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The Changing Challenges of US Defense Spending

An Update

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Executive Summary

US ability to outspend its enemies has long been a key advantage of the American way of war. This advantage has increased with time. President Bush's decision to engage in a Global War on Terrorism (GWOT) in the aftermath of 9/11 has been followed by a period of steady increases in Pentagon baseline spending, in addition to constantly larger GWOT budgetary supplementals.

DoD's discretionary base spending in both Budget Authority (BA) and Budgetary Outlays (BO) increased by more than 50 percent between FY2001 and FY2008. To keep things in perspective, however, recent levels of spending in *constant* dollars are similar to those during other wartime periods such as Vietnam or Korea, and only slightly larger than the levels present at the end of the Cold War.

The actual level of total spending has been raised far beyond the baseline request by an increasing reliance on large "war supplementals." Funds appropriated through these less-scrutinized funding mechanisms have come to represent more than a third of DoD baseline spending in the FY2007 budget request (\$163.4 billion for the GWOT supplementals and bridge funding, compared to the \$442.8 billion for baseline spending). Approximately a quarter of all the money appropriated for defense in FY 2007 has been classified as "emergency" spending.

This growing reliance on supplemental funding has had a negative impact on the development of long-term defense programs and budgets. It has made it progressively more difficult to develop a future year defense program (FYDP) that properly funds multiyear efforts such as force reset, long-term readiness, increases in manpower, or force transformation when a large share of their money comes as a war supplemental.

It is also clear that it is impossible to project the real-world future burden of defense spending without taking into consideration the current and expected costs of the Global War on Terror. Even though it is difficult to estimate the costs of OIF and other GWOT operations in the future, Pentagon planners should nevertheless attempt to incorporate expenditures associated with ongoing wars (including reset costs, increases in veteran's health care and benefits, and other such indirect expenses) into their long-term budget projections.

A recent CBO report estimates these costs for the 2008-2017 period at a total of \$481 to \$603 billion assuming a more rapid withdrawal of US forces. It also projects that these costs would reach \$924 to \$1,010 billion in a scenario involving a more gradual withdrawal from Iraq.

The cost of defense expenditures in the future is, therefore, likely to be significantly higher than the current estimates, but this does not mean that the resulting defense burden on the American economy would be high by historical standards. In fact, despite the relatively large recent increase in Defense Outlays since FY2001, the GDP burden is almost 20 percent lower than during the "peace-dividend era" of the early 1990s.

If one looks at the annual peaks of national defense spending during past conflicts, the US spent 38 percent of GDP on defense in World War II, 14 percent at the height of the Korean War, and 9.4 during Vietnam. The Reagan era "military build-up" caused a peak

annual defense burden of 6.2 percent of GDP in 1986, the highest post-Vietnam value. By comparison, even including the Global War on Terror supplemental funding, the current burden for FY2007 and FY2008 will merely amount to slightly over 4 percent.

Another way to analyze the defense burden is to consider what percentage of annual federal spending is allocated to national defense. The Global War on Terror brought about a shift in national priorities, but even with the increases in defense spending over the past six years today's value of the defense share in the federal budget is 40 percent lower than the peak Reagan-era value in FY1987.

None of the three major components of the defense budget (Manpower, O&M, and Investment spending) are likely to experience a cost decrease in the future. However, the Administration's FY2008 budget request anticipates markedly lower levels of total DoD spending in the coming years despite the recent trend in the opposite direction. The current wartime environment is likely to force DoD's planners to revise upwards their estimates for the out-year costs in the FY2009 budget request and beyond.

When one talks about the future defense burden on the federal budget, it is also important to realize that in fact there are other factors - like mandatory federal spending and domestic expenditures - whose rapid growth will have a far larger impact on the budget than national defense spending. Medicare, Medicaid and Social Security combined already account for 9 percent of GDP and more than 40% of all federal spending. CBO estimated that they could rise to 15% of GDP, and to over 75% of federal spending, by 2030. The challenge of limiting the escalating costs of defense expenditures is dwarfed by the much larger need to control the growth of entitlement programs.

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Recent Levels of Baseline Defense Spending and the Growing Impact of Supplementals

US ability to outspend its enemies has long been a key advantage of the American way of war. This advantage has increased with time. President Bush's decision to engage in a Global War on Terrorism (GWOT) in the aftermath of 9/11 has been followed by a period of steady increases in Pentagon baseline spending, in addition to constantly larger GWOT budgetary supplementals.

As **Figure 1** shows, DoD's discretionary base spending in both Budget Authority (BA) and Budgetary Outlays (BO) between FY2001 and FY2008 has increased by more than 50 percent. These figures provide a good gross estimate for the cost of U.S. defense, although they do not include other national security spending like expenses associated with programs in the Department of Energy, some aspects of intelligence, or homeland security efforts by civilian agencies.

To keep things in perspective, recent levels of spending are similar in *constant* dollars to those during other wartime periods such as Vietnam or Korea, and only slightly larger than the levels present at the end of the Cold War. As will be shown in a later section of the report, the fact that the US economy was much smaller during those times means that the current defense burden is much more manageable than one could think by only looking at absolute values in current dollars.

Substantially higher levels of baseline defense spending during wartime are the norm, rather than the exception. However, the costs broadly associated with military operations in support of GWOT (including those incurred for Operation Iraqi Freedom, Operation Enduring Freedom, and Operation Noble Eagle) have been funded separately through the use of "emergency" supplementals and "bridge funds".

As **Figure 2** shows, funds appropriated through these less-scrutinized funding mechanisms have come to represent more than a third of DoD baseline spending in the FY2007 budget request (\$163.4 billion for the GWOT supplementals and bridge funding, compared to the \$442.8 billion for baseline spending). Approximately a quarter of all the money appropriated for defense in FY 2007 has been classified as "emergency" spending.

The trend towards appropriating larger and larger amounts of money under a funding mechanism designed for *emergency* spending - and thus not subjected to the same level of Congressional oversight as regular defense appropriations- is clearly worrisome. Moreover, war supplementals have been increasingly loaded with items not directly pertaining to the war effort both by the Department of Defense and members of Congress.

For example, while some reset costs are legitimately included in supplementals, the definition of "reset" has been expanded by the services to include procurement of new platforms that would not be available for several years. For example, FY2008 GWOT

Supplemental request includes the replacement of MH-53 and H-46 helicopters with the new V-22 tilt rotor aircraft and the replacement of an F-16 with the new F-35 JSF.

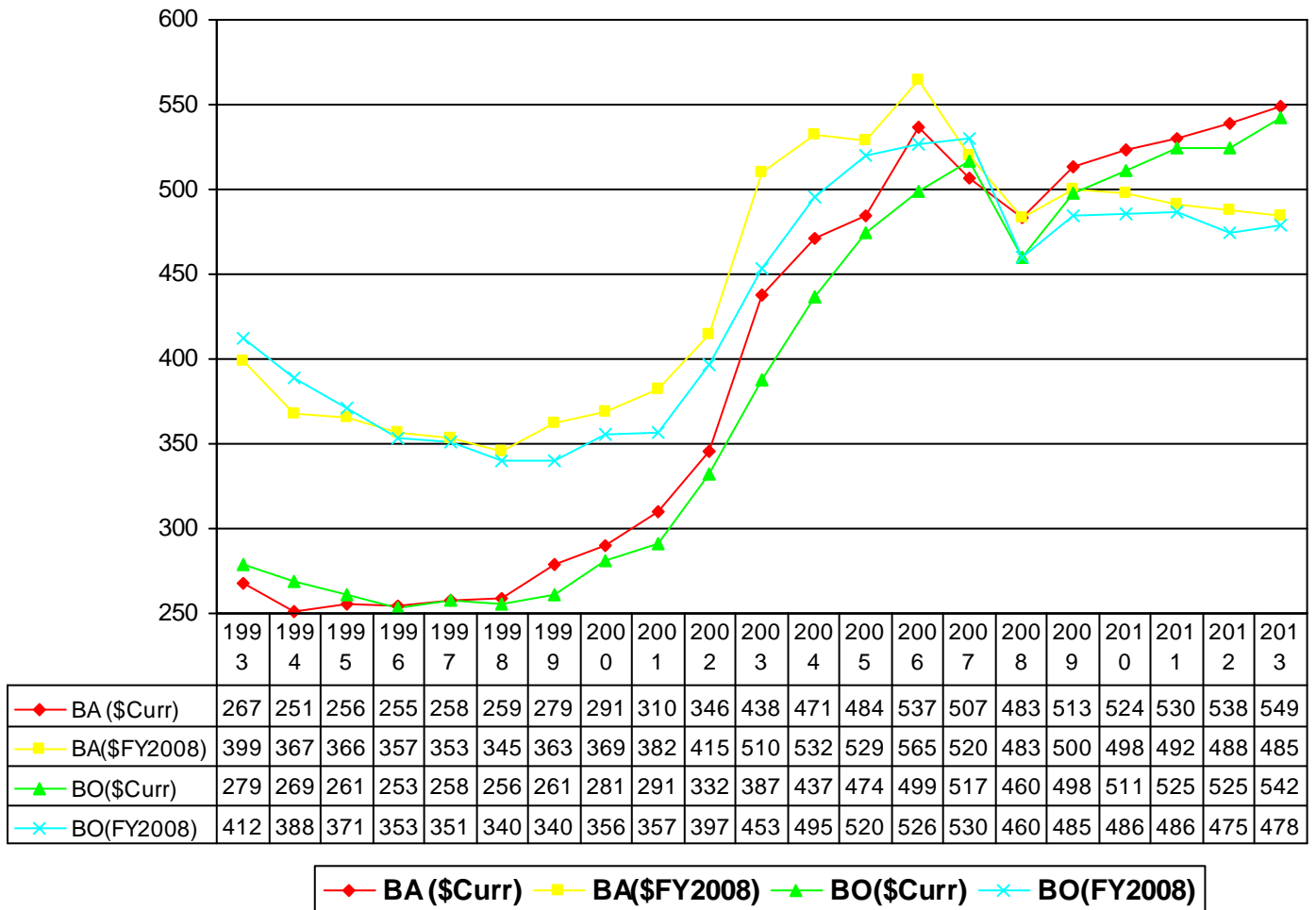
One of the negative consequences of this reliance on supplemental funding is the inconvenience that such funding poses to the proper development of long-term defense programs and budgets. It has made it progressively more difficult to develop a future year defense program (FYDP) that properly funds multiyear efforts such as force reset, long-term readiness, increases in manpower, or force transformation when a large share of their money comes as a war supplemental.

This also makes it pointless to use the baseline figure as the main indicator of the defense burden on the federal budget when it is obvious that the GWOT (and especially the Iraq War) will require a level of defense spending higher than the projected baseline level for many years to come.

National policy should be made on the basis of clear projections of the overall cost of national security, including ongoing wars.

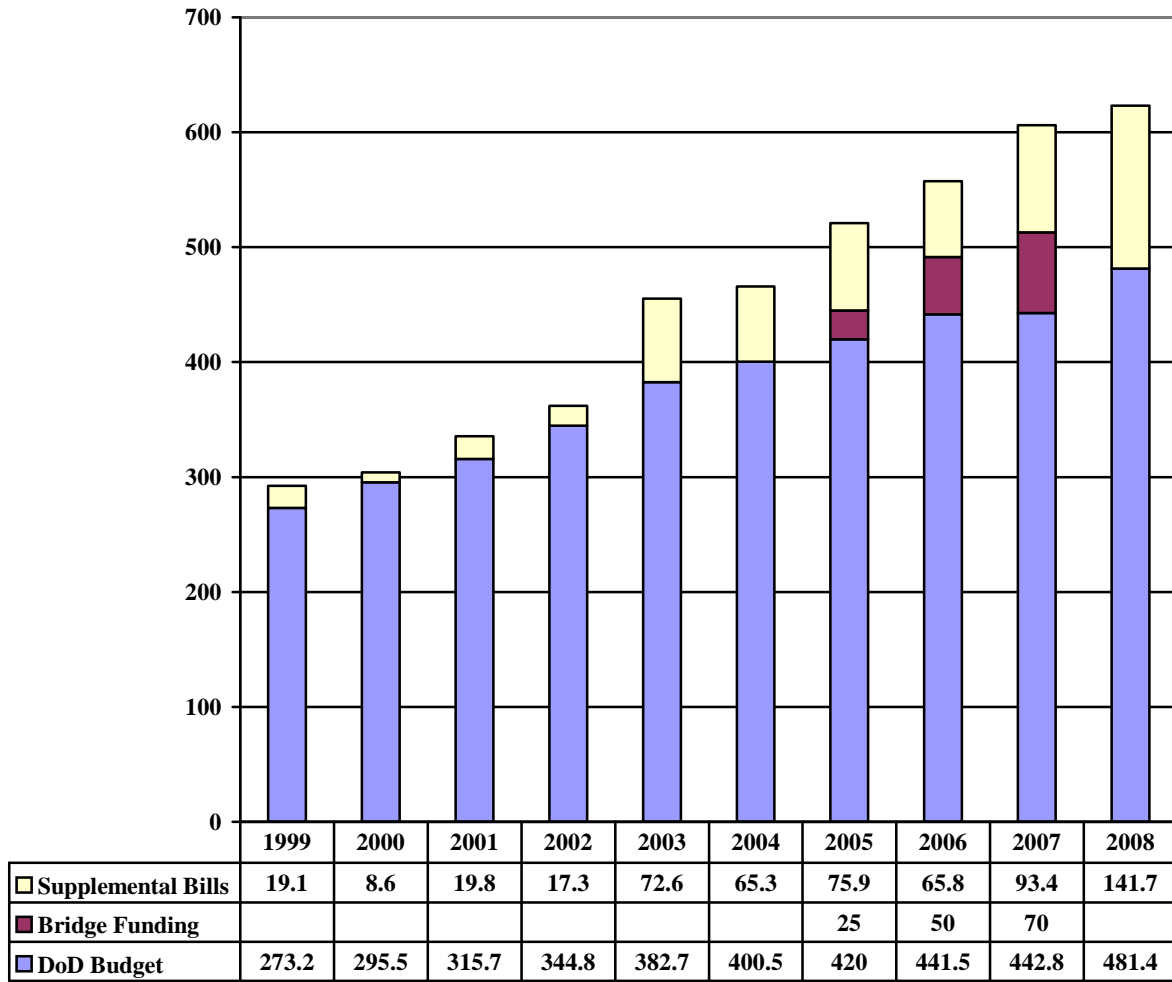
Fig.1 Department of Defense Baseline Expenditures: FY1993–FY2013

(In \$US billions in 051 Account)



Source: Adapted by the author from data provided by Office of the Under Secretary of Defense (Comptroller), “National Defense Budget Estimates for FY2008”, Washington, Department of Defense, March 2007, pp. 115 and 133.

Fig.2 The Growing Impact of Budget Supplementals (in \$U.S. billions)



Note: The DoD budget figure includes nuclear-weapons funds.

Source: Adapted by the author from data provided by Office of the Undersecretary of Defense (Comptroller), “National Defense Budget Estimates for 2008”, Washington, Department of Defense, March 2007

Problems with Out-Year Projections in 050 and 051 Accounts

Projections of defense spending in future or “out-years” have long underestimated the ultimate total actual costs of current defense programs. Procurement and R&D expenditures for new weapon platforms have a long tradition of escalation, and Presidential Administrations often find it convenient to purposefully postpone the main costs of a program for the years beyond the budget projections when it may become another’s president responsibility.

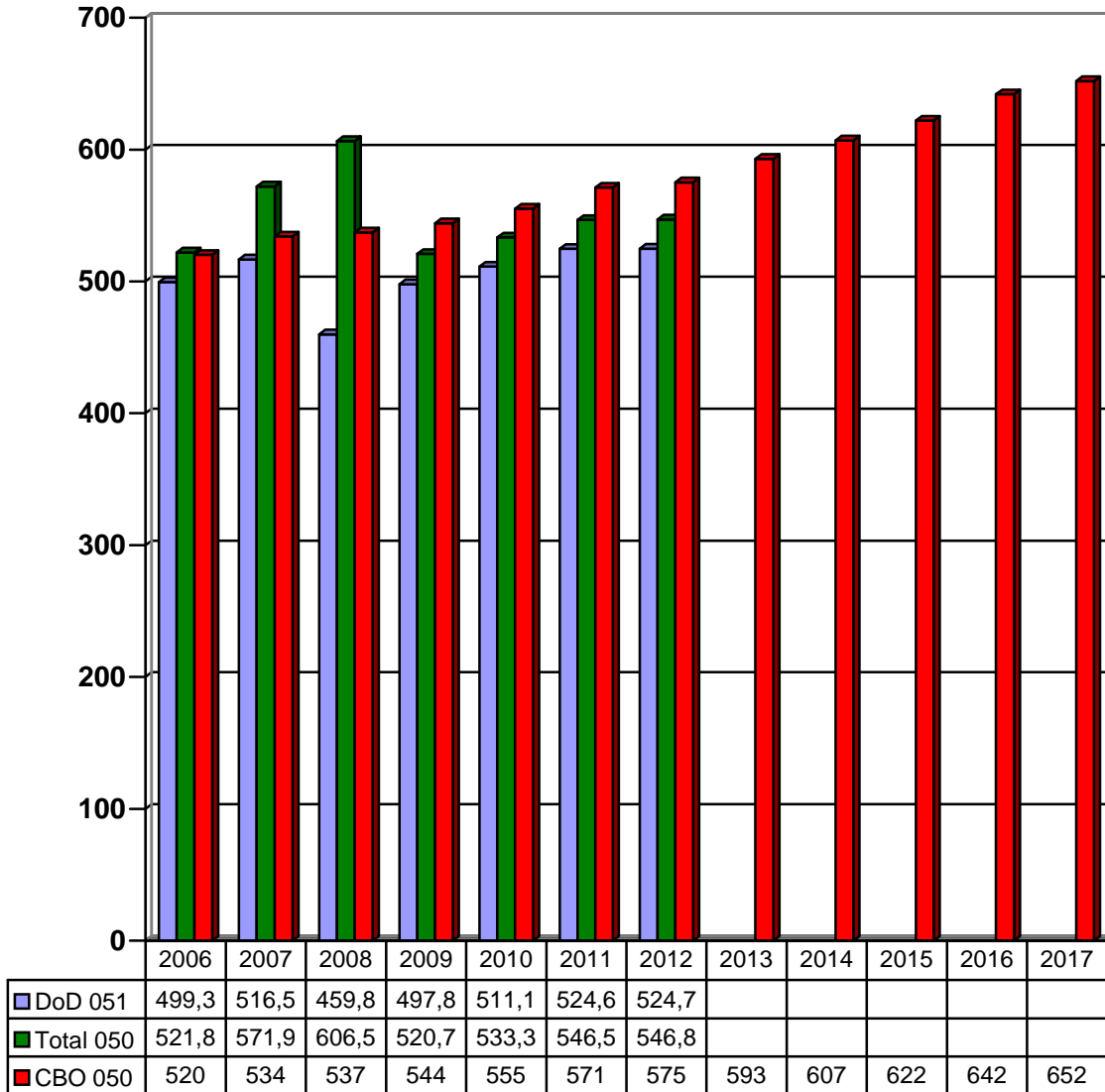
Even in peacetime, the projections in future Year Defense Programs (FYDPs), such as the ones in **Figure 3**, fail to offer an accurate picture of the real-world costs of defense over the next decade.

However, these DoD and CBO estimates are far less realistic than normal because they do not account for the costs associated with the ongoing operations in Iraq and Afghanistan. As the previous data showed, the supplemental funding related to the Global War on Terror represents a very significant fraction of overall defense spending.

No one can usefully project the future burden of defense spending without taking these costs into account. Even though it is difficult to estimate the costs of OIF and other GWOT operations in the future, Pentagon planners should nevertheless attempt to incorporate expenditures associated with ongoing wars (including reset costs, increases in veteran’s health care and benefits, and other such indirect expenses) into their long-term budget projections.

Fig.3 Patterns in Future Department of Defense and U.S. National Security Spending: FY2006–FY2017

(By Fiscal Year, Budget Outlays in \$US Billions)



Source: Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2008, Washington, Department of Defense, March 2007, Table 1-1 and 1-2; and Congressional Budget Office, “The Budget and Economic Outlook: Fiscal Years 2008 to 2017”, Table 3-1 , p. 50

The Defense Spending Burden on the American Economy

The cost of defense expenditures in the future will almost certainly be higher than the current estimates, but this does not mean that the defense burden on the American economy would be high by historical standards. In fact, despite the relatively large recent increase in Defense Outlays since FY2001, **Figure 4** shows that the GDP burden is almost 20 percent lower than during the “peace-dividend era” of the early 1990s.

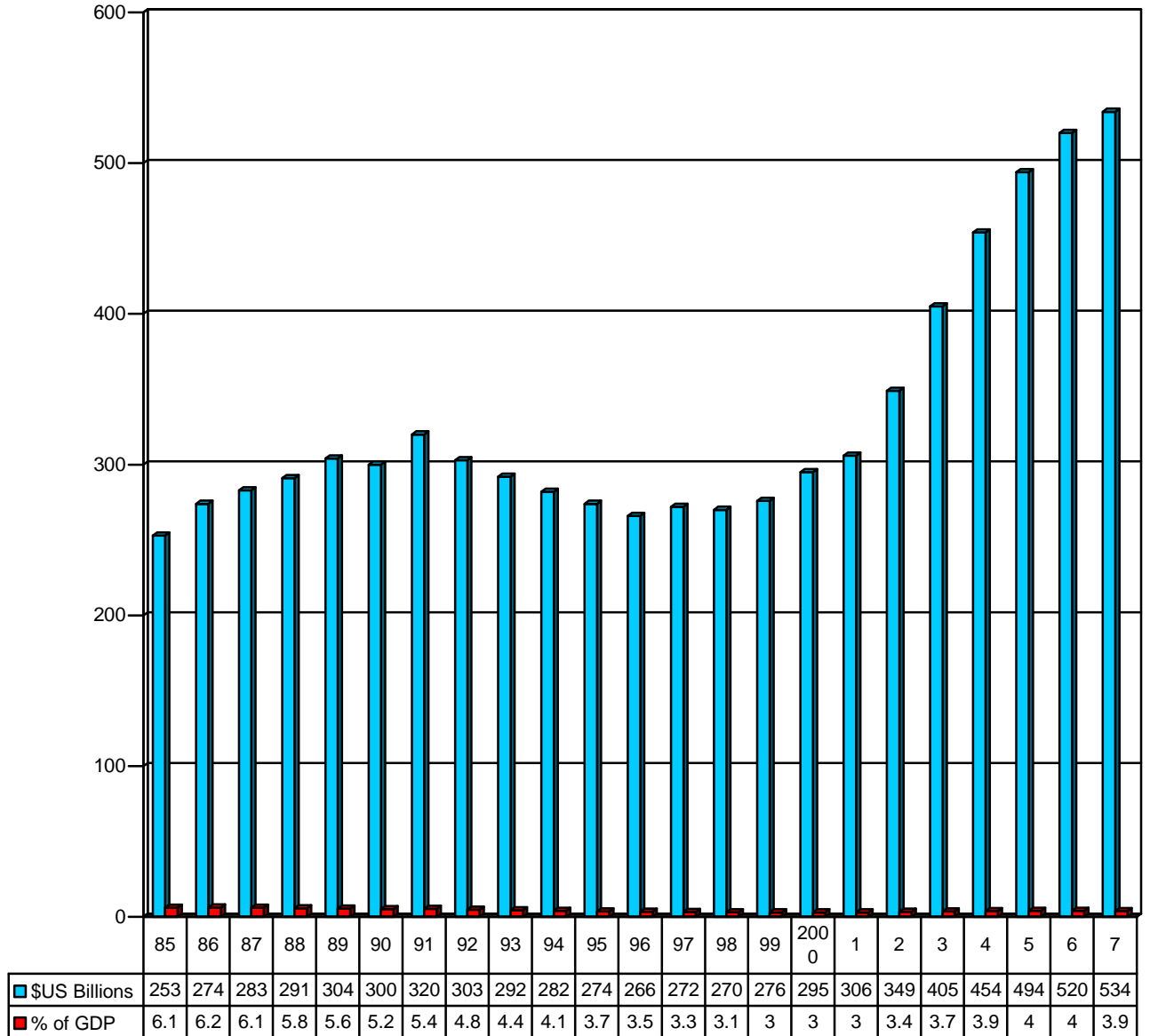
Defense spending during the FY2002-FY2007 period averaged 3.9 percent of GDP, while between FY1990-FY1995 it averaged 4.8 percent of GDP. Towards the end of the Cold War, between FY1985-FY1990, the defense burden averaged 5.8 percent of GDP despite a period of relative peace. **Figure 5** shows that the burden on the American economy is still at a relatively low level in historical terms despite the recent higher levels of defense spending.

If one looks at the annual peaks of national defense spending during past conflicts (see **Figures 7 and 8**), the US spent 38 percent of GDP on defense in World War II, 14 percent at the height of the Korean War, and 9.4 during Vietnam. The Reagan era “military build-up” caused a peak annual defense burden of 6.2 percent of GDP in 1986, the highest post-Vietnam value.

By comparison, even when one adds in the supplemental funding for the Global War on Terror, the current burden for FY2007 and FY2008 will merely amount to a little over 4 percent. Thus, by wartime standards, today’s current burden imposed on the US economy by the Global War on Terror is fairly affordable. Having said that, it is also important to recognize that future demographic trends and the presence of a large federal debt may very well mean that the share of discretionary spending (and implicitly defense spending) in the federal budget will be lower in the coming years.

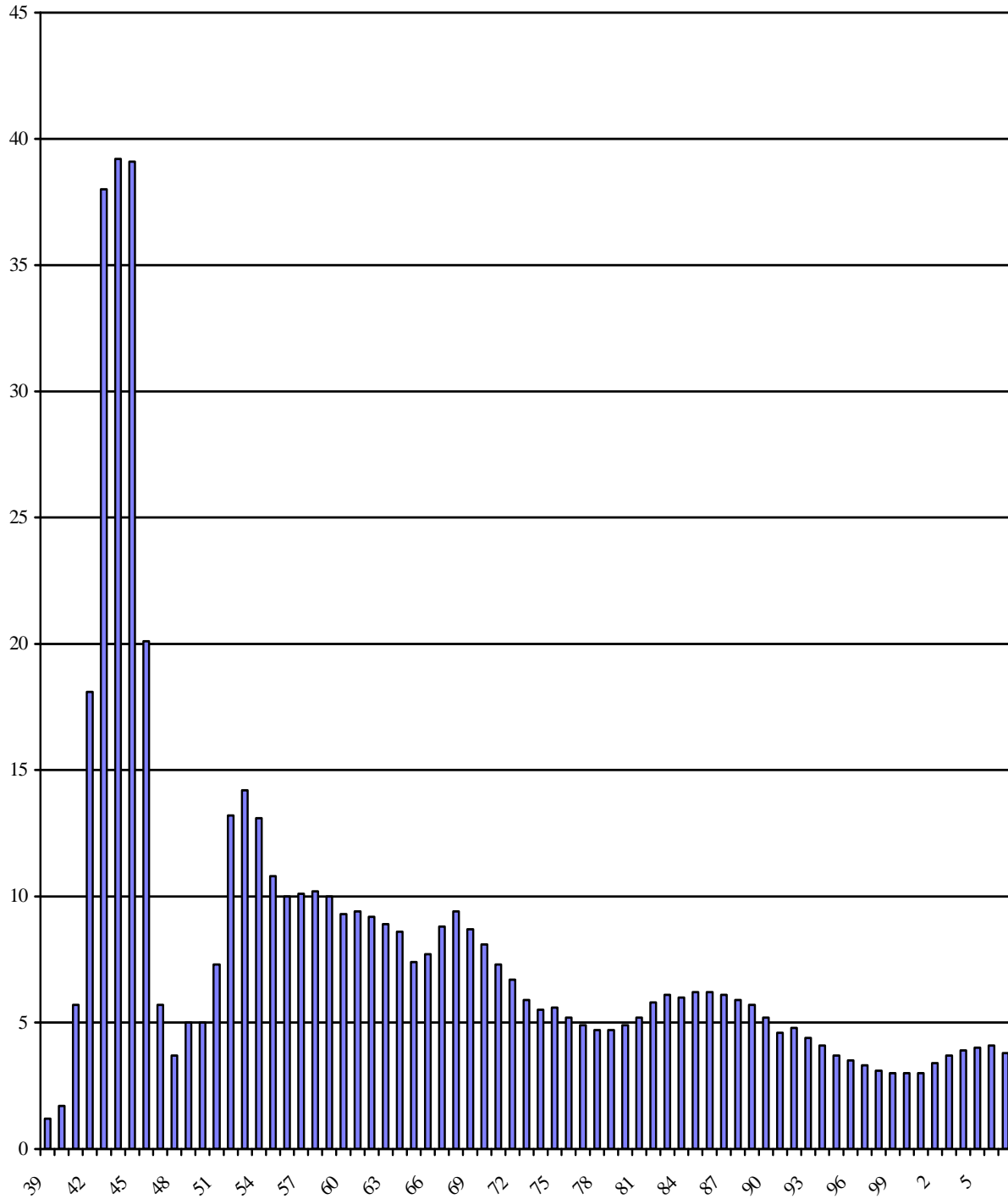
Fig. 4 Rising U.S. Defense Outlays and Constant GDP Burden: FY 1985-FY2007

(In Current Dollars; FY2007 Total is Before New FY2007 Supplemental)



Source: CBO, February 7, 2007. The Budget and Economic Outlook: Fiscal 2008 to FY2017, January 2007, p. 68.

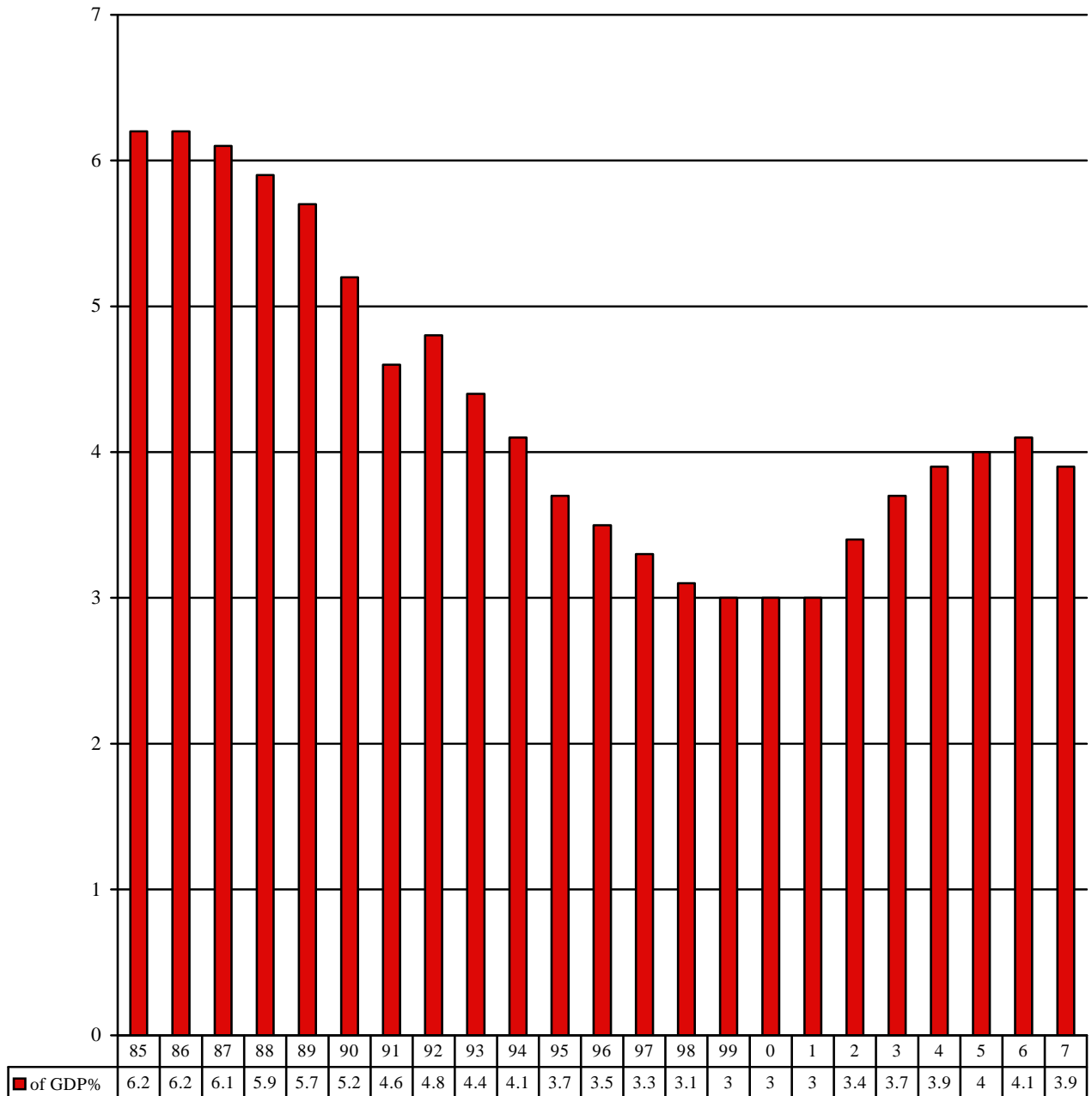
Fig.5 National Defense Spending as a Percent of GDP: 1939–2008
 (050 Total defense spending for DoD and all agencies as % of GDP)



Source: Data provided by OMB, and Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates Washington, Department of Defense, March 2007, Table 7-7.

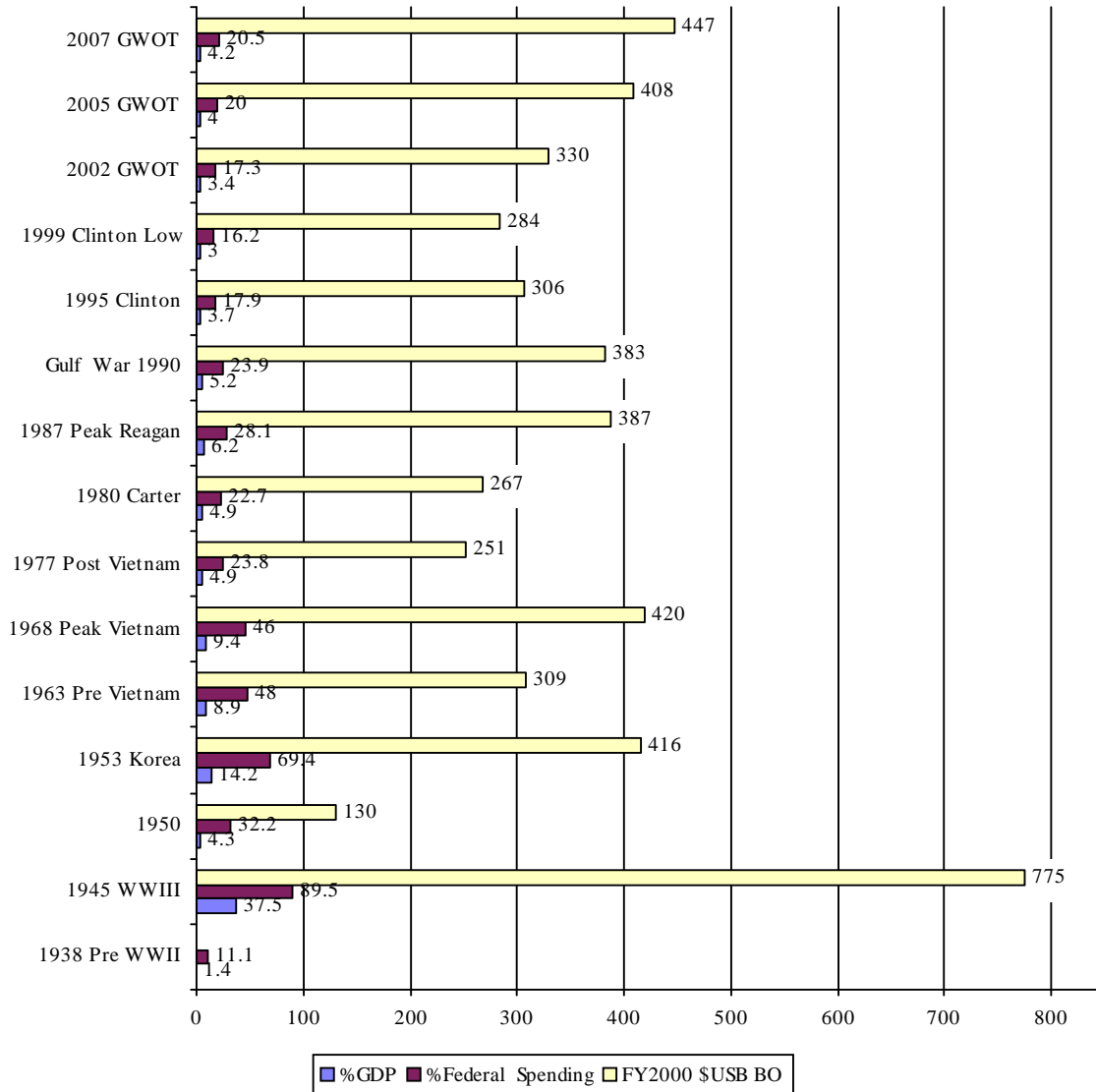
Fig.6 Shift in National Defense Spending as a Percent of GDP since the End of the Cold War

(050 Total defense spending for DoD and all agencies as % of GNP)



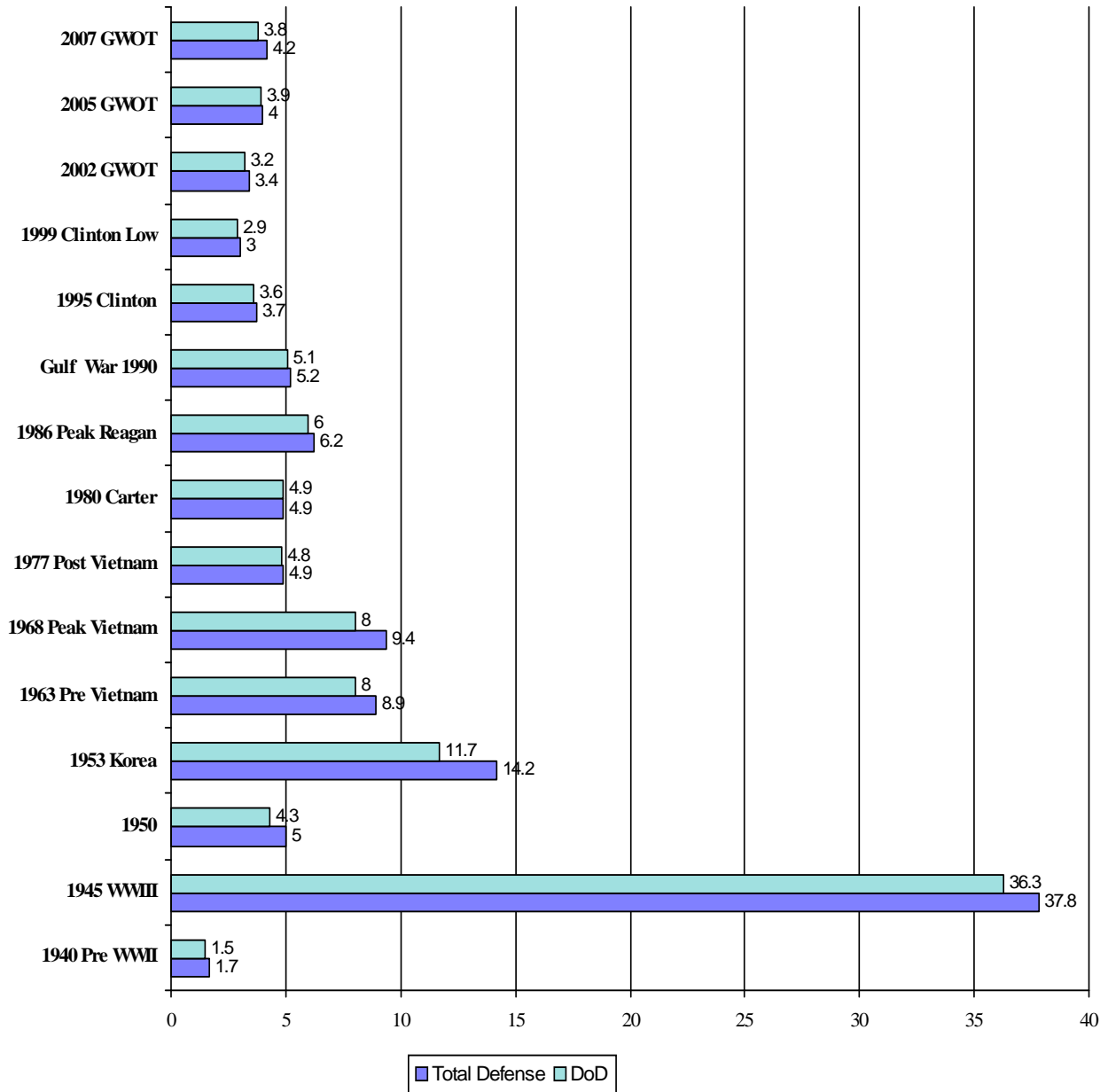
Source: CBO, February 7, 2007. The Budget and Economic Outlook: Fiscal 2008 to FY2017, January 2007, p. 68.

Fig.7 Peak Annual Cost of Previous Wars
 (BO in Constant FY 2000 Dollars)



Source: Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2008, March 2007, Table 7-2. Budget total is for entire national defense, not just the Department of Defense.

Fig.8 National Defense Spending as a Percent of GDP in Previous Conflicts and Crises (Total Federal Outlays)



Source:

Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2008, Washington, Department of Defense, March 2007, Table 7-7, pp. 216-217. Budget Total is for entire national defense, and not just Department of Defense.

The Burden on the Federal Budget

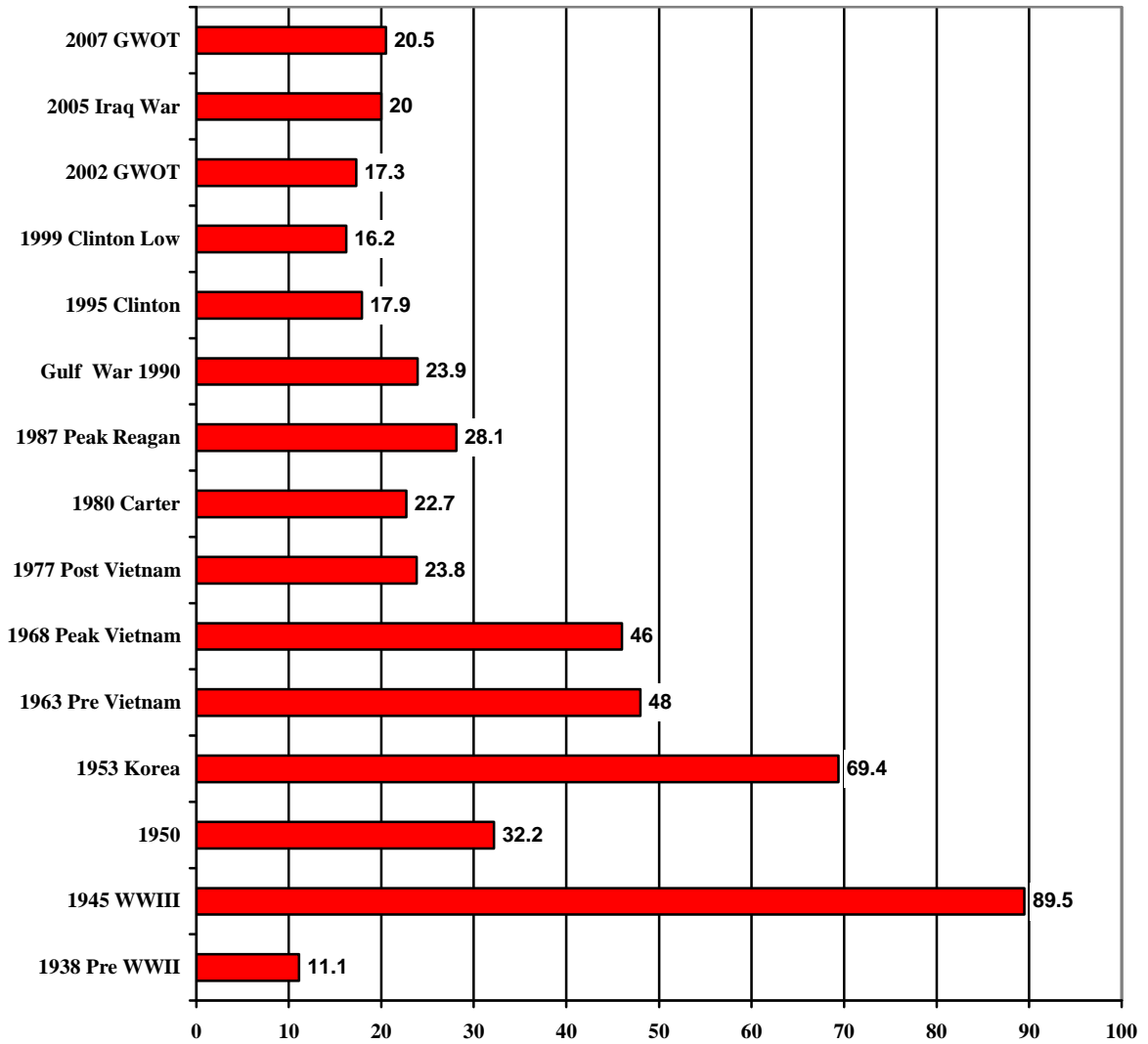
Another way to analyze the defense burden is to consider what percentage of annual federal spending is allocated to national defense. Measured by this standard, the recent levels of defense spending do not appear to place a significant burden on the Federal budget either.

Figure 9 shows that the current share, 20-21 percent, is much lower than the values during the Korean or Vietnam wars (69.4 and 46 percent, respectively), and is only slightly higher than during the 1990s. It is remarkable that the current value of 21 percent for FY2008 is lower than any amount between FY1941 and FY1992.

Figure 10 shows that the end of the Cold War induced a constant decrease in the share of federal resources allocated to national defense, a trend interrupted by 9/11. The Global War on Terror brought about a shift in national priorities, but even with the increases in defense spending over the past six years today's value of the defense share in the federal budget is 40 percent lower than the peak Reagan-era value in FY1987.

Fig.9 National Defense Spending as a Percent of Total Federal Budget: 1939–2007

(Total Federal Outlays in 050 Account)



Source: Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2008, Washington, Department of Defense, March 2007, Table 7-7, pp. 216-217. Budget Total is for entire national defense, and not just Department of Defense.

Fig.10 Cuts in National Defense Spending as a Percent of Federal Budget since the End of the Cold War

(Total Federal Outlays in 050 Account)



Source: Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2007, Washington, Department of Defense, March 2007, Table 7-2; and Congressional Budget Office, "An Analysis of the President's Budgetary Proposals for FY2006, Washington, CBO, March 2005, Table 1-6.

The Rising Costs of a Professional Military

The levels of military and career civilian manpower have decreased considerably since the end of the Cold War. Between FY1990 and FY2008, the number of active duty military decreased from 2.1 million to 1.4 million. Over the same period, DoD reduced the number of civilian employees from 997,000 to 672,000.

However, as **Figure 11** shows, these reductions in military and government personnel have been accompanied by a significant increase in the number of private sector contract employees. Thus, computing the overall cost of manpower is impossible because DoD does not report an aggregate total cost for military, DoD civilians, and private sector employees.

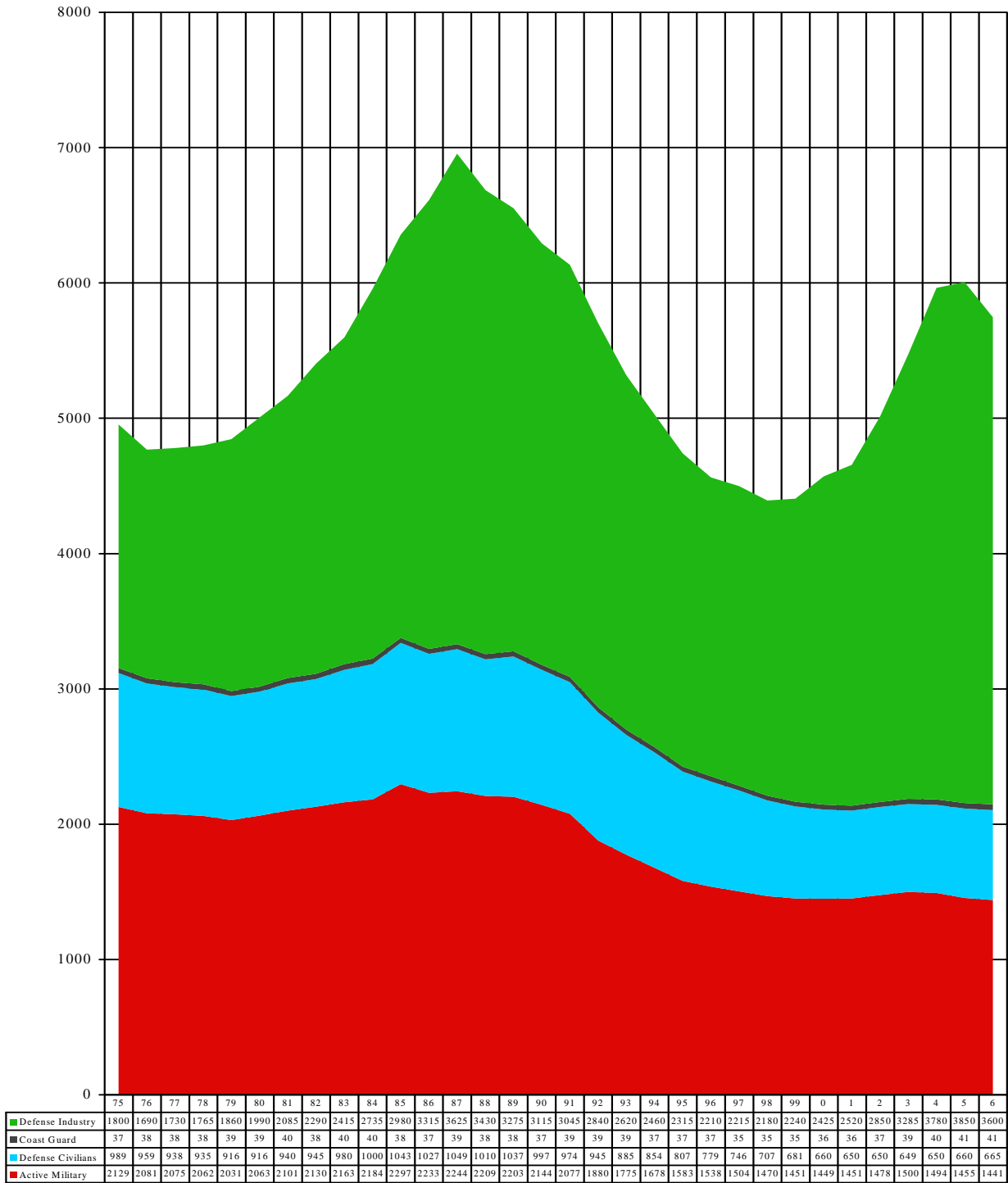
As **Figures 12 and 13** show, manpower expenditures have increased a sizeable amount over the FY2001-FY2006 period. The annual cost of pay and training for the average active duty soldier rose from \$75,000 in 2001 to \$120,000 in 2006. The cost per reservist rose from \$17,000 a year in 2001 to \$34,000.¹ This represents roughly a 60 percent rise per active-duty soldier and a 100 percent rise per reservist.

Given these trends, it is unlikely that the expected reductions in future manpower costs projected in the latest DoD budget estimates shown in **Figure 12** will ever reflect reality. This is all the more so since the Bush Administration recently decided to increase the size of the Army by 35,000 soldiers and of the Marine Corps by 22,000 Marines.

However, **Figure 13** also shows that even if Manpower costs in real terms remain or rise slightly above the relatively high levels of FY2005 and FY2006, they would still be similar to those present at the beginning of the 1990s when the US economy was much smaller.

¹ Greg Jaffe, "U.S. Army Still faces Cash Crunch, Despite Its \$168 Billion Budget," Wall Street Journal, December 13, 2006, p.14

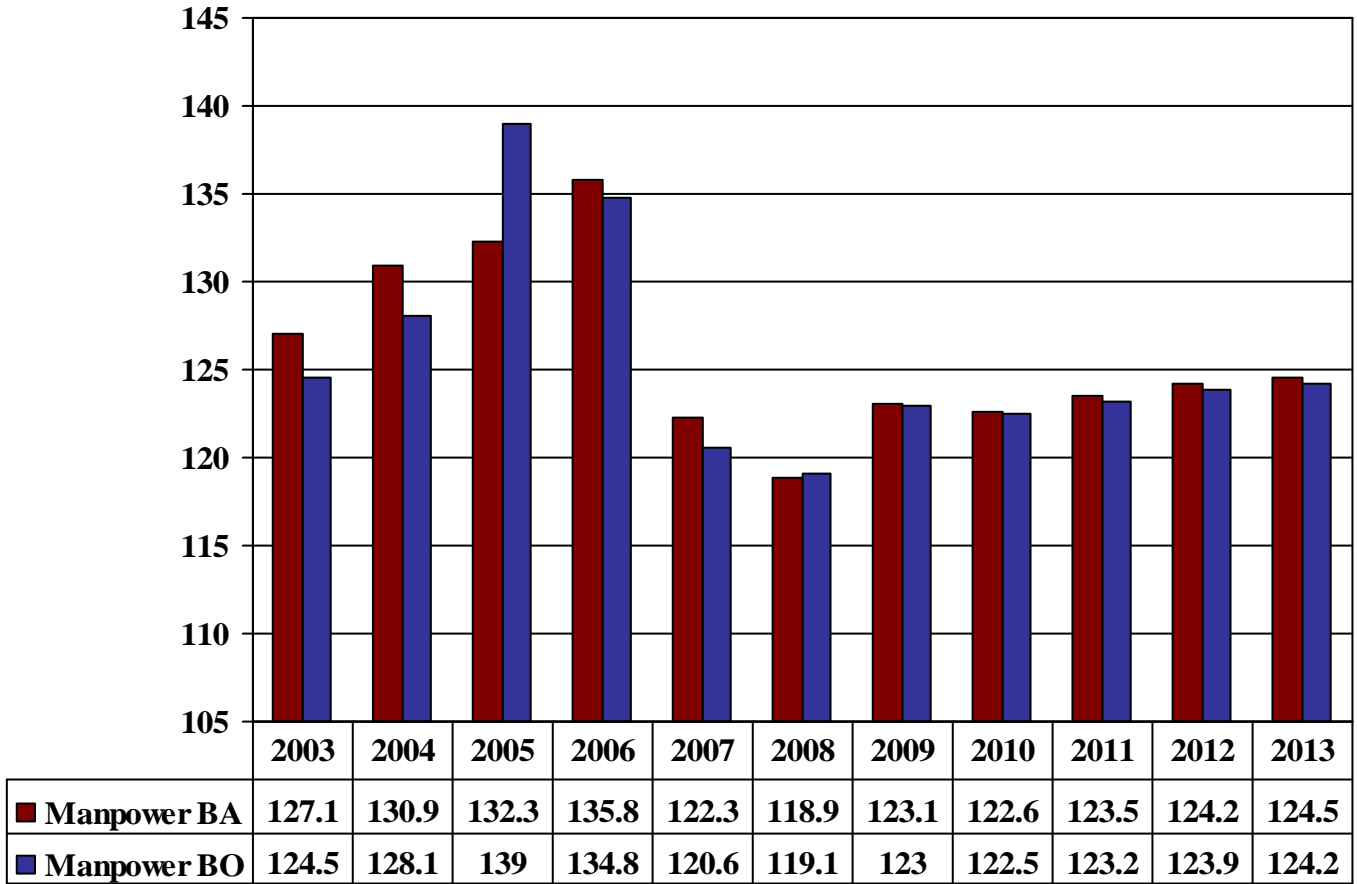
Fig. 11 Trends in Defense Manpower (End Strength in Millions)



Source: Office of the Under Secretary of Defense (Comptroller), *National Defense Budget Estimates for FY2006*, Washington, Department of Defense, April 2005, Table 7-6.

Fig.12 Projected Manpower Expenditures: FY2003–FY2013
 (Budget Authority and Budget Outlays - 051)

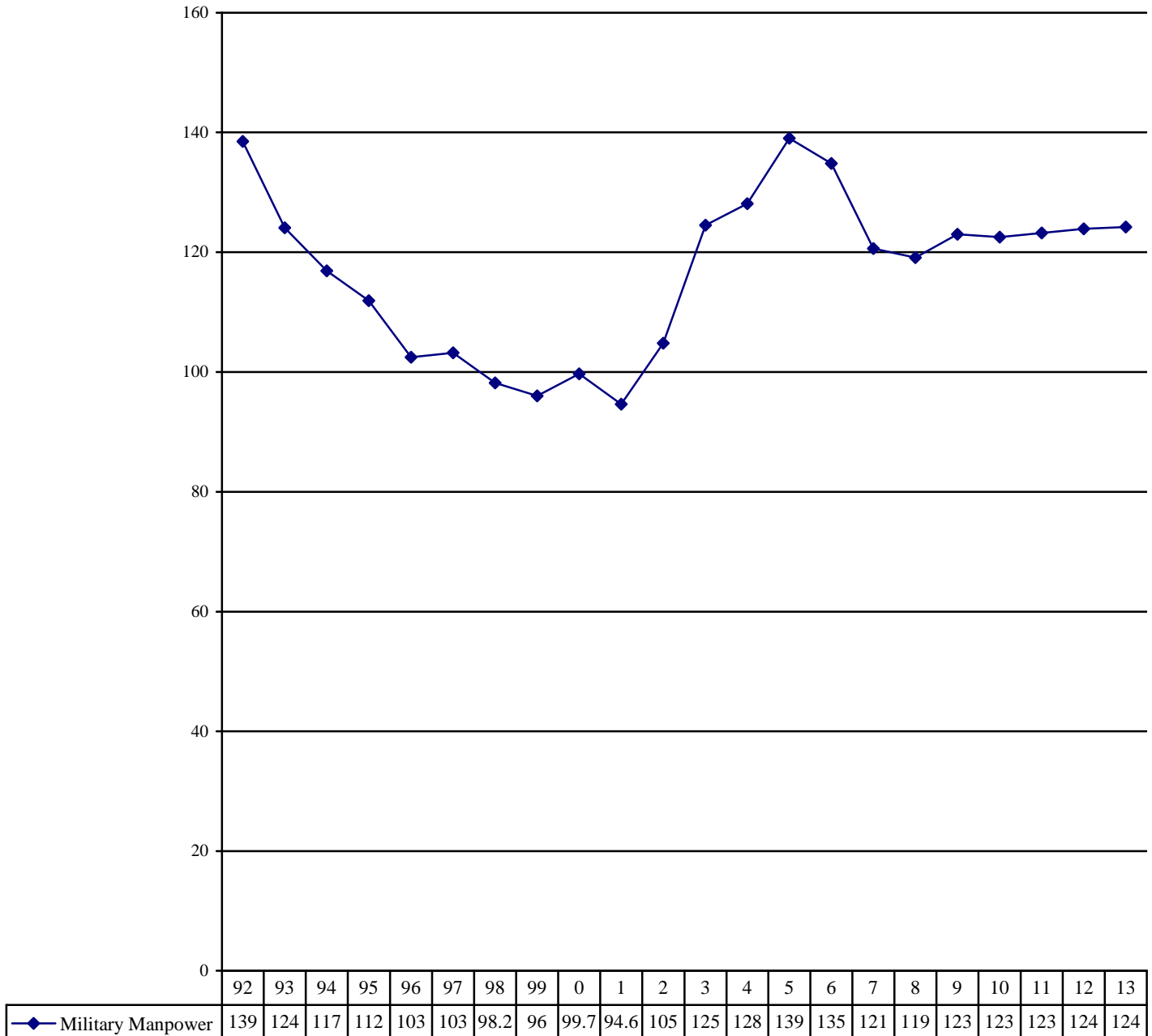
(In Constant FY2008 Billions)



Source: Office of the Under Secretary of Defense (Comptroller), *National Defense Budget Estimates for FY2008*, Washington, Department of Defense, March 2007, pp 115 and 133

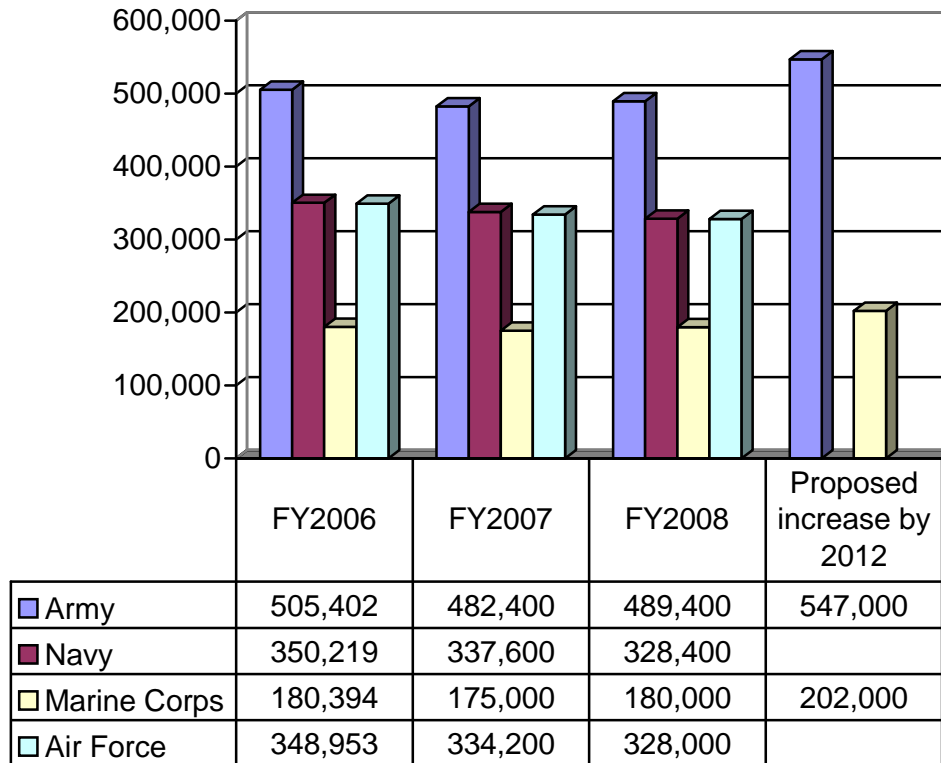
Fig.13 Military Manpower Costs Since the End of the Cold War: FY1992–FY2013

(In Constant FY2008 \$US billions in Budget Outlays)



Source: Adapted by the author from data provided by Office of the Under Secretary of Defense (Comptroller), *National Defense Budget Estimates for FY2008*, Washington, Department of Defense, March 2007, Table 6-11.

Fig.14 US Authorized Active Military and Civilian Endstrength: FY2006-FY2008



Source: Department of Defense, February 7, 2007

Force Transformation and Equipment Costs

Investment spending (Procurement and RDT&E) is the part of the defense budget that is traditionally most prone to large cost escalations. There is no real reason to doubt that the costs of DoD's current procurement plans are underestimated as well.

To take one recent example, a comprehensive GAO study of *Defense Acquisitions* found that even though for the period 2000-2006 defense spending accounts grew at an annual average of 5.4%, DoD projects that for the 2007-2011 period the growth rate will be 0.9%.² The same GAO study estimated that, from 2001 to the present, the Department of Defense has doubled its planned investment in new systems from \$750 billion to almost \$1.5 trillion.

Figures 15 and 16 offer a picture of the current and future trends in investment spending, as they were detailed in the FY2008 budgetary request. It is evident from these figures that the current out-year plans fund military procurement at the expense of research and development.

The planned investment for future RDT&E outlays in constant dollars, at about \$60 to \$70 billion, would be merely more than half the amount that U.S. averaged in earlier periods such as the late 1980s.

The Administration's projections allocate for an increase in future procurement costs, but one must take notice of an important caveat. Procurement funding is scheduled to increase more robustly beginning with FY2009, after President Bush leaves office, which means critical investment decisions regarding affordability will be passed on to the next president. This so-called "slipping to the right" of force transformation costs to future years can be observed in **Figure 17**.

Outside estimates offered by the Congressional Budget Office also call into question DoD's out-years Procurement and RDT&E cost projections. CBO estimated that if weapon costs grow in the future as they have over the past 30 years, resource requirements for planned purchases in 2011 (excluding contingency cost risk) could equal \$195 billion, about 10 percent more than the DoD figure.

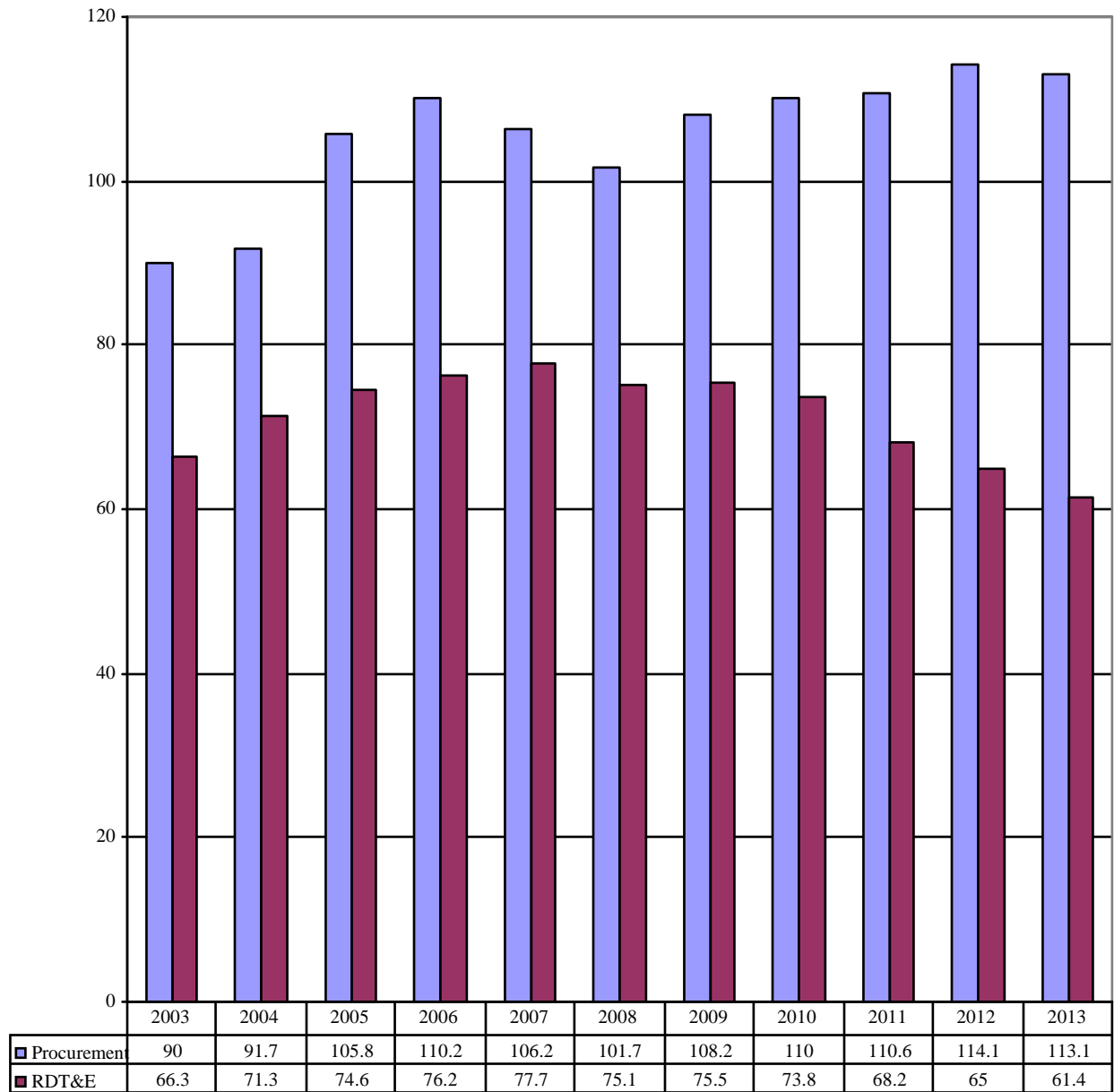
In that case, funding for the 2012-2024 period could average almost \$198 billion – about 13 percent more than without cost growth.³ The peak would be reached in 2013 when investment spending would be \$224 billion, 15 percent higher than the value estimated without considering cost escalations. Just like with other areas of defense spending, these numbers seem relatively high by current standards, but they are not nearly unprecedented; in the late 1980s for example, US investment spending amounted to around \$250 billion a year.

² GAO, *Defense Acquisitions: Assessment of Selected Weapons Programs*, March 2007

³ CBO, *The Long-Term Implications of Current Defense Plans: Detailed Update for Fiscal Year 2007*, April 2007, p9

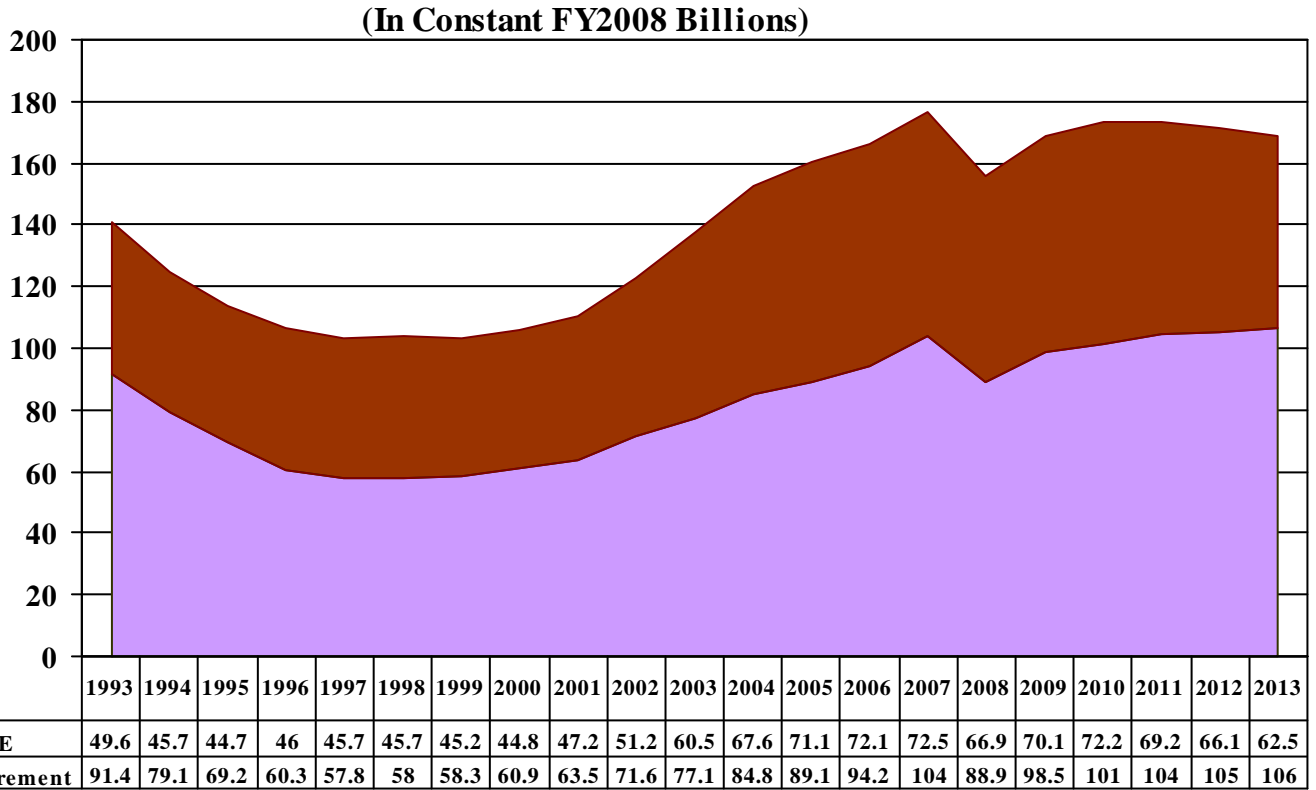
Fig.15 Procurement and RDT&E Funding in TOA in the FY2008 FYDP

Constant FY2008 Billions



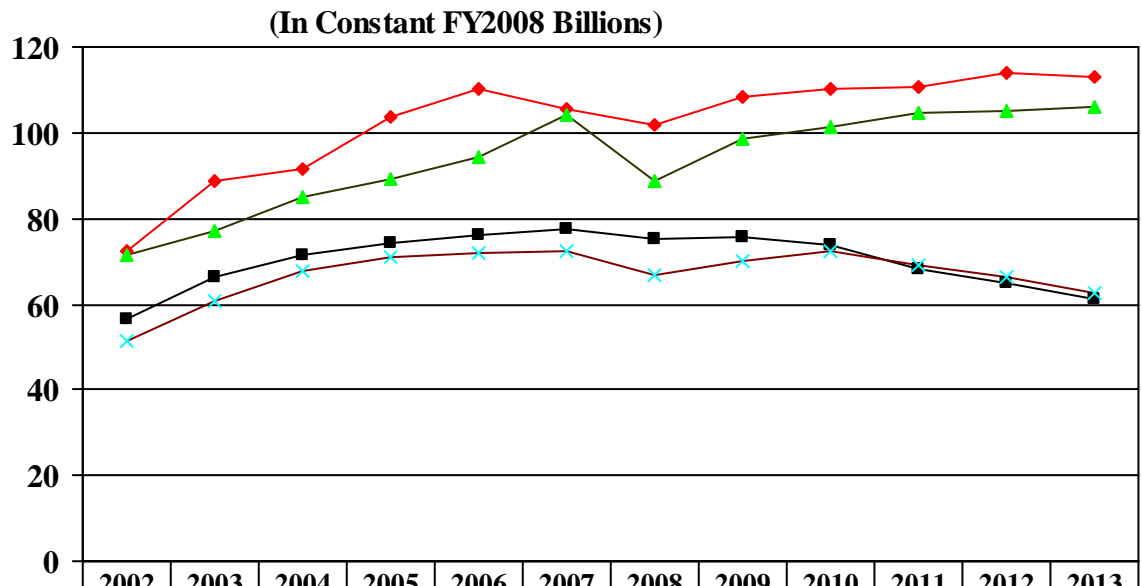
Source: Department of Defense. National Defense Budget Estimates for FY2008, March 2007, p. 67.

**Fig.16 Procurement and RDT&E Spending Since the End of the Cold War:
FY1993–FY2013**



Source: Adapted by the author from data provided by Office of the Under Secretary of Defense (Comptroller), *National Defense Budget Estimates for FY2008*, Washington, Department of Defense, March 2007, Table 6-8 and 6-11.

Fig. 17 Dancing to the Right: Deferring Key Procurement Expenditures to the Next Presidency



BA-Procurement	72.4	88.8	91.6	103.7	110.3	105.5	101.6	108.2	110.0	110.6	114.1	113.2
BA -RDT&E	56.4	66.1	71.6	74.1	76.3	77.4	75.1	75.5	73.8	68.1	65.0	61.4
BO-Procurement	71.6	77.1	84.8	89.1	94.2	103.9	88.9	98.5	101.2	104.4	105.2	106.2
BO-RDT&E	51.2	60.5	67.6	71.1	72.1	72.5	66.9	70.1	72.2	69.2	66.1	62.5

Source: Department of Defense. National Defense Budget Estimates for FY2008, March 2007, pp. 115 and 133

The Financial Impact of Current Wars on O&M Costs and the Reset Challenge

Figure 18 shows how sharply Operations and Maintenance (O&M) costs have escalated in the aftermath of 9/11, and especially after the beginning of Operation Iraqi Freedom. The \$213 billion appropriated for escalation in FY2007 represent a 51 percent increase over the \$141 billion allocated for O&M in FY2001.

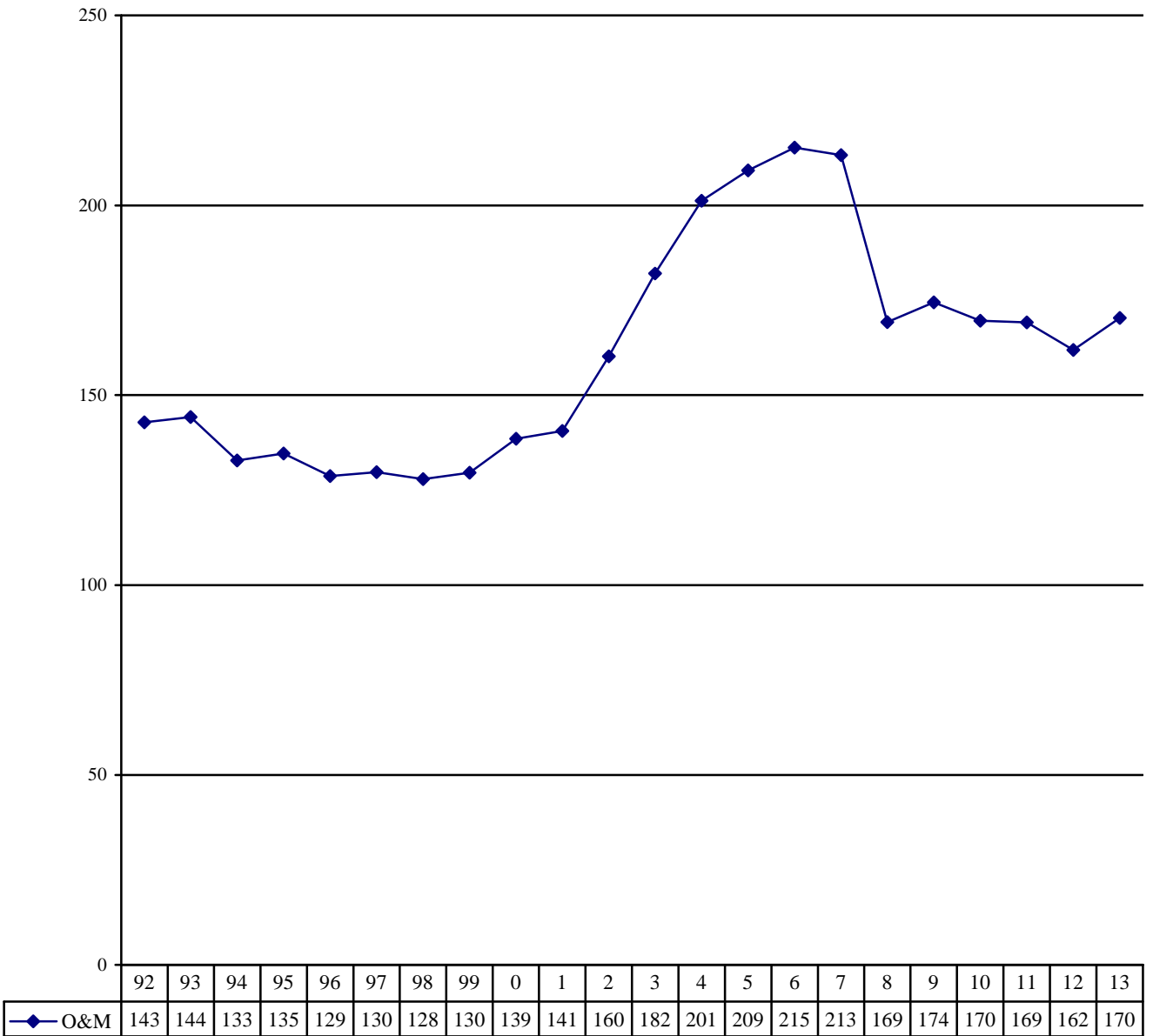
An increase in Operations and Maintenance costs is predictable in wartime, and the low projections for O&M costs after FY2007 are unrealistic. The President's FY2008 baseline request assumed that "victory" in 2007 would allow major O&M cuts beginning with September 2007. This scenario is extremely unlikely, and it contradicts the President's own decision to supplement the number of troops deployed to Iraq and his vow to keep them there long enough so they can have a real chance of accomplishing their mission.

In addition to higher O&M costs, another long-term financial burden caused by the Iraq War is represented by the cost of bringing the equipment and personnel to its prewar levels of readiness, a process called "reset." Before OIF, reset has been funded from the baseline budget: the Army used to spend about \$3 billion a year on this process, while the Marine Corps about \$1.5 billion. However, the Army currently estimates it will need supplemental funding of about \$12-13 billion a year for the duration of the conflict and a few years after that to deal with reset costs.

As of 2006, the Marines reported \$12 billion in reset shortfall. DoD requested in its GWOT Supplemental Request for FY2008 a total of \$37.6 billion for reconstitution and reset: \$8.9 billion for repair, and \$28.7 billion for procurement (including new and/or upgraded equipment.) Funding reset costs by supplemental is unfortunate, as the services cannot develop a long-term plan to replace (and improve) their current mix of equipment if they do not have the certainty of multi-year funding. Moreover, the economic burden of the war is underestimated if such long-term reset costs are not taken into account in their entirety.

Fig.18 Operations and Maintenance Spending: FY1992–FY2013

(In Constant FY2008 \$US billions in Budget Outlays)



Source: Adapted by the author from data provided by Office of the Under Secretary of Defense (Comptroller), *National Defense Budget Estimates for FY2008*, Washington, Department of Defense, March 2007, Table 6-11.

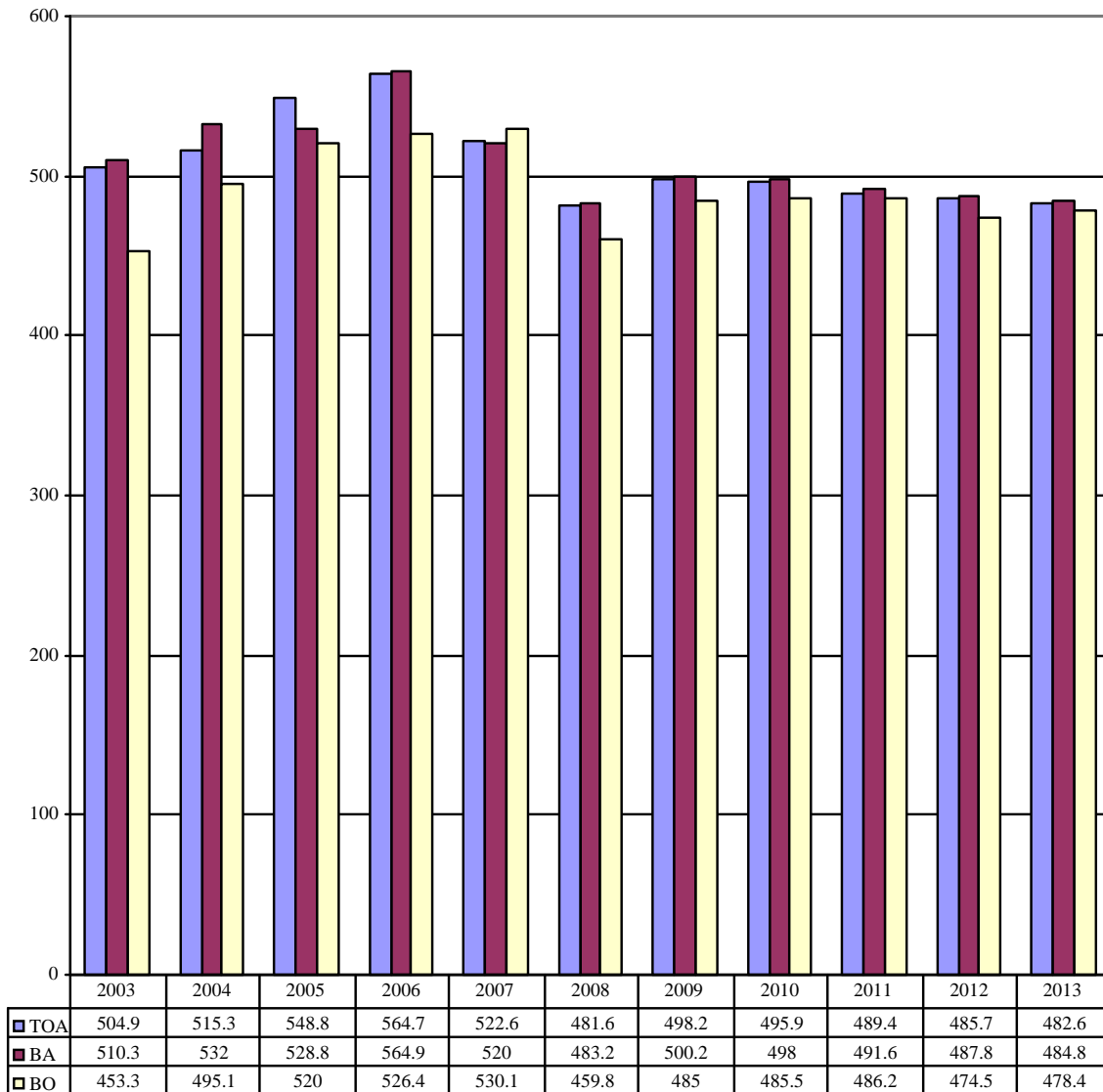
Wartime Reality vs. Peacetime Planning, Programming, and Budgeting

As with O&M costs, **Figure 19** shows that the Administration anticipates markedly lower levels of total DoD spending in the coming years despite the recent trend in the opposite direction. As previous sections of this report showed, none of the three major components of the defense budget (Manpower, O&M, and Investment spending) are likely to experience a cost decrease in the future. Therefore, the current wartime environment is likely to force DoD's planners to revise upwards their estimates for the out-years costs in the FY2009 budget request and beyond.

Moreover, in terms of judging the defense burden, these estimates are inescapably flawed as they do not take into account the costs of the GWOT missions. A recent CBO report estimates these costs for the 2008-2017 period at a total of \$481 to \$603 billion assuming a more rapid withdrawal of US forces, and at \$924 to \$1,010 billion in a scenario involving a more gradual withdrawal from Iraq.

**Fig.19 Budgeting for a “Warless World” in an Era of Long Wars after FY2008:
Total DoD Budget FY2003–FY2013**

(In Constant \$US FY2008 Billions)



	FY 2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Total BA (051-DoD)	528.8	564.9	520.0	483.2	500.2	498.0	491.6	487.8
Total B0 (051-DoD)	519.9	526.4	530.1	459.8	485.0	485.5	486.2	474.5
Total BA (050-Total)	552.7	649.9	638.4	647.2	521.4	518.6	512.1	507.9
Total B0 (050-Total)	543.2	550.2	586.9	606.5	507.2	506.7	506.6	494.5

Constant FY2008 Dollars

Source: Adapted from Office of the Under Secretary of Defense (Comptroller), *National Defense Budget Estimates for FY2007*, March 2006, pp. 4 -5.

Entitlement Programs and the Coming Defense “Squeeze”

When one talks about the future defense burden on the federal budget, it is important to realize that in fact there are other factors, like mandatory federal spending and domestic expenditures, whose rapid growth will have a far larger impact on the budget than national defense spending.

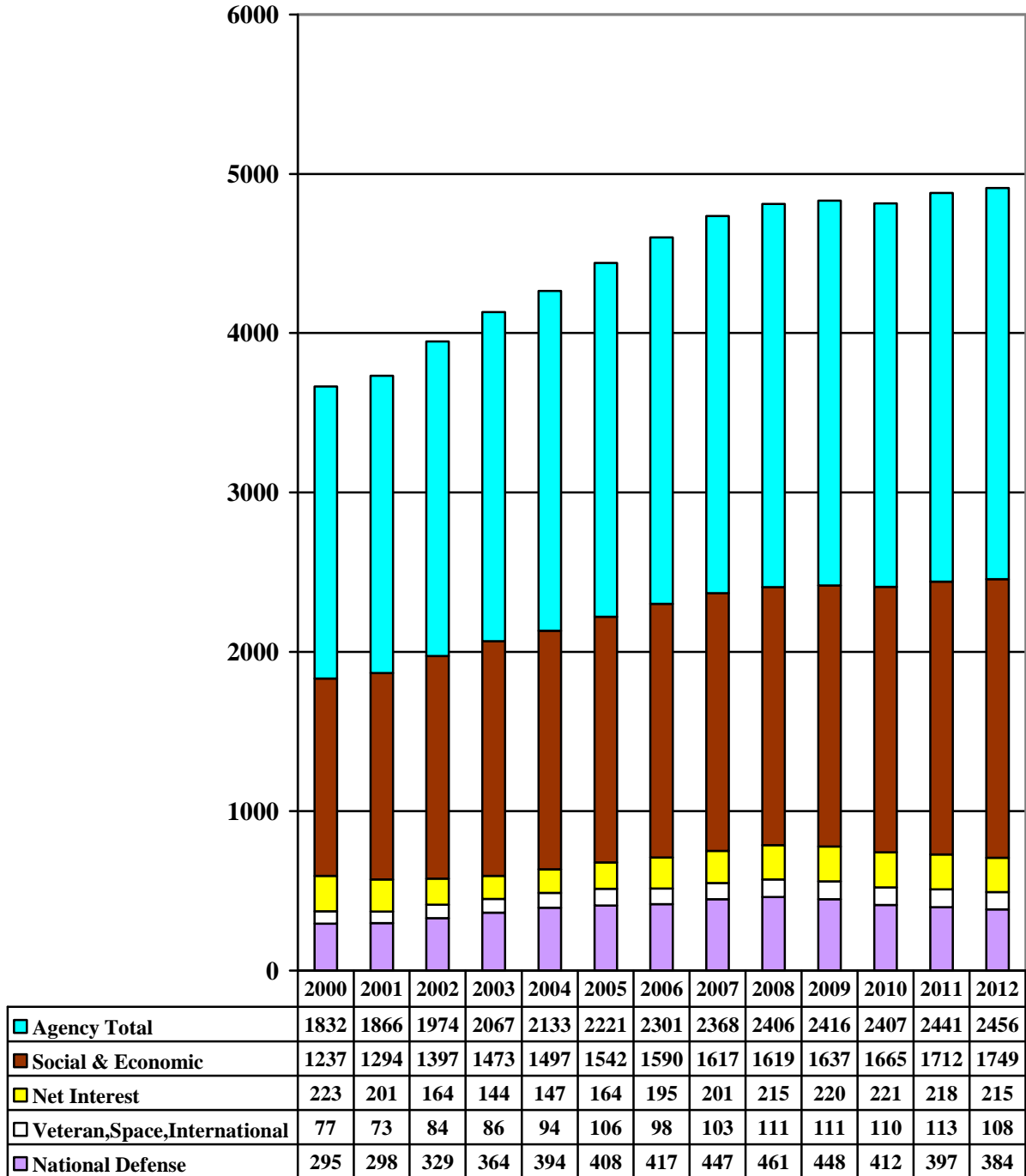
Figure 20 shows that the growth of civilian spending and of mandatory programs, not defense, will dominate the overall growth of federal spending in the coming years.

Figures 21 to 23 show in more detail the growth of mandatory program by type relative to defense in both percentage and absolute terms. They show the clear need to bring the future costs of Social Security, Medicare and Medicaid under control. These three programs already account for 9 percent of GDP and more than 40% of all federal spending. CBO estimated that they could rise to 15% of GDP, and to over 75% of federal spending, by 2030.⁴ The challenge of limiting the escalating costs of defense expenditures is dwarfed by the much larger need to control the growth of entitlement programs.

⁴ Donald B Marron, “The ABCs of Long-Term Budget Challenges”, Washington, Congressional Budget Office, December 8, 2006

**Fig. 20 U.S. National Defense Spending Relative to Other Federal Budget Costs:
FY2000–FY2012**

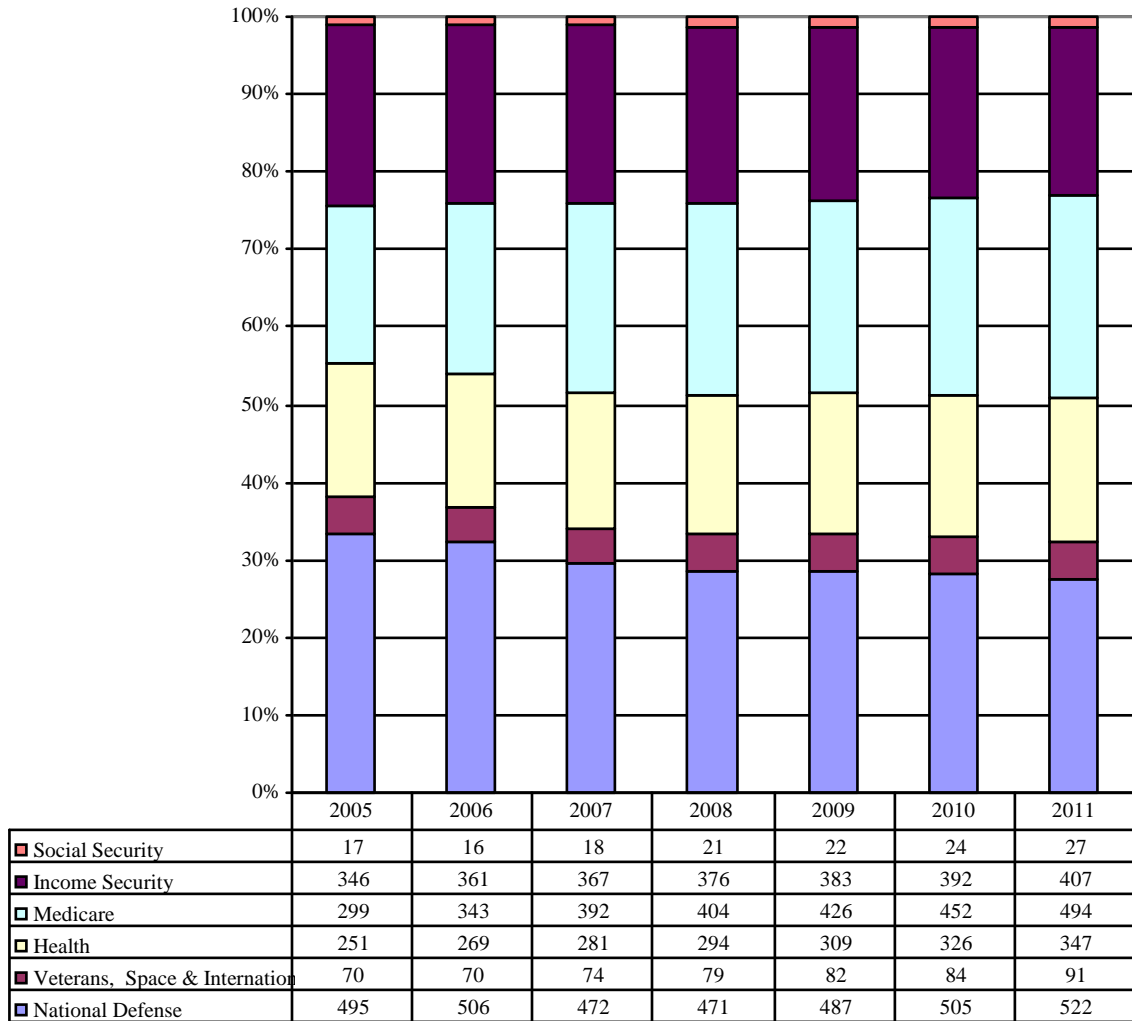
(By Fiscal Year, in Constant \$US FY2000 Billions)



Source: Office of the Under Secretary of Defense (Comptroller), *National Defense Budget Estimates for FY2008*, Washington, Department of Defense, March 2007, Table 7-2.

Fig.21 The American Threat to the United States: U.S. National Defense Spending vs. Major Health and Mandatory Programs: FY2005–FY2011

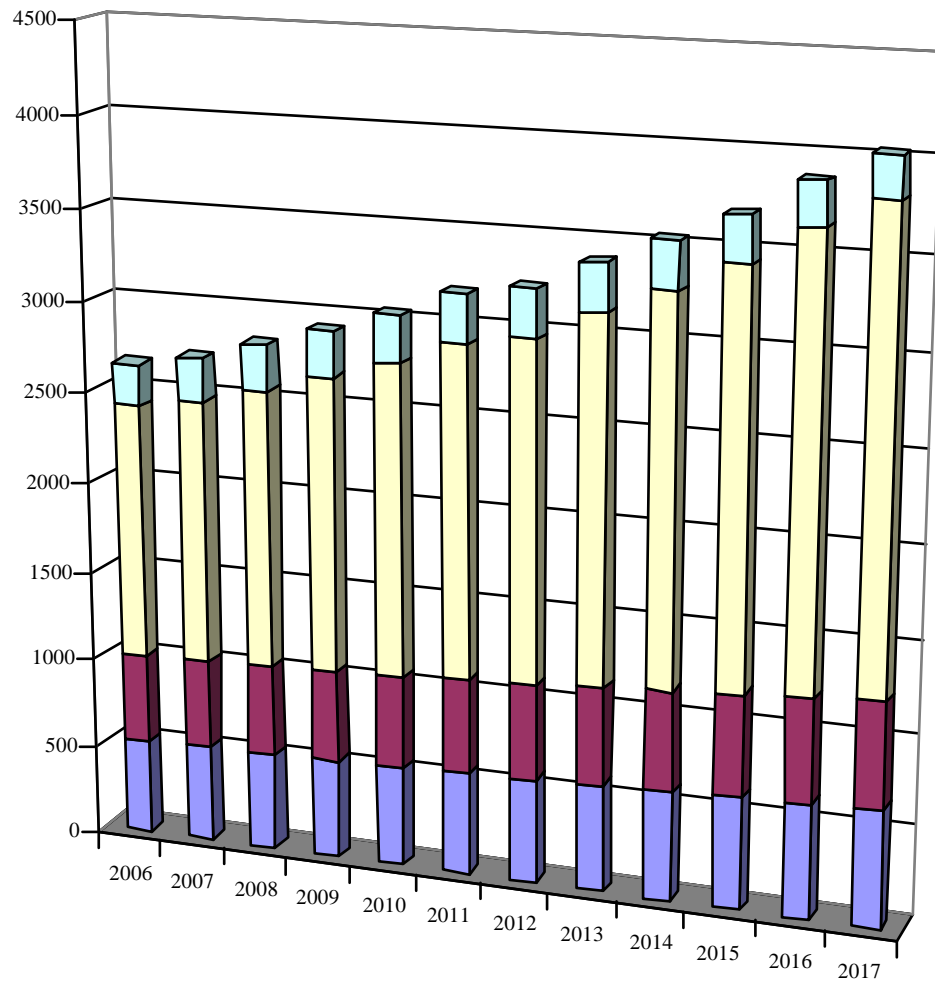
(Percentage of outlays by function in Current \$US Billions by Fiscal Year)



Source: Office of the Under Secretary of Defense (Comptroller), *National Defense Budget Estimates for FY2006*, Washington, Department of Defense, April 2005, Table 7-2.

Figure 22 - CBO Projection of U.S. National Defense Outlays vs. Other Entitlements and Mandatory Programs: FY2006–FY2017

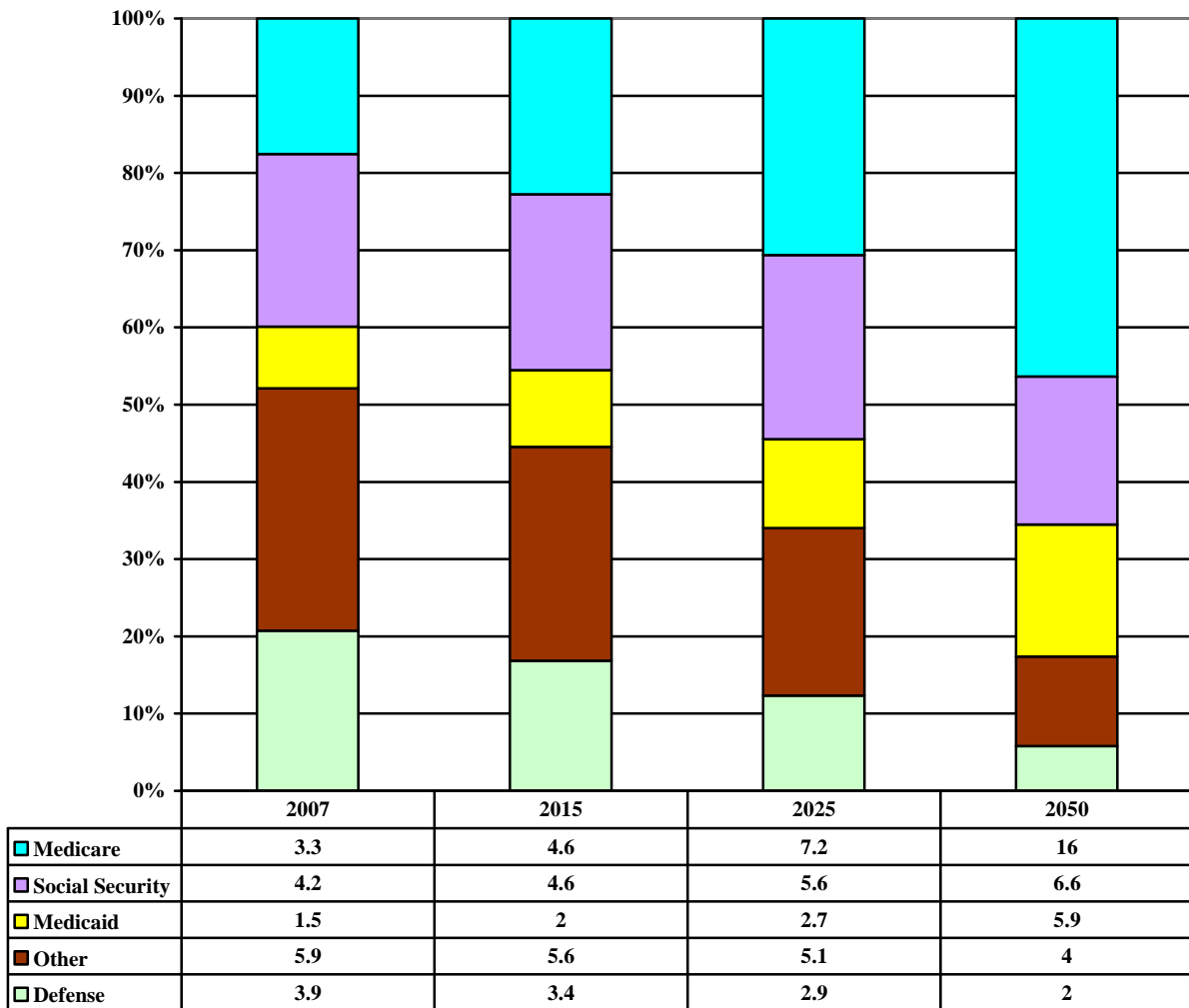
(In US \$Billions Defense Projection is Before New FY2007 Supplemental)



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
■ TOTAL	*2654	*2714	*2818	*2926	*3038	*3179	*3234	*3391	*3533	*3687	*3892	*4034
□ Net Interest	227	235	250	255	262	269	268	261	255	248	239	228
□ Mandatory	1411	1455	1533	1620	1708	1821	1866	2001	2123	2258	2438	2568
■ Other Discretionary	496	490	497	506	513	519	525	536	548	560	573	586
■ Defense	520	534	537	544	555	571	575	593	607	622	632	652

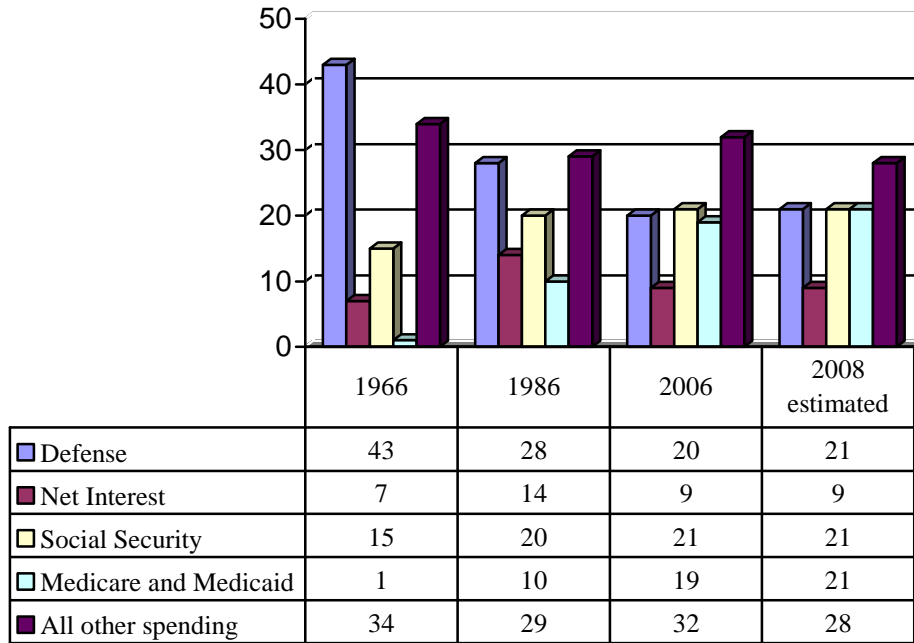
Source: CBO, February 7, 2007. The Budget and Economic Outlook: Fiscal 2008 to FY2017, January 2007, p. 50

Fig. 23 Entitlements “Hell”: CBO FY2006 Estimate of Cost of Programs as a Percent of GDP



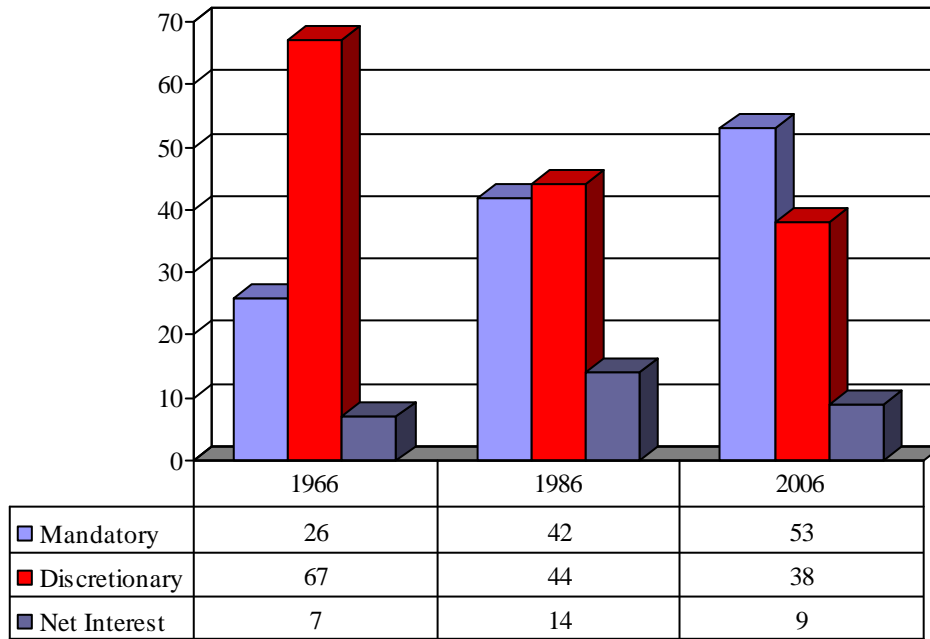
Source: Author’s compilation based on President’s FY2007 budget request, CBO analysis of budget and economic outlook for FY2007-FY2016, and primarily on the range of extrapolations in Congressional Budget Office, The Long Term Budget Outlook, December 2005, p. 10.

Fig. 24 Historical Trends in the composition of the Federal budget – Defense spending share decreases as entitlements programs increase



Source: GAO-07-500CG, “DOD Transformation: Challenges and Opportunities” and OMB, *The Budget for Fiscal Year 2008*

Fig. 25 Historical Trends in the composition of the Federal budget (2) – Discretionary spending will continue to decrease as mandatory programs will require more and more resources



Source: GAO-07-500CG, “DOD Transformation: Challenges and Opportunities” and OMB, *The Budget for Fiscal Year 2008*

Fig. 26 Comparative Annual Rates of Growth in Outlays by Type of Federal Spending: Mandatory Spending Still Drives Growth

