

DECEMBER 2021

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Next National Defense Strategy*

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Todd Harrison

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A Report of the  
CSIS Defense Budget Analysis Program

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ISBN: 978-1-5381-4049-9 (pb); 978-1-5381-4050-5 (ebook)

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## About the Defense Budget Analysis Program

The Defense Budget Analysis (DBA) Program at CSIS leads the center's efforts to provide in-depth, nonpartisan research and analysis of defense funding issues. As part of the International Security Program at CSIS, DBA explores trends in the overall defense budget, military readiness, force structure, defense acquisitions, and military compensation in a broader effort to assess the alignment of the country's defense strategy and its resources.

## Acknowledgments

This report is made possible by general support to CSIS. Any errors or omissions are solely the responsibility of the authors. Analysis and charts are based on publicly available data; the authors welcome recommendations of relevant data sets for future analysis on this subject.

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# 1 | Introduction

The FY 2022 defense budget request was the first request submitted by the Biden administration and the latest any budget request has ever been submitted to Congress since it began requiring an annual budget submission in the Budget and Accounting Act of 1921.<sup>1</sup> It has become expected that the first budget of a new administration will be delayed past the statutory deadline of the first Monday in February (which fell on February 1 this year), and previous administrations submitted their first requests in April or early May. While it offered a “skinny” budget on April 9, 2021, that included only the top-line figure for the Department of Defense (DoD), the Biden administration did not submit this year’s full budget request until May 28, 2021—the Friday before the Memorial Day holiday weekend.<sup>2</sup> The late budget request could be attributed to a difficult transition period and delays in getting key positions in the Office of Management and Budget (OMB) filled.<sup>3</sup> Regardless of the cause, the effect was to delay consideration of the budget and the annual authorization bills in Congress, increasing the chances of spending a longer portion of the fiscal year under a continuing resolution. FY 2022 is also the first year in which the defense and non-defense parts of the discretionary budget are not subject to the Budget Control Act (BCA) budget caps. This means that Congress does not have a de facto budget deal in place that sets the top-line levels for the defense and non-defense portions of the discretionary budget.

While the FY 2022 defense budget request is the first from the Biden administration, it was developed primarily under the Trump administration. DoD’s budget development process—known as the Planning, Programming, Budgeting, and Execution (PPBE) system—takes several years to build a budget submission. Under the typical PPBE timeline, the development of the FY 2022 request theoretically began in late calendar year 2019.<sup>4</sup> However, the Biden administration did take the opportunity to review several components of the FY 2022 budget before submitting it to Congress. A February memo from Deputy Secretary of Defense Kathleen Hicks outlined several areas the department would review: shipbuilding; low-yield nuclear weapons and nuclear command, control, and communications (NC3); long-range fires; aircraft, including the F-35, Air Force tankers, and the

<sup>1</sup> *Budget and Accounting Act of 1921*, Public Law 67-13, U.S. Statutes at Large 20 (1921), <https://budgetcounsel.com/public-law-67-13-budget-and-accounting-act-of-1921/>.

<sup>2</sup> Executive Office of the President, “Summary of the President’s Discretionary Funding Request,” Office of Management and Budget, April 9, 2021, <https://www.whitehouse.gov/wp-content/uploads/2021/04/FY2022-Discretionary-Request.pdf>; and “The President’s Budget for Fiscal Year 2022,” Office of Management and Budget, May 28, 2021, <https://www.whitehouse.gov/wp-content/uploads/2021/05/FINAL-FY22-Budget-Overview-Fact-Sheet.pdf>.

<sup>3</sup> Philip Ewing, “Biden Fault’s ‘Roadblocks’ As His Team Manages Transition From Trump,” NPR, December 28, 2020, <https://www.npr.org/sections/biden-transition-updates/2020/12/28/950898048/biden-faults-roadblocks-as-his-team-manages-transition-from-trump>.

<sup>4</sup> Brendan W. McGarry, “Defense Primer: Planning, Programming, Budgeting and Execution (PPBE) Process,” Congressional Research Service, IF10429, December 11, 2020, <https://sgp.fas.org/crs/natsec/IF10429.pdf>.

MQ-9; climate; and “extant FY 2022 investments and FY 2023 opportunities” for the Biden administration’s Build Back Better legislation.<sup>5</sup>

The memo further articulated that investment decisions would be judged by three “key cross-cutting priorities” that include: (1) the Pacific Deterrence Initiative to recommend “investments to deter aggression in the Pacific”; (2) “acceleration options” for autonomous and remotely crewed systems; and (3) “near-term” options to divest legacy aircraft and ships.<sup>6</sup> These priorities may provide some insight as to the objectives of the forthcoming National Defense Strategy. However, the exclusion of the five-year projections of the Future Years Defense Program (FYDP) from the FY 2022 request, while not anomalous, means that this year’s budget does not include much guidance for the department’s future plans.

This report provides an overview of DoD’s budget request for FY 2022 and outlines priorities for the ongoing and completed strategic reviews—including the National Defense Strategy, Nuclear Posture Review, Missile Defense Review, and Global Posture Review—and their potential budgetary effects. It concludes by assessing current congressional action on defense appropriations for FY 2022 and identifying key issues for the FY 2023 budget request.

<sup>5</sup> Paul McCleary, “New Hicks Memo Sets Acquisition, Force Posture 2022 Budget Priorities,” Breaking Defense, February 24, 2021, <https://breakingdefense.com/2021/02/exclusive-hicks-memo-sets-2022-budget-priorities/>.

<sup>6</sup> Ibid.

## 2 | Overview of Defense-Related Funding

### Total Defense-Related Funding

The FY 2022 budget requests a total of \$753 billion in discretionary funding for national defense, including \$715 billion for the Department of Defense (DoD). The national defense budget also includes \$10 billion in funding for defense-related activities in other parts of government and \$28 billion for defense-related atomic energy activities to support the maintenance and modernization of nuclear warheads and bombs, the development and maintenance of nuclear reactors for Navy aircraft carriers and submarines, and the labs and infrastructure that support these activities. In addition to these amounts, the budget projects \$13 billion in DoD mandatory funding in FY 2022 and \$2.5 billion in other national defense mandatory funding. Mandatory funding is essentially on autopilot and does not need to be appropriated each year by Congress. Including both discretionary and mandatory funding, the total budget for national defense in FY 2022 comes to \$768 billion.

Beyond the national defense budget function, other funding in the budget that is related to (or a consequence of) defense includes veterans' benefits and services (budget function 700), the amortization of unfunded liabilities for military retirement and healthcare, and tax expenditures for military personnel and veterans. Importantly, these areas are not considered part of the DoD or national defense budget and make up an additional \$423 billion in the FY 2022 request. The veterans' budget is one of the fastest growing areas of the overall federal budget, having grown 94 percent above inflation over the past 10 years, compared to 32 percent growth in Social Security (budget function 651), 47 percent growth in Medicare (budget function 551), and a 4 percent decline in national defense (budget function 050) over the same period (FY 2012 to FY 2022).

The discretionary DoD budget for FY 2022 represents a 1.6 percent increase above the level enacted for FY 2021, but it represents a slight decline of 0.2 percent when adjusted for inflation. The administration assumes in the request that inflation will be 1.8 percent (using the chained GDP price index) between FY 2021 and FY 2022. Given how economic conditions have evolved since the request was prepared, it is likely that inflation will be higher than this projection, meaning that the real change in funding from FY 2021 to FY 2022 will be lower. Rather than attempting to predict the actual level of inflation, this analysis uses the OMB projections for inflation, with the caveat that they are likely too low for FY 2021 and FY 2022.

**Table 1: Summary of Defense-Related Funding in PB22**

<i>(All figures in budget authority and then-year dollars)</i>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021 (enacted)</b>	<b>FY 2022 (requested)</b>	<b>FY 2023 (projected)</b>	<b>FY 2024 (projected)</b>	<b>FY 2025 (projected)</b>	<b>FY 2026 (projected)</b>
DoD (base discretionary)	\$616.5B	\$633.3B	\$635.2B	\$715.0B	\$730.5B	\$746.6B	\$763.2B	\$780.1B
DoD (base mandatory)	\$24.7B	\$15.6B	\$10.1B	\$12.9B	\$13.3B	\$13.2B	\$13.5B	\$12.5B
DoD (OCO & Emergency)	\$71.4B	\$89.9B	\$68.5B	\$0.0B	\$0.0B	\$0.0B	\$0.0B	\$0.0B
<i>Subtotal DoD (051)</i>	<i>\$712.6B</i>	<i>\$738.8B</i>	<i>\$713.8B</i>	<i>\$727.9B</i>	<i>\$743.8B</i>	<i>\$759.8B</i>	<i>\$776.8B</i>	<i>\$792.6B</i>
Atomic Energy (disc.)	\$22.4B	\$24.2B	\$27.5B	\$27.9B	\$28.9B	\$29.5B	\$30.2B	\$30.9B
Atomic Energy (mand.)	\$1.6B	\$1.8B	\$1.9B	\$1.9B	\$2.0B	\$2.0B	\$2.1B	\$2.1B
Other Defense-related (disc.)	\$8.6B	\$9.1B	\$9.5B	\$9.9B	\$10.2B	\$10.4B	\$10.6B	\$10.9B
Other Defense-related (mand.)	\$0.6B	\$0.6B	\$1.2B	\$0.6B	\$0.5B	\$0.5B	\$0.5B	\$0.5B
<i>Subtotal National Defense (050)</i>	<i>\$745.7B</i>	<i>\$774.5B</i>	<i>\$754.0B</i>	<i>\$768.3B</i>	<i>\$785.4B</i>	<i>\$802.3B</i>	<i>\$820.2B</i>	<i>\$836.9B</i>
<i>Discretionary National Defense (050)</i>	<i>\$718.8B</i>	<i>\$756.6B</i>	<i>\$740.8B</i>	<i>\$752.9B</i>	<i>\$769.5B</i>	<i>\$786.6B</i>	<i>\$804.0B</i>	<i>\$821.9B</i>
Veterans Benefits & Svcs (disc.)	\$86.9B	\$112.1B	\$104.8B	\$113.6B	\$131.1B	\$134.0B	\$136.8B	\$139.9B
Veterans Benefits & Svcs (mand.)	\$107.8B	\$121.5B	\$151.3B	\$170.9B	\$156.6B	\$172.8B	\$184.2B	\$195.9B
<i>Subtotal Veterans Benefits &amp; Svcs (700)</i>	<i>\$194.8B</i>	<i>\$233.6B</i>	<i>\$256.0B</i>	<i>\$284.5B</i>	<i>\$287.7B</i>	<i>\$306.8B</i>	<i>\$321.1B</i>	<i>\$335.7B</i>
Amortization of Unfunded Military Retirement Liabilities	\$93.7B	\$98.5B	\$105.1B	\$112.3B	\$114.2B	\$116.8B	\$120.6B	\$124.5B
Defense-related Tax Expenditures	\$21.8B	\$22.9B	\$25.0B	\$25.9B	\$26.8B	\$26.0B	\$26.6B	\$28.1B
<b><i>Total Defense-related</i></b>	<b><i>\$1,056.0B</i></b>	<b><i>\$1,129.5B</i></b>	<b><i>\$1,140.2B</i></b>	<b><i>\$1,190.9B</i></b>	<b><i>\$1,214.1B</i></b>	<b><i>\$1,251.9B</i></b>	<b><i>\$1,288.4B</i></b>	<b><i>\$1,325.2B</i></b>

Source: Office of the Undersecretary of Defense, *National Defense Budget Estimates for FY 2022* (Washington, DC: DoD, August 2021), [https://comptroller.defense.gov/Portals/45/Documents/defbudget/FY2022/FY22\\_Green\\_Book.pdf](https://comptroller.defense.gov/Portals/45/Documents/defbudget/FY2022/FY22_Green_Book.pdf); and OMB FY 2022 Public Budget Database available at “Budget of the United States Government,” govinfo.gov, <https://www.govinfo.gov/app/collection/budget/2022/BUDGET-2022-DB>.

## War-Related Funding

The FY 2022 defense budget is the first in two decades that does not include a separate request for war-related funding. After 9/11, the George W. Bush administration began requesting funding for war-related activities in Afghanistan and Iraq in what was then known as Global War on Terror (GWOT) funding. GWOT funding was requested separately from the regular base budget as a supplemental request, which was sometimes delivered to Congress months after the base budget. The Obama administration changed the name from GWOT to Overseas Contingency Operations (OCO), and it continued the practice of keeping war-related funding separated in the request from the base budget. It did, however, begin submitting the OCO request at the same time as the annual base budget.

The enactment of the Budget Control Act (BCA) in 2011 changed the way OCO funding was viewed by both DoD and Congress because the BCA budget caps did not constrain OCO funding.<sup>7</sup> Relabeling base budget funding as OCO funding effectively became a loophole to circumvent the BCA budget caps,

<sup>7</sup> Brendan W. McGarry and Emily Morgenstern, *Overseas Contingency Operations Funding: Background and Status*, CRS Report No. R44519 (Washington, DC: Congressional Research Service, September 2019), <https://sgp.fas.org/crs/natsec/R44519.pdf>.

and it allowed DoD to continue receiving more funding than would have otherwise been allowed.<sup>8</sup> Despite pledges by both the Obama and Trump administrations to move OCO funding back into the base budget, neither administration followed through on these promises.<sup>9</sup> The Biden administration is the first to propose a budget that moves OCO into the base budget. It is more politically practical to do this now because the BCA budget caps are no longer in effect and the OCO loophole is no longer needed.

While the administration does not request separate OCO funding, it identifies \$42.1 billion in funding that would have been considered OCO in the past. Of this total, \$8.9 billion is for operations in Afghanistan, \$5.4 billion is for Iraq and Syria, \$24.1 billion is funding for enduring requirements in Central Command (a euphemism for base budget funding that migrated to OCO in the past), and \$3.7 billion is for the European Deterrence Initiative (EDI) and the Ukraine Security Assistance Initiative (USAI). The Afghanistan portion of the budget was prepared before the drawdown was completed and the Taliban took control of the country. It includes \$3.3 billion in support to the Afghan Security Forces for FY 2022, which can no longer be executed as originally intended.<sup>10</sup>

## Trends in the DoD Budget

The FY 2022 request continues several trends in the overall DoD budget. It continues to shift a relatively greater share of the budget to military personnel (MILPERS) and research, development, test, and evaluation (RDT&E) accounts while providing relatively less funding for procurement. At the macro level, these trends appear to be somewhat in alignment with stated policy. In Defense Secretary Lloyd Austin's message to the force issued on March 4, 2021, he cites the need to address advanced threats, innovate and modernize the department, and take care of the DoD workforce.<sup>11</sup> His message implies an emphasis on RDT&E and MILPERS, which is reflected in the request.

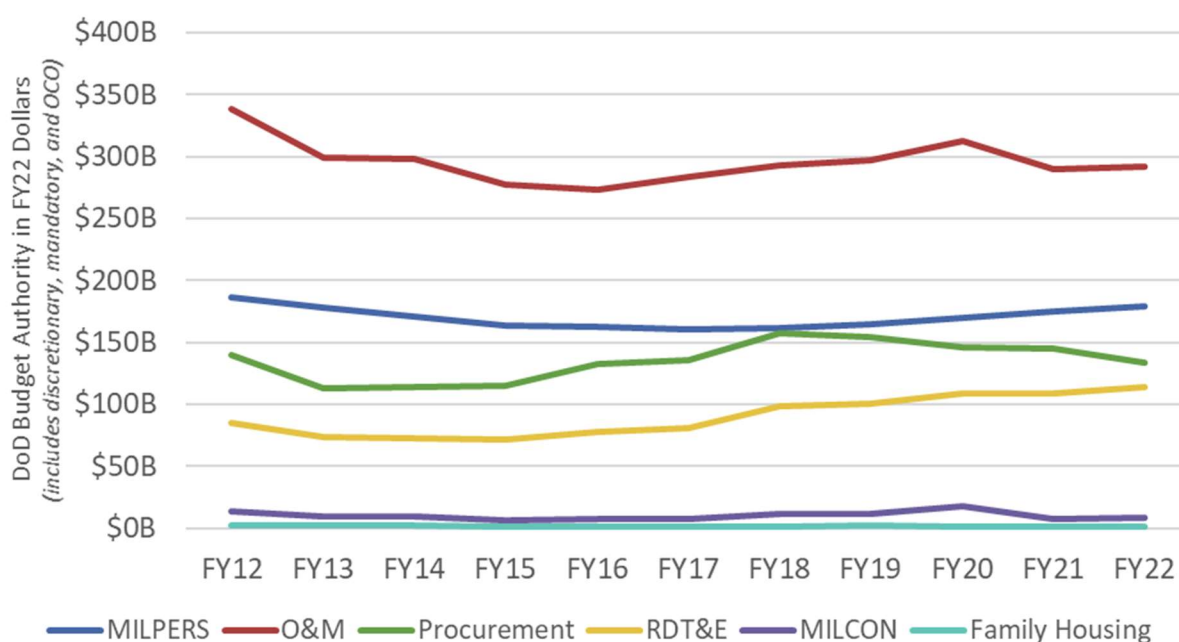
<sup>8</sup> Todd Harrison, "The Enduring Dilemma of Overseas Contingency Operations Funding," CSIS, Defense360, January 2017, [https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/170111\\_Transition45-Harrison-OCO.pdf?q1GlegtPt.pV3vEZVABJNCo72wxl8sb](https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/170111_Transition45-Harrison-OCO.pdf?q1GlegtPt.pV3vEZVABJNCo72wxl8sb).

<sup>9</sup> Office of the Under Secretary of Defense (Comptroller) Chief Financial Officer, *United States Department of Defense Fiscal Year 2016 Budget Request* (Washington, DC: Department of Defense, February 2015), 7–9, [https://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2016/FY2016\\_Budget\\_Request\\_Overview\\_Book.pdf#page=85](https://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2016/FY2016_Budget_Request_Overview_Book.pdf#page=85); and Todd Harrison and Seamus P. Daniels, "The tragedy of Mick Mulvaney and the war budget," The Hill, March 13, 2019, <https://thehill.com/blogs/congress-blog/economy-budget/433911-the-tragedy-of-mick-mulvaney-and-the-war-budget>.

<sup>10</sup> Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, *Defense Budget Overview* (Washington, DC: Department of Defense, May 2021), 7-3 to 7-5, [https://comptroller.defense.gov/Portals/45/Documents/defbudget/FY2022/FY2022\\_Budget\\_Request\\_Overview\\_Book.pdf](https://comptroller.defense.gov/Portals/45/Documents/defbudget/FY2022/FY2022_Budget_Request_Overview_Book.pdf).

<sup>11</sup> Lloyd J. Austin III, "Message to the Force," Secretary of Defense, March 4, 2021, <https://media.defense.gov/2021/Mar/04/2002593656/-1/-1/0/SECRETARY-LLOYD-J-AUSTIN-III-MESSAGE-TO-THE-FORCE.PDF>.

**Figure 1: DoD Budget by Title**



Source: Office of the Undersecretary of Defense, *National Defense Budget Estimates for FY 2022* (Washington, DC: DoD, August 2021), Table 6-8, [https://comptroller.defense.gov/Portals/45/Documents/defbudget/FY2022/FY22\\_Green\\_Book.pdf](https://comptroller.defense.gov/Portals/45/Documents/defbudget/FY2022/FY22_Green_Book.pdf).

## MILPERS

MILPERS funding grows by 1.9 percent in real terms from the FY 2021 level, while the size of the force holds steady at 1.44 million active-duty service members and 800,000 in the guard and reserve. The higher cost per person is due in part to a 2.7 percent pay raise, which is in line with the Employment Cost Index (ECI) but is higher than the overall inflation assumptions used in the request. It also includes a 3.1 percent increase in the basic allowance for housing and a 2.3 percent increase in the basic allowance for subsistence.<sup>12</sup> Funding for the Tricare for Life program, which provides healthcare benefits to Medicare-eligible retirees and family members, increases by 8.7 percent above inflation to \$9.3 billion in FY 2022.<sup>13</sup> Given that DoD does not report productivity measures for its workforce, it is not clear if the higher costs of personnel are in proportion to higher productivity in the workforce.<sup>14</sup> The request notes that in FY 2021, DoD has had to manage “historically high levels of retention” due to Covid-19 and the effects it has had on the private sector economy, which suggests that retention issues are not driving the request for higher pay and benefits.

Congress created the blended retirement system (BRS) in the 2016 National Defense Authorization Act, and the new system went into effect on January 1, 2018. The old retirement system (known as

<sup>12</sup> Paul A. Chamberlain, “Army Fiscal Year 2022 Budget Overview,” U.S. Army, May 28, 2021, 7, [https://www.asafm.army.mil/Portals/72/Documents/BudgetMaterial/2022/pbr/FY22\\_PB\\_brief\\_28MAY21.pdf](https://www.asafm.army.mil/Portals/72/Documents/BudgetMaterial/2022/pbr/FY22_PB_brief_28MAY21.pdf).

<sup>13</sup> Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, *Defense Budget Overview*, 5-5.

<sup>14</sup> Justin Joffrion, “Bad Idea: Paying Servicemembers More to Do the Same Amount of Work,” CSIS, Defense360, December 6, 2019, <https://defense360.csis.org/bad-idea-paying-servicemembers-more-to-do-the-same-amount-of-work/>.

High Three) provided a defined pension benefit of 2.5 percent for each year of service (e.g., 50.0 percent after 20 years of service) multiplied by the average of the highest three years of pay. BRS reduced the pension benefit multiplier to 2.0 percent (e.g., 40.0 percent after 20 years of service) and created a new 401k-like retirement plan with matching contributions from the government up to 5.0 percent of a service member's pay. All new service members entering the military after December 31, 2017, are automatically enrolled in the new system, and service members with less than 12 years of service as of that date had the option of switching to the new system.<sup>15</sup> As of the end of FY 2019 (the most recent data available at the time of this publication), 36 percent of active duty and 24 percent of drilling guard and reserve service members are in BRS, and the numbers are increasing each year as new recruits enter service. In the FY 2022 request, BRS saves DoD approximately \$2 billion in accrual payments to the military retirement trust fund relative to what would have been required if all personnel were under the High Three system.<sup>16</sup> These annual savings will continue to increase in future years as more service members fall under BRS.

## **O&M**

Operation and maintenance (O&M) funding grows slightly above inflation, at 0.6 percent in real terms. This follows a year of significant decline from FY 2020 to FY 2021, due in part to the gradual drawdown of operations in Afghanistan and the expiration of Covid-related supplemental funding enacted in FY 2020. One of the largest areas of O&M funding is the Defense Health Program, which increases by 2.5 percent in real terms to \$35.6 billion in FY 2022. This supports the military healthcare system and Tricare benefits for 9.7 million people, the vast majority of whom are military retirees and dependents. It does not include funding for the previously mentioned Tricare for Life program, which resides in MILPERS accounts.<sup>17</sup> The increase in military healthcare costs is driven in large part by a \$2-billion increase in the request for private sector care compared to the FY 2021 enacted level.

With the notable exception of the Army, each of the services request increases in O&M funding for FY 2022, and the main source of increase (and decrease for the Army) is in operating forces. The Air Force active component increase is the largest, at \$2.7 billion more than FY 2021 O&M funding, which is an increase of 3.4 percent above inflation (a relatively small portion of this growth appears to be in classified passthrough funding). Space Force O&M increases by nearly a third to \$3.4 billion in total, but much of this is transfers of existing funding from the Air Force. Army O&M declines by nearly \$1 billion from FY 2021, or 3.6 percent in real terms.

## **RDT&E**

RDT&E funding in FY 2022 grows by 4.4 percent in real terms and \$6.7 billion in nominal dollars compared to FY 2021. However, \$1.25 billion of this increase is for a new mandatory RDT&E funding line entitled "Prepare Americans for Future Pandemics." Without this funding line, the overall growth

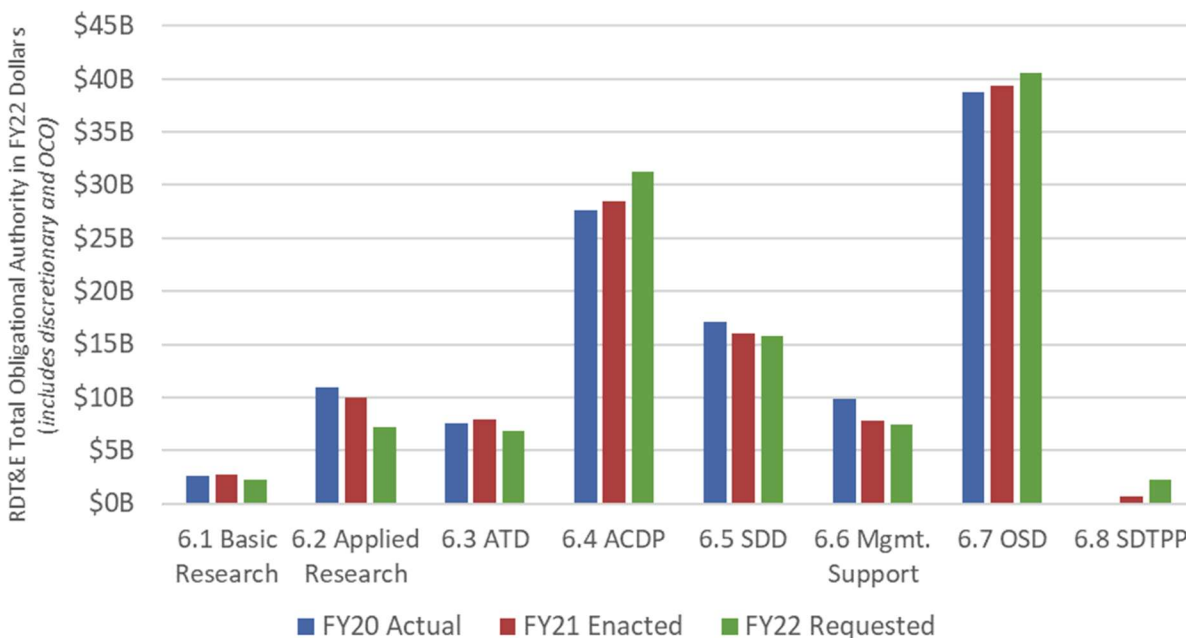
<sup>15</sup> Kristy N. Kamarck, *Military Retirement: Background and Recent Developments*, CRS Report No. RL34751 (Washington, DC: Congressional Research Service, February 2021), 6, <https://sgp.fas.org/crs/misc/RL34751.pdf>.

<sup>16</sup> Based on analysis of data in DoD Office of the Actuary, *Valuation of the Military Procurement System* (Washington, DC: DoD, February 2021), [https://actuary.defense.gov/LinkClick.aspx?fileticket=b\\_aLHK0rEsA%3d&tabid=29422&portalid=15](https://actuary.defense.gov/LinkClick.aspx?fileticket=b_aLHK0rEsA%3d&tabid=29422&portalid=15).

<sup>17</sup> Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, *Defense Budget Overview*, 5-5.

in discretionary RDT&E is 3.2 percent. Within discretionary RDT&E, the growth is not evenly distributed, as shown in Figure 2, and some of the increase in RDT&E is due to transfers from other titles of the budget. Science and Technology (S&T) funding (the combination of budget activities 6.1, 6.2, and 6.3) is down 20 percent in real terms compared to the FY 2021 enacted level, although Congress has historically added S&T funding above the requested level and could restore some of this funding in appropriations. Funding for system development and demonstration (6.5) and management support (6.6) also decline in real terms by 1.7 and 4.9 percent, respectively.

**Figure 2: RDT&E by Budget Activity**



Source: Office of the Undersecretary of Defense, *RDT&E Programs (R-1) for FY 2022* (Washington, DC: DoD, May 2021), [https://comptroller.defense.gov/Portals/45/Documents/defbudget/FY2022/FY2022\\_r1.pdf](https://comptroller.defense.gov/Portals/45/Documents/defbudget/FY2022/FY2022_r1.pdf).

Funding for advanced component development and prototypes (6.4) sees the largest increase in FY 2022, growing 9.6 percent in real terms, or \$3.3 billion in nominal dollars. This is driven mainly by proposed increases in some major acquisition programs, including the Air Force's Ground Based Strategic Deterrent (GBSD) and Next Generation Air Dominance (NGAD) programs, the Navy's Conventional Prompt Strike program, and the Army's Future Vertical Lift program. Funding for operational system development (6.7) is up 3.3 percent in real terms, and nearly all of this increase is in classified funding lines that do not publicly report their activities.

The RDT&E portion of the request significantly expands the use of the recently created budget activity (6.8) for software development and technology pilot programs. Much of the increase in 6.8 funding is not new funding but rather transfers from other parts of the budget. For example, the largest single item in the 6.8 category is the Navy's Next Generation Enterprise Network program, which requests \$955 million in FY 2022. According to budget documents, \$778 million of this is transferred from Navy

O&M accounts, \$175 million from procurement, and \$2.2 million from RDT&E system development and demonstration (6.5).<sup>18</sup>

The advantage of doing this, and the reason DoD and Congress created the new 6.8 budget activity, is that it allows the services to manage funding seamlessly among development, procurement, and operations and maintenance. Under the traditional budget structure, funding for each of these activities would be appropriated into different titles of the budget, and DoD would need to submit a reprogramming request to move funds across accounts. As the Defense Innovation Board noted in a 2019 report, many types of software-intensive programs do not have clear boundaries between development, maintenance, and procurement activities, which makes it difficult to manage budgets along these categories.<sup>19</sup> When accounting for the inclusion of \$1.25 billion in mandatory funding and the fact that a large portion of the \$1.6 billion increase in 6.8 funding is transfers from other parts of the budget (particularly O&M and procurement), the actual increase in RDT&E in this budget request is significantly less than the top-line figures suggest.

## **Procurement**

One of the most noted aspects of the FY 2022 request is the 7.3 percent real decline in procurement funding from FY 2021 to FY 2022. This is the largest year-over-year decline in procurement funding since FY 2013 when sequestration was triggered. Aircraft procurement declines the most overall, due in part to DoD not requesting as many F-35s, C-130Js, and V-22s as were appropriated in FY 2021. Shipbuilding and conversion is lower than expected due to the proposed procurement of 8 new ships in total compared to 10 in FY 2021 and 11 in FY 2020. The proposed decline in procurement funding will likely be tempered by Congress because the defense committees have signaled their intent to add back funding for some of the proposed reductions in procurement.

## **MILCON and Family Housing**

The military construction (MILCON) and family housing titles of the DoD budget are relatively small compared to other parts of the budget, and unlike the rest of the defense budget, they are handled by separate appropriations subcommittees in Congress. MILCON funding grew significantly from FY 2018 through FY 2020 due to funding being transferred into these accounts by the Trump administration to support construction of the border wall. The FY 2020 appropriations bill also added \$6.2 billion in FY 2020 emergency supplement MILCON funding to repair damage by flooding, earthquakes, and Hurricanes Florence and Michael as well as \$545 million in projects related to the European Deterrence Initiative.<sup>20</sup> MILCON funding returned to a more typical level in FY 2021, but the FY 2022 request proposes a \$1.3 billion increase (or 16 percent in real terms), much of which is in Air Force

<sup>18</sup> Department of the Navy, *Department of Defense Fiscal Year (FY) 2022 Budget Estimates, Justification Book Volume 5 of 5, Research, Development, Test & Evaluation, Navy* (Washington, DC: DoD, May 2021), 1492, [https://www.secnab.navy.mil/fmc/fmb/Documents/22pres/RTDEN\\_BA7\\_Book.pdf#page=1560](https://www.secnab.navy.mil/fmc/fmb/Documents/22pres/RTDEN_BA7_Book.pdf#page=1560).

<sup>19</sup> J. Michael McQuade et al., *Software is Never Done: Refactoring the Acquisition Code for Competitive Advantage* (Washington, DC: Defense Innovation Board, March 2019), 45, [https://insidedefense.com/sites/insidedefense.com/files/documents/2019/mar/03212019\\_dib.pdf](https://insidedefense.com/sites/insidedefense.com/files/documents/2019/mar/03212019_dib.pdf).

<sup>20</sup> Brendan W. McGarry and G. James Herrera, "FY2020 Military Construction Appropriations: An Overview of P.L. 116-94 (Division F)," Congressional Research Service, IF11401, January 8, 2020, 1, <https://sgp.fas.org/crs/natsec/IF11401.pdf>.

MILCON funding. The Air Force lists more than 40 major construction projects in its budget, ranging in cost from \$4 million to \$168 million. Notable projects in this list include construction related to housing the new B-21 bomber at Ellsworth Air Force Base in South Dakota (six projects totaling \$333 million) and two processing facilities for GBSD at Vandenberg Space Force Base in California (totaling \$67 million).<sup>21</sup>

Funding for family housing has declined by nearly 80 percent since the Military Housing Privatization Initiative (MHPI) was enacted by Congress in 1996. This decline continues in the FY 2022 request (-5 percent in real terms), and the budget notes that 99 percent of base housing has been privatized in the United States over the past 20-plus years.<sup>22</sup> While the privatization process has reduced the need for family housing funding significantly, the housing costs for service members has merely shifted to the MILPERS title of the budget as more personnel receive the basic allowance for housing.

<sup>21</sup> Department of the Air Force, *FY 2022 Budget Overview* (Washington, DC: DoD, May 2021), 42, [https://www.saffm.hq.af.mil/Portals/84/documents/FY22/SUPPORT\\_FY22%20Budget%20Overview%20Book.pdf?ver=Reck2JzBUzoZmGByl9Zm-Q%3d%3d](https://www.saffm.hq.af.mil/Portals/84/documents/FY22/SUPPORT_FY22%20Budget%20Overview%20Book.pdf?ver=Reck2JzBUzoZmGByl9Zm-Q%3d%3d).

<sup>22</sup> Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, *Defense Budget Overview*, 5–8.

### 3 | Strategic Reviews and Budgetary Effects

As is custom in the first year of a new administration, the Biden administration is developing its National Security Strategy that will outline its objectives for the foreign policy and defense enterprise. Concurrently, DoD leadership has undertaken a series of reviews to develop the strategy and inform its policies moving forward. These reviews include the drafting of the National Defense Strategy, Nuclear Posture Review, and Missile Defense Review, which are all likely to be released in early 2022, as well as the Global Posture Review, which recently concluded.

DoD's policy reviews will have significant budgetary implications for the programs and plans that fall under each respective portfolio. This section outlines areas within the defense budget that could be affected by the reviews currently underway.

#### National Defense Strategy

The 2022 National Defense Strategy (NDS), anticipated to be released early in 2022, will set the stage for the Biden administration's defense policy for the next three years. The strategy is expected to build on the Trump administration's 2018 NDS by prioritizing competition with China and Russia over other challenges. The 2018 strategy characterized a global security environment defined by the "reemergence of long-term, strategic competition" with "revisionist powers" in China and Russia, a description which often went by the more succinct and controversial moniker of "great power competition."<sup>23</sup>

Biden's senior leadership at the Pentagon has established its preference for using "strategic competition" to describe the current security environment, with China as the "pacing challenge" and Russia as a still significant, if lesser, threat.<sup>24</sup> To address threats from these competitors, the administration plans to rely on a concept referred to as "integrated deterrence," which depends on

<sup>23</sup> Jim Mattis, *Summary of the 2018 National Defense Strategy of the United States* (Washington, DC: DoD, 2018), 2, <https://dod.defense.gov/Portals/1/Documents/pubs/2018-National-Defense-Strategy-Summary.pdf>; Donald J. Trump, *National Security Strategy of the United States of America* (Washington, DC: The White House, 2017), <https://trumpwhitehouse.archives.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf>; Kevin Baron, "Mattis: Pentagon Shifting Focus to Great Power Competition – 'Not Terrorism'," *Defense One*, January 19, 2018, <https://www.defenseone.com/policy/2018/01/mattis-declares-pentagon-will-shift-focus-great-power-competition-not-terrorism/145305/>; and Zack Cooper, "Bad Idea: 'Great Power Competition' Terminology," *CSIS, Defense360*, December 1, 2020, <https://defense360.csis.org/bad-idea-great-power-competition-terminology/>.

<sup>24</sup> Daniel Lippman et al., "Biden's Era of 'Strategic Competition'," *Politico*, October 5, 2021, <https://www.politico.com/newsletters/national-security-daily/2021/10/05/bidens-era-of-strategic-competition-494588>; and David Vergun, "China Remains 'Pacing Challenge' for U.S., Pentagon Press Secretary Says," *DoD*, November 16, 2021, <https://www.defense.gov/News/News-Stories/Article/Article/2845661/china-remains-pacing-challenge-for-us-pentagon-press-secretary-says/>.

the use of “every military and non-military tool in lock-step with allies and partners,” with systems and technologies networked across all domains.<sup>25</sup>

From a budgetary perspective, “integrated deterrence” is expected to manifest itself as greater investment in new technologies (capabilities), at the potential expense of force structure (capacity). In a preview of this, the Interim National Security Strategic Guidance (released on March 3, 2021) called on the defense enterprise to “shift our emphasis from unneeded legacy platforms and weapons systems to free up resources for investments in the cutting-edge technologies and capabilities that will determine our military and national security advantage in the future.”<sup>26</sup>

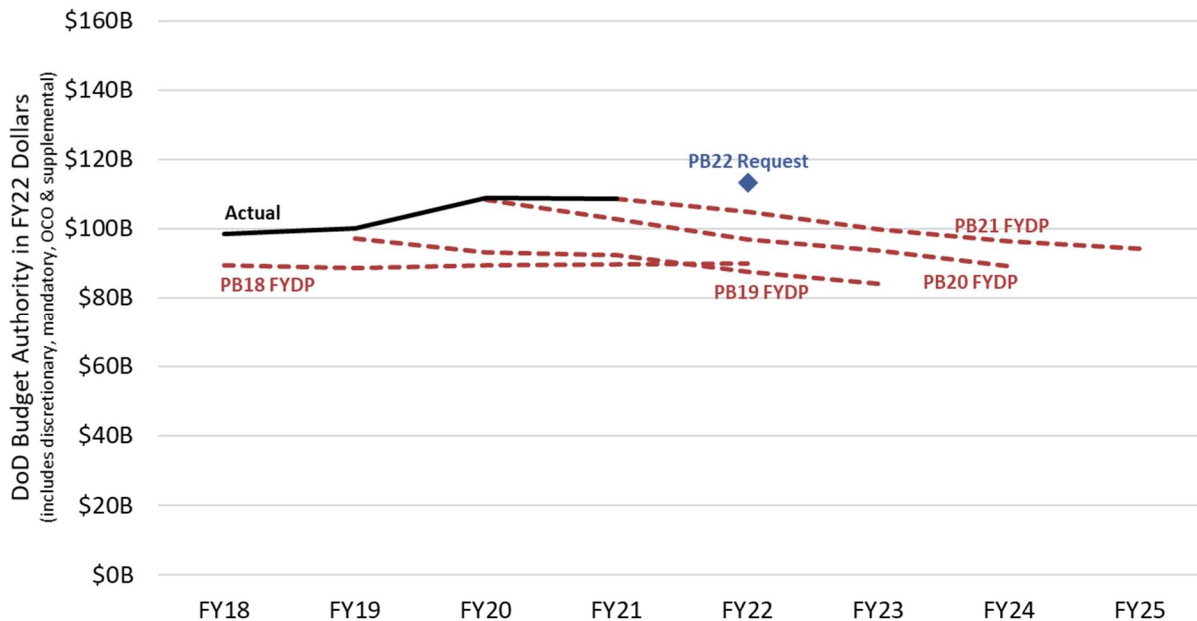
The 2018 NDS similarly called for the “modernization of key capabilities through sustained, predictable budgets,” but that did not translate into sustained funding projections for RDT&E and procurement.<sup>27</sup> Figure 3 shows the projected funding levels for RDT&E during the Trump administration relative to actual funding levels and the FY 2022 request, adjusted for inflation. While the FY 2020 and FY 2021 requests reflected notable increases for RDT&E above previous years, they did not project continued funding at those levels over the FYDP. The FY 2022 request is 8 percent higher than the level projected for that year in the FY 2021 request, although, as previously discussed, some of this is merely due to a new mandatory funding line and transfers from other titles of the budget.

<sup>25</sup> Jim Garamone, “Austin Discusses Need for Indo-Pacific Partnerships in the Future,” DoD, July 27, 2021, <https://www.defense.gov/News/News-Stories/Article/Article/2708315/austin-discusses-need-for-indo-pacific-partnerships-in-the-future/>; C. Todd Lopez, “Defense Secretary Says ‘Integrated Deterrence’ Is Cornerstone of U.S. Defense,” DoD, April 30, 2021, <https://www.defense.gov/News/News-Stories/Article/Article/2592149/defense-secretary-says-integrated-deterrence-is-cornerstone-of-us-defense/>; and Jim Garamone, “Official Talks DOD Policy Role in Chinese Pacing Threat, Integrated Deterrence,” DoD, June 2021, <https://www.defense.gov/News/News-Stories/Article/Article/2641068/official-talks-dod-policy-role-in-chinese-pacing-threat-integrated-deterrence/>.

<sup>26</sup> Joseph R. Biden, *Interim National Security Strategic Guidance* (Washington, DC: The White House, March 2021), 14, <https://www.whitehouse.gov/wp-content/uploads/2021/03/NSC-1v2.pdf>.

<sup>27</sup> Mattis, *National Defense Strategy*, 6.

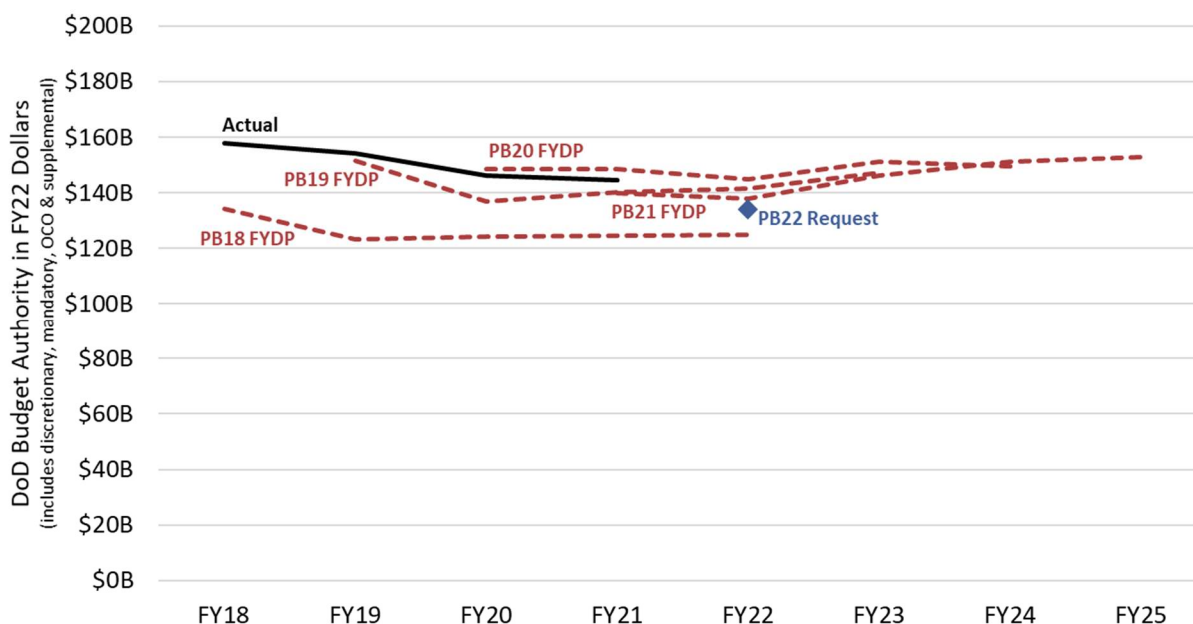
**Figure 3: RDT&E FYDP Projections vs. Actuals**



Source: Data compiled from Table 6-8 in the DoD Green Book (*National Defense Budget Estimates*) for the FY 2022, FY 2021, FY 2020, FY 2019, and FY 2018 budget requests.

As Figure 4 shows, the FY 2022 request for procurement funding is approximately 3 percent lower than the level projected in the FY 2021 request. Most of the budget requests submitted by the Trump administration projected a dip in procurement funding followed by growth. Because the projections in the FY 2022 budget are not a reliable indicator of future plans, analysts will have to wait for the FY 2023 request to see the Biden administration's plans for procurement.

**Figure 4: Procurement FYDP Projections vs. Actuals**



Source: Data compiled from Table 6-8 in the DoD Green Book (*National Defense Budget Estimates*) for the FY 2022, FY 2021, FY 2020, FY 2019, and FY 2018 budget requests.

## Nuclear Posture Review

The ongoing Nuclear Posture Review (NPR) is expected to outline the Biden administration’s policies on the use of nuclear weapons and the top-level funding for nuclear programs. According to Deputy Secretary Hicks, the review is being conducted by the White House, with the deputy’s office and DoD responsible for “connecting the objectives to the resources.”<sup>28</sup> However, nuclear modernization remains one of the top priorities for the department from both a policy and budgetary standpoint.<sup>29</sup> The FY 2022 request included nearly \$28 billion for the modernization of the nuclear triad in the DoD budget, on top of the \$30 billion requested for atomic energy–related programs outside of DoD.<sup>30</sup>

Figure 5 shows the FY 2022 requested levels for the three triad replacement programs relative to the projections in the FY 2021 request. The requests for GBSD and B-21 in FY 2022 remain largely in line with what the Trump administration projected in last year’s budget. Funding for the Columbia-class

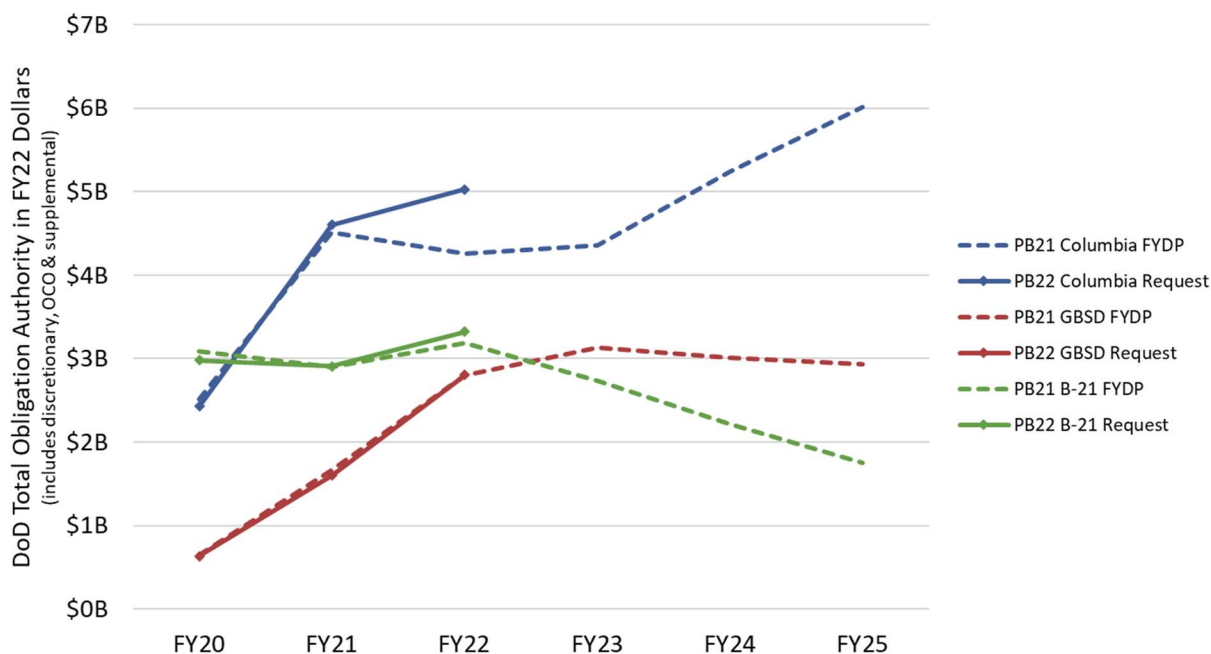
<sup>28</sup> “A Conversation with Deputy Secretary of Defense Dr. Kathleen H. Hicks,” CSIS, October 1, 2021, <https://www.csis.org/analysis/conversation-deputy-secretary-defense-dr-kathleen-h-hicks>.

<sup>29</sup> David Vergun, “Nuclear Triad Modernization the Nation’s Highest Priority, Admiral Says,” DoD, April 22, 2021, <https://www.defense.gov/News/News-Stories/Article/Article/2582206/nuclear-triad-modernization-the-nations-highest-priority-admiral-says/>; and C. Todd Lopez, “Nuclear Deterrence Remains Department’s Highest Priority Mission,” DoD, May 13, 2021, <https://www.defense.gov/News/News-Stories/Article/Article/2606446/nuclear-deterrence-remains-departments-highest-priority-mission/>.

<sup>30</sup> David Vergun, “DoD Budget Request Boosts Research, Nuclear Modernization and Includes 2.7% Pay Raise,” DoD, May 28, 2021, <https://www.defense.gov/News/News-Stories/Article/Article/2639101/dod-budget-request-boosts-research-nuclear-modernization-and-includes-27-pay-ra/>.

nuclear-powered ballistic missile submarine (SSBN), however, is nearly 18 percent higher than the projected level for FY 2022 in the FY 2021 request. That is due in part to an additional \$415 million for advanced procurement that was included in FY 2022 above the FY 2021 projection for advanced procurement.

**Figure 5: Funding for Select Nuclear Modernization Programs**



Source: PB21 Columbia projections are based on the FY 2021 Selected Acquisition Report, which includes funding for future RDT&E, procurement, MILCON, and O&M spending. Department of Defense, *SSBN 826 COLUMBIA Class Submarine (SSBN 826)* (Washington, DC: December 2019), [https://www.esd.whs.mil/Portals/54/Documents/FOID/Reading%20Room/Selected\\_Acquisition\\_Reports/FY\\_2019\\_SARS/20-F-0568\\_DOC\\_74\\_SSBN\\_826\\_SAR\\_Dec\\_2019.pdf](https://www.esd.whs.mil/Portals/54/Documents/FOID/Reading%20Room/Selected_Acquisition_Reports/FY_2019_SARS/20-F-0568_DOC_74_SSBN_826_SAR_Dec_2019.pdf). The projections for the GBSD and B-21, based on DoD justification book data, do not include all future projections for procurement, MILCON, and O&M spending. As these programs transition into production, funding will likely rise rather than decline.

Another critical aspect of the NPR will be the modernization of the nuclear command, control, and communications (NC3) enterprise to update and replace legacy systems close to or past their service lives.<sup>31</sup> The FY 2022 request includes nearly \$3 billion for NC3 modernization.<sup>32</sup>

The NPR will make crucial decisions on the future of existing weapons programs, specifically the low-yield W-76 warhead for the submarine-launched ballistic missile (SLBM) and the new sea-launched nuclear cruise missile (SLCM-N). Per the Trump administration's 2018 NPR, warheads for the SLBM

<sup>31</sup> Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, *Defense Budget Overview*, 2–14.

<sup>32</sup> Ibid.

were modified to provide a lower-yield option and fielded by February 2020.<sup>33</sup> The 2018 review also called for the development of the SLCM-N, but the Navy has been slow to move forward with this initiative and requested just \$5 million in funding for FY 2022. In guidance for the development of the FY 2023 budget, then-acting secretary of the Navy Thomas Harker called for the defunding of the SLCM-N program, making its future one of the more anticipated decisions in the NPR.<sup>34</sup>

## Missile Defense Review

The Missile Defense Review (MDR) will outline the administration's priorities for missile defeat and defense (MDD) capabilities over the next three years. DoD requested a total of \$20.4 billion for MDD activities in FY 2022, including \$8.9 billion for the Missile Defense Agency (MDA).<sup>35</sup> The MDR may outline whether the Biden administration intends to prioritize regional defense systems over homeland defense programs such as the Next Generation Interceptor for Ground-Based Midcourse Defense.

The review will also likely assess progress developing a hypersonic tracking layer by MDA and the Space Development Agency (SDA). During the Trump administration, DoD repeatedly requested that funding for the Hypersonic and Ballistic Tracking Space Sensor (HBTSS) be combined with the SDA's program to build satellites for the space sensor layer. Congress, however, moved HBTSS funding back to MDA each year.<sup>36</sup> The MDR could provide new guidance for which agencies will be responsible for building different parts of the space sensor layer and how this layer will be integrated with existing and future missile warning systems, such as the Space Force's Next Generation Overhead Persistent Infrared (NG-OPIR) program.<sup>37</sup>

<sup>33</sup> Department of Defense, *Nuclear Posture Review* (Washington, DC: 2018), XII, <https://media.defense.gov/2018/Feb/02/2001872886/-1/-1/1/2018-NUCLEAR-POSTURE-REVIEW-FINAL-REPORT.PDF>; and "Statement on the Fielding of the W76-2 Low-Yield Submarine Launched Ballistic Missile Warhead," DoD, February 9, 2020, <https://www.defense.gov/News/Releases/Release/Article/2073532/statement-on-the-fielding-of-the-w76-2-low-yield-submarine-launched-ballistic-m/>.

<sup>34</sup> Thomas W. Harker, "Secretary of the Navy Strategic guidance for Revised Program Objective Memorandum 203," Secretary of the Navy, June 4, 2021, [https://s3.documentcloud.org/documents/20803082/secnav-pom-23\\_1.pdf](https://s3.documentcloud.org/documents/20803082/secnav-pom-23_1.pdf).

<sup>35</sup> Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, *Defense Budget Overview*, 2–14.

<sup>36</sup> Jason Sherman, "Effort to Shift HBTSS funding to SDA blocked again; MDA appears set to own project," Inside Defense, November 12, 2020, <https://insidedefense.com/daily-news/effort-shift-hbtss-funding-sda-blocked-again-mda-appears-set-own-project>.

<sup>37</sup> For more analysis on the FY 2022 request for MDD capabilities, visit [missilethreat.csis.org](https://missilethreat.csis.org).

## Global Posture Review

In February, President Biden announced that DoD would conduct a Global Posture Review to ensure the United States' "military footprint is appropriately aligned with [its] foreign policy and national security priorities."<sup>38</sup> The review, intended to assess the basing and deployment of U.S. personnel and assets around the world, was completed in late November and was informed by the Interim National Security Strategic Guidance.<sup>39</sup> While the complete findings of the review were not publicly released, DoD stated that the document "developed near-term posture adjustments, posture planning guidance and analysis on long-term strategic issues" to inform the forthcoming NDS.<sup>40</sup> Publicly acknowledged initiatives include enhancing cooperation with Indo-Pacific allies and partners, increasing access and rotational aircraft deployments to Australia, and facilitating more military construction projects in the region.<sup>41</sup> The review similarly seeks to strengthen deterrence efforts against Russia in Europe. However, DoD did not specify the relevant trade-offs within the study, particularly in the Middle East, where the department said it would "conduct additional analysis."<sup>42</sup>

In presenting some of the findings, Dr. Mara Karlin, performing the duties of the deputy undersecretary of defense for policy, emphasized that the review strengthened DoD's process for posture planning by tying it to "strategic priorities, tradeoffs across geographic regions, force readiness, modernization, interagency coordination, and ally and partner consultations."<sup>43</sup> Congress will be looking for the NDS and follow-on analysis from the posture review to address the balance between near-term demands for forces and long-term modernization and readiness priorities. While the Global Posture Review is not as directly tied to specific programs as the other reviews, it nevertheless has significant implications for the defense budget based on these competing interests. U.S. forces currently face a high operational tempo driven by the high demand signal from combatant commands (COCOM).<sup>44</sup> An April 2021 letter from 14 members of the House Armed Services Committee

<sup>38</sup> "Remarks by President Biden on America's Place in the World," The White House, Speeches and Remarks, February 4, 2021, <https://www.whitehouse.gov/briefing-room/speeches-remarks/2021/02/04/remarks-by-president-biden-on-americas-place-in-the-world/>.

<sup>39</sup> "Statement by Secretary of Defense Lloyd J. Austin III on the Initiation of a Global Force Posture Review," DoD, February 4, 2021, <https://www.defense.gov/News/Releases/Release/Article/2494189/statement-by-secretary-of-defense-lloyd-j-austin-iii-on-the-initiation-of-a-glo/>; Jim Garamone, "Global Posture Review Will Tie Strategy, Defense Policy to Basing," DoD, February 5, 2021, <https://www.defense.gov/News/News-Stories/Article/Article/2495328/global-posture-review-will-tie-strategy-defense-policy-to-basing/>; "DoD Concludes 2021 Global Posture Review," DoD, November 29, 2021, <https://www.defense.gov/News/Releases/Release/Article/2855801/dod-concludes-2021-global-posture-review/>; and "Pentagon Press Secretary John F. Kirby and Dr. Mara Karlin, Performing the Duties of Deputy Under Secretary of Defense for Policy, Hold a Press Briefing," DoD, November 29, 2021, <https://www.defense.gov/News/Transcripts/Transcript/Article/2856143/pentagon-press-secretary-john-f-kirby-and-dr-mara-karlin-performing-the-duties/>.

<sup>40</sup> "DoD Concludes 2021 Global Posture Review," DoD.

<sup>41</sup> Jim Garamone, "Biden Approves Greater Global Posture Review Recommendations," DoD, November 29, 2021, <https://www.defense.gov/News/News-Stories/Article/Article/2856053/biden-approves-global-posture-review-recommendations/>; and "Pentagon Press Secretary John F. Kirby and Dr. Mara Karlin," DoD.

<sup>42</sup> "Pentagon Press Secretary John F. Kirby and Dr. Mara Karlin," DoD.

<sup>43</sup> Ibid.

<sup>44</sup> Seamus Daniels, "Want to Redefine Readiness? Here's Where to Start," Defense One, February 10, 2021, <https://www.defenseone.com/ideas/2021/02/want-define-readiness-heres-where-start/171991/>.

asked the department to respond to a set of questions on how Requests for Forces (RFFs) are adjudicated and whether these requests undermine the Global Force Management Plan (GFMAP). The letter asserts that “regular circumvention of the GFMAP is leaving the services scrambling at a time when they need to rebuild the health of the force” and that “the services and COCOMs must manage what are at times competing priorities of force modernization and readiness against immediate mission demands.”<sup>45</sup>

Because the U.S. military is close to its smallest size since the end of World War II by almost all measures, consistently high demand for units and presence across the world places greater strain on U.S. forces and degrades operational readiness in the short term. As the Air Force chief of staff and Marine Corps commandant have noted, this high operational tempo, if continued unabated, threatens to eat resources that could fund modernization efforts prioritized under the 2018 NDS and likely its successor.

<sup>45</sup> Mallory Shelbourne, “House Lawmakers Want Pentagon to Rethink Global Force Deployments,” USNI News, April 5, 2021, <https://news.usni.org/2021/04/05/house-lawmakers-want-pentagon-to-rethink-global-force-deployments>.

## 4 | Congressional Action on FY 2022 and Issues for FY 2023

### Congressional Action to Date

Congress needs to pass three main pieces of legislation each year related to the funding and oversight of DoD. The Defense Appropriations bill provides funding for the vast majority of the DoD budget, while the MILCON/Veterans Affairs appropriations bill provides funding for the MILCON and Family Housing portion of the DoD budget. The National Defense Authorization Act (NDAA) is a policy bill that implies a level of funding but does not actually provide funding. The NDAA is nevertheless important to the budget because it sets policies and restrictions on how DoD executes the budget and conducts programs and activities. Table 2 provides the status of each of these pieces of legislation in each chamber as of this writing. Notably, the only bills that have passed a full chamber are the House version of the NDAA and the subsequent bicameral NDAA agreement.

**Table 2: Status of Defense Authorization and Appropriations Bills as of December 10, 2021**

	House		Senate		Enacted into Law
	Passed Full Committee	Passed Full Chamber	Passed Full Committee	Passed Full Chamber	
NDAA	9/2/2021	9/23/2021 <sup>46</sup>	7/22/2021 <sup>47</sup>	Failed Cloture Vote 11/29/2021 <sup>48</sup>	
Defense Appropriations	7/13/2021 <sup>49</sup>		Introduced 10/18/2021 <sup>50</sup>		
MILCON/VA Appropriations	6/30/2021 <sup>51</sup>		8/4/2021 <sup>52</sup>		

<sup>46</sup> U.S. Congress, House, Committee on Armed Services, *National Defense Authorization Act for Fiscal Year 2022: Report (to accompany H.R. 4350)*, 117th Cong., 1st sess., 2021, H. Rep. 117–118, 348, <https://www.congress.gov/117/crpt/hrpt118/CRPT-117hrpt118.pdf>.

<sup>47</sup> U.S. Congress, Senate, Committee on Armed Services, *National Defense Authorization Act for Fiscal Year 2022: Report (to accompany S. 2792)*, 117th Cong., 1st sess., 2021, S. Rep. 117–39, 380, <https://www.congress.gov/117/crpt/srpt39/CRPT-117srpt39.pdf>.

<sup>48</sup> “Roll Call Vote 117th Congress, 1st Session, Vote Number 473,” U.S. Congress, Senate, November 29, 2021, [https://www.senate.gov/legislative/LIS/roll\\_call\\_lists/roll\\_call\\_vote\\_cfm.cfm?congress=117&session=1&vote=00473](https://www.senate.gov/legislative/LIS/roll_call_lists/roll_call_vote_cfm.cfm?congress=117&session=1&vote=00473).

<sup>49</sup> U.S. Congress, House, Committee on Appropriations, *Department of Defense Appropriations Bill, 2022 (to accompany H.R. 4432)*, 117th Cong., 1st sess., 2021, H. Rep. 117–88, 3, <https://www.congress.gov/117/crpt/hrpt88/CRPT-117hrpt88.pdf>.

<sup>50</sup> “Explanatory Statement for the Department of Defense Appropriations Bill, 2022,” U.S. Congress, Senate, 2021, 1, [https://www.appropriations.senate.gov/imo/media/doc/DEFRept\\_FINAL.PDF](https://www.appropriations.senate.gov/imo/media/doc/DEFRept_FINAL.PDF).

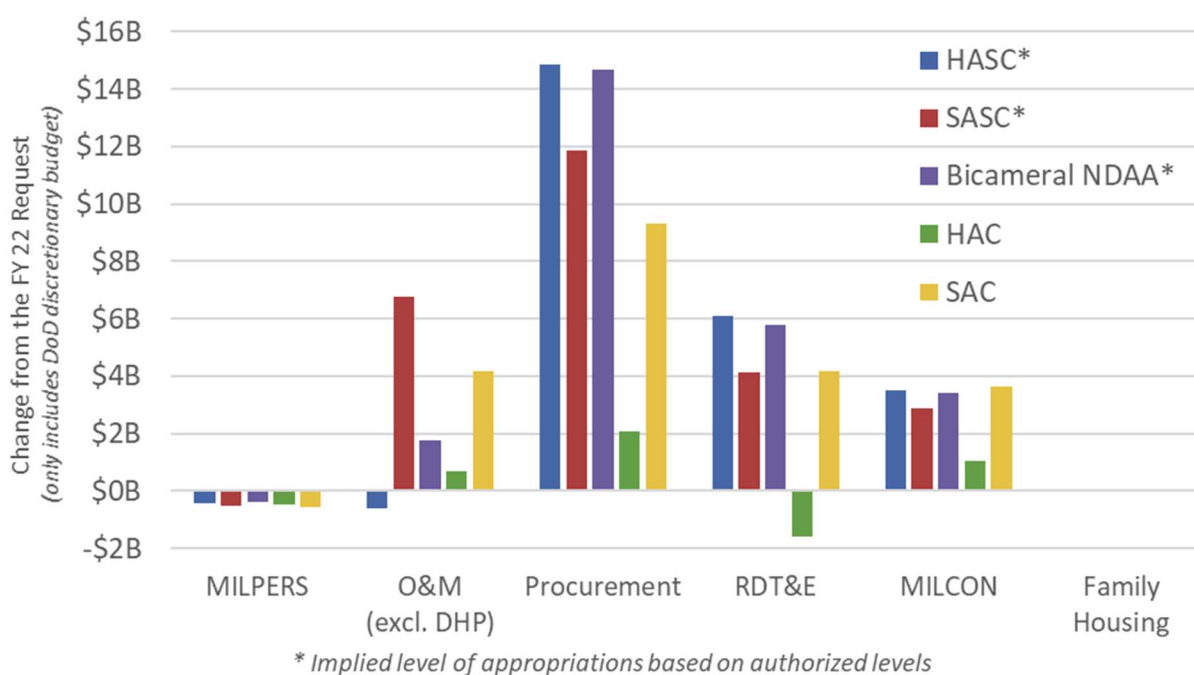
<sup>51</sup> U.S. Congress, House, Committee on Appropriations, *Military Construction, Veterans Affairs, and Related Agencies Appropriation Bill, 2022*, 117th Cong., 1st sess., 2021, H. Rep. 117–xxx, 3, <https://docs.house.gov/meetings/AP/AP00/20210630/112874/HMKP-117-AP00-20210630-SD002.PDF>.

<sup>52</sup> U.S. Congress, Senate, Committee on Appropriations, *Military Construction, Veterans Affairs, and Related Agencies Appropriation Bill, 2022*, 117th Cong., 1st sess., 2021, S. Rep. 117–35, 10, <https://www.congress.gov/117/crpt/srpt35/CRPT-117srpt35.pdf>.

Each of the bills would increase overall DoD discretionary funding (or implies an increase, in the case of the NDAA) relative to the FY 2022 request. The House Appropriations Committee (HAC) stays the closest to the request, adding only \$1.5 billion in total between the defense and MILCON appropriations bills. The Senate Appropriations Committee (SAC) increases the budget the most, adding a total of \$26.5 billion. The House and Senate Armed Services Committees (HASC and SASC) are closer to the Senate appropriators, at an implied level of \$24.7 billion and \$25.2 billion above the request, respectively, and the bicameral compromise version of the NDAA recently released authorizes \$25.2 billion above the request. The final determinate of the budget is the appropriations level, and the mid-point between the current HAC and SAC levels would be an increase of roughly \$14 billion above the request.

As shown in Figure 6, there are notable areas of agreement and disagreement among the committees in terms of how they would allocate funding within the DoD budget. All four of the committees propose cutting MILPERS funding relative to the requested level, and they all propose keeping family housing near the requested level. Each of the committees increases MILCON funding by different levels, ranging from a \$1.1 billion increase by the HAC to a \$3.6 billion increase by the SAC. The committees differ when it comes to O&M funding: the SAC and SASC propose significant increases, while the HASC and HAC stay closer to the requested level. The HAC is the outlier when it comes to RDT&E and procurement funding, proposing a net reduction of \$1.6 billion in RDT&E and a net increase of \$2.1 billion in procurement, relative to the request. The other three committees (HASC, SASC, and SAC) all propose significant increases in RDT&E and procurement, with the HASC and SASC proposing increases of \$14.9 billion and \$11.8 billion, respectively, in procurement alone. Overall, the bicameral NDAA bill includes an increase in O&M like the SASC version of the bill (although lower in magnitude) and increases in procurement, RDT&E, and MILCON that are closer to HASC levels.

**Figure 6: Differences between the Budget Request and the House and Senate Defense Bills**



Sources: Analysis of pending House and Senate legislation detailed in Table 2 above.

The continuing resolution that began FY 2022 also included \$3.1 billion in emergency supplemental funding for DoD. Division B of the bill included a total of \$895 million in O&M funding for expenses related to “severe storms, straight-line winds, flooding, tornadoes, earthquakes, wildfires, and hurricanes” and “the consequences of Winter Storm Uri.”<sup>53</sup> Division C of the bill included \$2.2 billion in O&M funding to support Operation Allies Welcome, a cross-government effort to support the resettlement of Afghans in the United States.<sup>54</sup>

## Issues for FY 2023

### Force Size and Modernization Plans

Two main issues that flow directly from the 2022 NDS are the size of the force DoD plans to maintain and its modernization priorities. Given the trends in defense funding experienced over the past several decades, maintaining the same size force as today in terms of military end strength, naval fleet size, aircraft inventory, Army brigades, and Marine Corps battalions would require MILPERS and O&M costs to grow at a rate of roughly 2 to 3 percent above inflation annually. At the same time, OMB projects in the FY 2022 request that the overall DoD budget will remain essentially flat with inflation in

<sup>53</sup> *Extending Government Funding and Delivering Emergency Assistance Act*, Public Law 117–43, September 30, 2021, Division B, Title III, <https://www.congress.gov/117/plaws/publ43/PLAW-117publ43.pdf>.

<sup>54</sup> *Ibid.*, Division C, Title II.

the coming years. Given that the NDS is likely to continue the focus on modernization to keep pace with threats and to leverage advances in new technologies, the FY 2023 request will have an inherent tension between force size and modernization.

Within modernization accounts, another issue to track in the FY 2023 request is the balance of RDT&E and procurement funding. For the past few years, overall RDT&E funding has increased while procurement funding has declined. This is somewhat expected because many of the major modernization programs underway right now—the B-21, GBSD, Columbia-class SSBN, and Future Vertical Lift programs—have been almost entirely funded in RDT&E. Moreover, the focus in the 2018 NDS on investments in new technologies inherently means starting with RDT&E funding because these new technologies are not yet in production. The issue in the FY 2023 request is when these programs and technologies will transition into procurement; investments in RDT&E alone will not modernize the force.

### **Inflation and Higher Payroll Costs**

Two of the most important factors weighing on the FY 2023 defense budget—and ones that are largely out of the control of DoD—are overall inflation and the annual pay raise for military and civilian employees. Pay levels can place significant constraints on the budget and how funding is allocated. By statute, the pay raise is supposed to be set according to the percentage change in the Employment Cost Index (ECI) for wages and salaries of private sector workers for the 12-month period ending on September 30 of the year before the budget request. For the FY 2023 request, the ECI used for the pay raise is for the 12-month period that ended on September 30, 2021.

The ECI published by the Bureau of Labor Statistics for the 12-month period ending September 30, 2021, is 4.6 percent, meaning that DoD should be planning to use this as its pay raise for military and civilian personnel in the FY 2023 budget request.<sup>55</sup> This would be the highest pay raise for military personnel in 20 years and the highest for civilian personnel since 2002. While it was expected that the ECI would be higher than normal this year, it is not clear if OMB or DoD had been planning for an ECI quite this high. And given the pace of inflation and housing costs in the economy, one should expect that the basic allowance for housing will increase significantly as well. Higher compensation costs will require more funding for both MILPERS and O&M accounts (where most DoD civilians are funded), leaving less funding available for procurement and RDT&E accounts.

The budget will also need to account for higher inflation. In the previous budget request, OMB assumed inflation would be 1.9 percent in FY 2023 and 2.0 percent each year thereafter. It also projected an overall DoD budget that remained essentially flat with inflation from FY 2023 through the end of the decade, although this was merely a straight-line projection with no detailed plans supporting it. If the administration intends to maintain a flat budget in real terms, it will need to raise the top-line DoD budget in nominal terms to accommodate the higher inflation levels that are now

<sup>55</sup> “Employment Cost Index: Historical Listing – Volume III,” Bureau of Labor Statistics, 142, <https://www.bls.gov/web/eci/eci-current-nominal-dollar.pdf>.

projected for FY 2023 and beyond. The FY 2023 budget may request a level that is 5 percent or higher than the FY 2022 requested level in *nominal* terms, but when accounting for inflation and higher payroll costs, the *real* change in funding could be minimal or even negative.

## Final Thoughts

The final FY 2022 budget level for defense will not be determined until the House and Senate reach a final agreement on the appropriations bills. FY 2022 began on a continuing resolution, and it is not yet clear when Congress will pass final appropriations. It appears all but certain that Congress will increase FY 2022 defense funding above the requested level, and the only question is by how much. Given the tardiness of appropriations, whatever level of increase is ultimately enacted is not likely to affect what goes into the FY 2023 request being finalized by the administration. But congressional adds in FY 2022 will set a new baseline for comparison when Congress considers the FY 2023 budget next year, with a larger increase this year raising the prospects of a higher level of funding next year as well.

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