2017). <https://www.gao.gov/products/GAO-17-798T>

14 Megan Eckstein, “NAVSEA: Navy Hybrid Path to 355-Ship Fleet Could Only Take 10 to 15 Years,” *USNI News*, April 17, 2017, <https://news.usni.org/2017/08/17/navsea-navy-hybrid-path-355-ship-fleet-take-10-15-years>

AIR FORCE

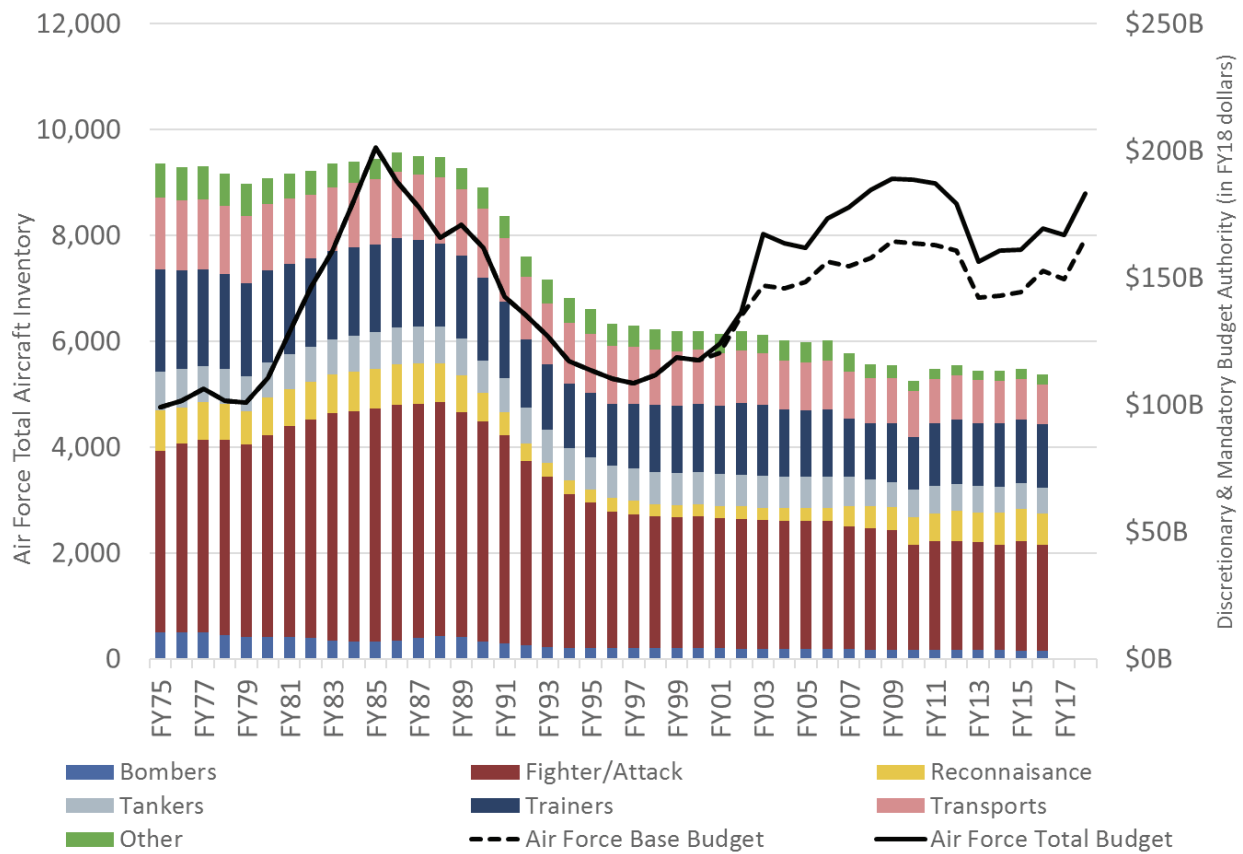
As with the other Services, the Air Force's budget fell considerably beginning in the late 1980s. From its peak in FY 1985 to the low point in FY 1997, the Air Force's budget fell by 46 percent in real terms. Moreover, the Air Force's share of the overall DoD budget declined from 35 percent to 28 percent over the same period. Like the other Services, the Air Force's budget grew significantly during the 2000s, rising 52 percent in real terms from FY 2001 to FY 2010 (or 36 percent if war-related funding is excluded).

Despite recent increases in its budget, the Air Force has not enjoyed a commensurate increase in the number of aircraft in its inventory. As shown in Figure 7, the total aircraft inventory of the Air Force declined by 44 percent from its peak in FY 1986 to FY 2016. This reduction was largely driven by a decrease in the number of fighter/attack aircraft and bombers, which fell by 55 percent and 54 percent, respectively, over the same period. The new administration has been somewhat less specific in its plans to grow the Air Force, promising to grow the fighter inventory to at least 1,200 aircraft (although the counting methodology is unclear, since the current fleet of fighter/attack aircraft is more than 2,000).¹⁵ While the Air Force has warned of readiness issues as well (and a pilot shortage in particular),¹⁶ one of the main challenges facing the Service over the coming years is its modernization plans. The Air Force is planning to fund modernization programs for nearly all components of its inventory at the same time, including the F-35A fighter, B-21 bomber, KC-46A tanker, and the T-X trainer programs. In addition to aircraft modernization programs, the Air Force intends to develop and field a new ICBM and a new nuclear-armed air-launched cruise missile. It will also need to begin new programs for several satellite constellations, including missile warning, global positioning system (GPS), protected communications, and wideband communications.

15 "Transcript of Donald Trump's speech on national security in Philadelphia," *The Hill*, September 7, 2017, <http://thehill.com/blogs/pundits-blog/campaign/294817-transcript-of-donald-trumps-speech-on-national-security-in>

16 Oriana Pawlyk, "Air Force Pilot Shortage Climbs to 2K Pilots, General Says," *Military.com*, November 10, 2017, <https://www.military.com/daily-news/2017/11/09/air-force-pilot-shortage-climbs-2k-pilots-general-says.html>

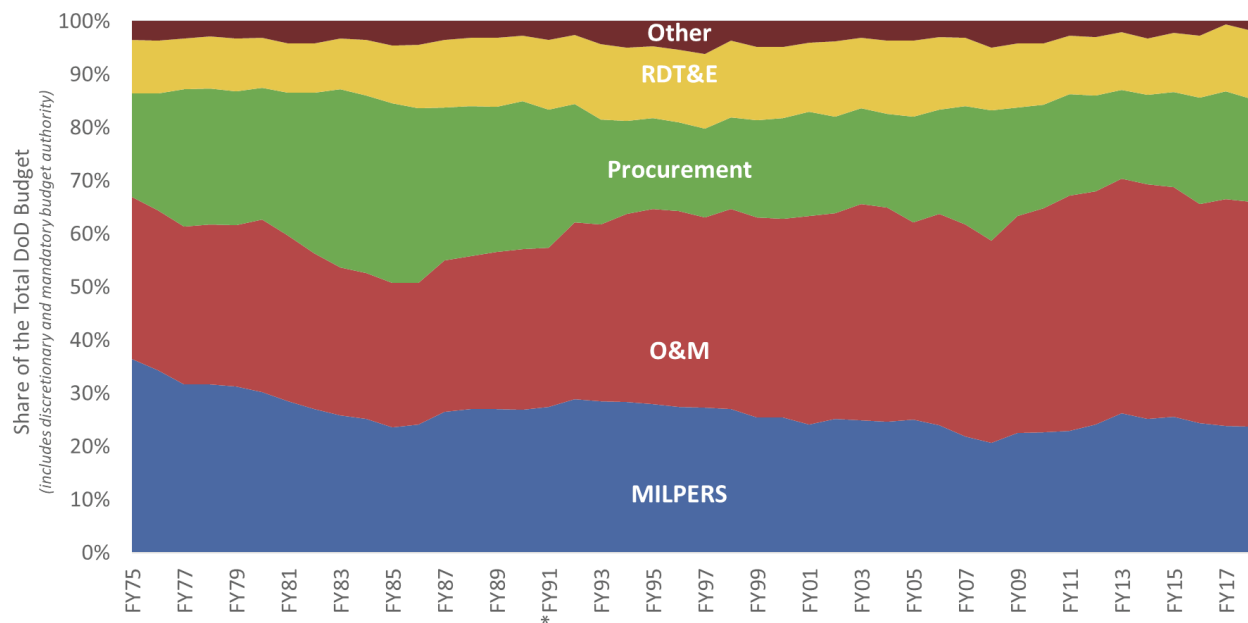
Figure 7: Air Force Total Aircraft Inventory and Budget, FY 1975 to FY 2018



Trends in Funding by Title

Another way to view trends in the budget is by the overall funding allocated to different titles within the budget. As shown in Figure 8, O&M funding received the largest increase after FY 2001. This was due in large part to operations in Afghanistan and Iraq as well as increasing healthcare costs, both of which are mainly funded through O&M.¹⁷ In recent years, O&M funding has consumed roughly 39 percent of the base budget and 42 percent of the total budget, compared to an average of 28 percent throughout the Cold War. In contrast, procurement funding has fallen from an average of 28 percent of the budget during the Cold War to roughly 20 percent in recent years (both with and without OCO funding). During the 2000s, procurement funding grew significantly, more than doubling from FY 2001 to its peak in FY 2008, but most of this growth was due to war-related procurements, such as Mine Resistant Ambush Protected (MRAP) vehicles, which have since subsided.

Figure 8: Share of the DoD Budget by Title, FY 1975 to FY 2018

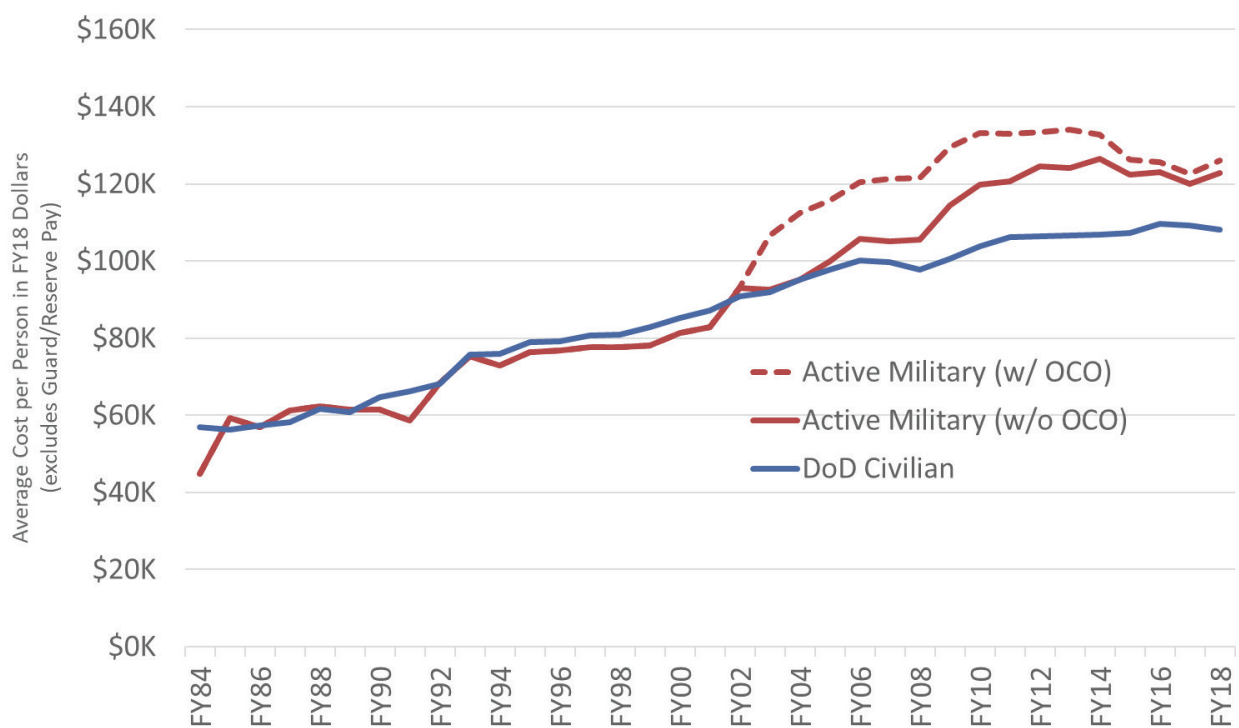


17 The Defense Health Program, which is the largest component of military healthcare funding, is a defense-wide O&M account. Thus, it is not included in MILPERS or the Services' budgets.

Labor costs have also risen significantly both for military and DoD civilian personnel. While the share of the overall budget allocated to the military personnel (MILPERS) title of the budget has declined since the late 1970s, the average cost per active duty service member has grown significantly. As shown in Figure 9, from FY 2001 to FY 2012 the average cost per active duty service member grew by 61 percent when adjusted for inflation (or 50 percent if OCO funding is excluded), and the average cost per DoD civilian grew by 22 percent over the same period. The growth in military personnel costs was driven by a combination of new and expanded benefits, increasing healthcare costs, and higher pay raises. Since FY 2012, costs for both military and civilian personnel have stabilized, staying roughly flat with inflation.

DoD has compensated for higher labor costs in part by reducing the number of personnel. Overall active end strength in the military fell by nine percent from the peak in FY 2010 to the trough in FY 2016, and the civilian workforce fell by 3 percent over the same period. The Army made the deepest cuts in manpower, reducing its active end strength by 16 percent and its civilian workforce by 29 percent over the same period.

Figure 9: Growth in Military and DoD Civilian Personnel Costs



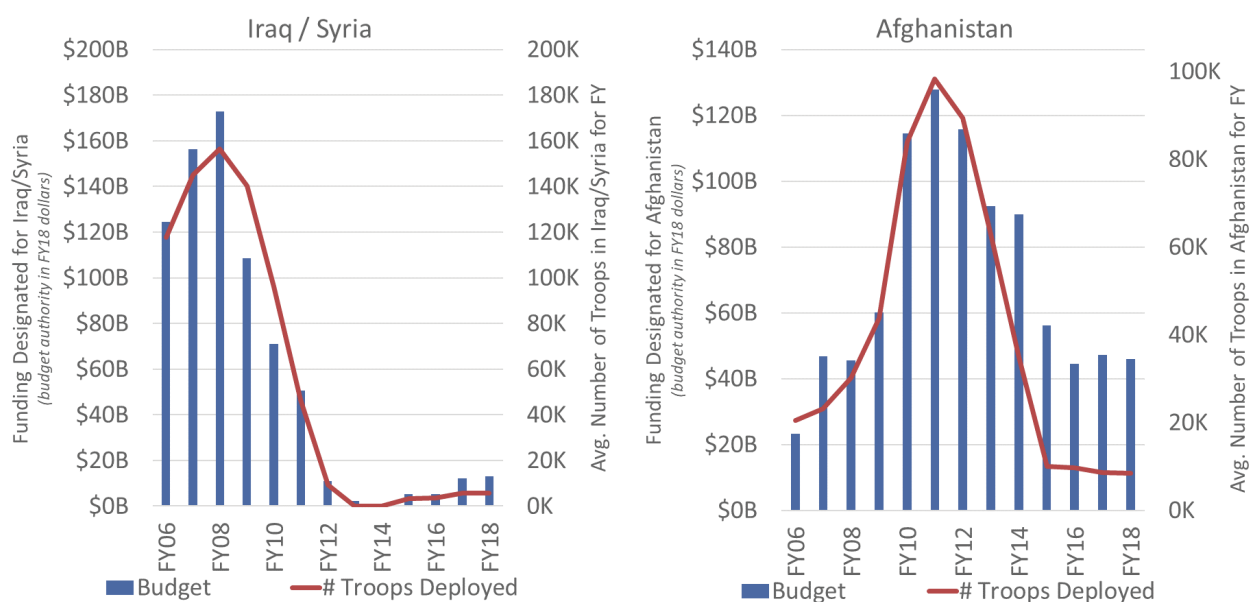
The Defense Department has also become increasingly dependent on OCO funding to supplement its base budget, particularly in O&M accounts. This dependence has become more acute since the BCA was enacted because OCO funding does not count toward the budget caps.¹⁸ As a result, both Congress

18 For more information on the designation of OCO funding as it relates to the BCA budget caps, see CRS' "Overseas Contingency Operations Funding: Background and Status," <https://fas.org/sgp/crs/natsec/R44519.pdf>

and DoD have used this loophole to increase the base budget beyond what the budget caps allow.¹⁹ The migration of “enduring” base budget funding to OCO has come in two forms: explicit transfers made by Congress in the annual appropriations bill, and implicit transfers made by DoD primarily in funding labeled as being for operations in Afghanistan.

As shown on the left of Figure 10, when the number of troops deployed in Iraq declined by nearly 100 percent, from its peak in FY 2008 to near zero in FY 2013, funding for operations in Iraq declined by 98 percent. In contrast, the figure on the right shows that the number of troops in Afghanistan declined by 91 percent from the peak in FY 2011 to FY 2017, but during that period funding only declined by 63 percent. The apparent discrepancy is most visible between FY 2013 and FY 2014 when the average troop level in Afghanistan fell by 45 percent, but funding only fell by 3 percent. This suggests that between FY 2013 and FY 2014 DoD relabeled some \$25-30 billion in funding as being for operations in Afghanistan that had not previously been designated this way.

Figure 10: Funding and Troop Levels in Iraq/Syria and Afghanistan



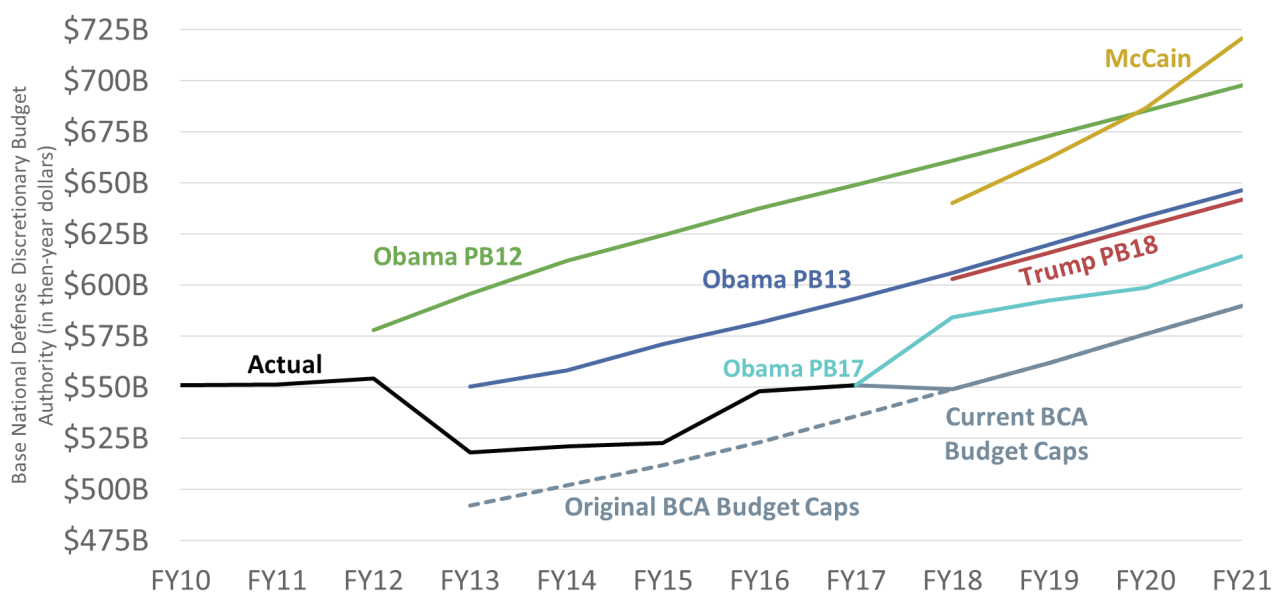
Using such a substantial amount of OCO funding to supplement the base budget each year is problematic because it can create a false sense of affordability. In reality, DoD’s current programs and force structure cost more than is shown in its base budget request – and more than the budget deals that have raised the BCA budget caps for defense through FY 2017. This tactic is particularly problematic in the out-years because the FYDP projects that OCO funding will decline steadily through FY 2022 without a commensurate increase in the base budget. Thus, before the Trump administration can begin to fund its plans to grow the force, improve readiness, and modernize capabilities, it will first need to either increase the base budget to absorb this “enduring” funding that currently resides in OCO or increase its projection for the level of OCO funding in future years.

19 See page 4 of Senator John McCain’s “Restoring American Power,” https://www.mccain.senate.gov/public/_cache/files/25bff0ec-481e-466a-843f-68ba5619e6d8/restoring-american-power-7.pdf

The FY 2018 Budget End Game

In the final months of the FY 2018 congressional budget cycle, the key issue that remains unresolved is the BCA budget caps. As shown in Figure 11, the defense budget has never been cut to the level originally prescribed in the BCA. This is because budget deals have modified the caps three times since the BCA was enacted, raising them by equal amounts for defense and non-defense for the years FY 2013 to FY 2017. However, the caps remain at their original level for FY 2018 through their expiration in FY 2021. Modifying the budget caps can be politically difficult because it requires 60 votes in the Senate, which means it must have bi-partisan support.

Figure 11: Comparison of Budget Requests to the BCA Budget Caps for Defense



The Trump administration's FY 2018 request for national defense is \$54 billion above the cap for FY 2018. In November, the House and Senate passed the final version of the FY 2018 National Defense Authorization Act (NDAA), which calls for an increase of \$85 billion above the cap in the base budget.²⁰ Earlier in the year, the House passed its version of the defense appropriations bill, which included funding of approximately \$72 billion above the budget cap as well as some \$10 billion in additional base budget funding in OCO, bringing it to near the same level of overall increase as the NDAA.²¹ The Senate has not yet moved on its version of the defense appropriations bill for FY 2018, but the chairman of the subcommittee, Senator Thad Cochran (R-MS), released his mark of the bill, which is roughly \$69 billion above the budget cap and does not provide additional base budget funding in OCO.²²

While the prospects for a budget deal that raises the caps to near the levels proscribed by the authorization and appropriations bills remains uncertain, the Defense Department is in the process of finalizing its request for FY 2019. The FY 2019 budget request is expected to be released near or shortly after the defense strategy review, nuclear posture review, and ballistic missile defense review. These reviews are expected to provide additional details for how the administration plans to grow the force, its priorities among major acquisition programs, and any significant shifts in force posture and capabilities.

Defense Secretary Mattis and General Dunford, Chairman of the Joint Chiefs, have publicly called for growth in the defense budget of three to five percent annually above inflation.²³ This level of growth is roughly consistent with the budget proposed by Senator John McCain earlier this year, as shown in Figure 14. Thus, one of the main issues to watch in the FY 2019 budget is the topline level of funding over the FYDP, especially since the FY 2018 budget included zero percent growth above inflation.

Another important factor to watch in the next budget request is how it shifts the emphasis among capability, capacity, and readiness. The last three budgets of the Obama administration arguably attempted to shift this balance by placing a relatively greater emphasis on capability (i.e., modernization and the development of new technologies), relatively less emphasis on capacity (i.e., the overall size of the force), and a sustained emphasis on readiness. In a budget guidance

20 U.S. House of Representatives Armed Services Committee, "Reform and Rebuild: National Defense Authorization Act for FY18," HASC Communications 52539, https://armedservices.house.gov/sites/republicans.armedservices.house.gov/files/wysiwyg_uploaded/FY18%20NDAA%20Floor%20Summary%20vFinal.pdf

21 U.S. House of Representatives Committee on Appropriations, "House Appropriations Committee Releases Fiscal Year 2018 Defense Bill," (Washington, DC, June 25, 2017), <https://appropriations.house.gov/news/documentsingle.aspx?DocumentID=394930>

22 U.S. Senate Committee on Appropriations, "FY2018 Defense Appropriations Bill Released," (Washington DC, November 21, 2017), <https://www.appropriations.senate.gov/news/majority/fy2018-defense-appropriations-bill-released>

23 Aaron Mehta, "DoD needs 3-5 percent annual growth through 2023, top officials say," *Defense News*, June 13, 2017, <https://www.defensenews.com/pentagon/2017/06/13/dod-needs-3-5-percent-annual-growth-through-2023-top-officials-say/>

memo issued shortly after being sworn in, Secretary Mattis indicated that the priority for the FY 2019 budget request would be to “build capacity and improve lethality.”²⁴ While it is not yet clear how these priorities will manifest themselves in the budget and national defense strategy, the FY 2019 request may be a significant departure from the FY 2018 budget.

24 “Document: SECDEF James Mattis’ Pentagon Budget Guidance,” *USNI News*, February 1, 2017, <https://news.usni.org/2017/02/01/document-defense-secretary-james-mattis-budget-guidance>

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