

# WebMemo



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## President Obama's 2011 Budget: How Congress Can Reform Defense Spending and Address Shortfalls

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This week, President Obama submitted his fiscal year (FY) 2011 defense budget request to Congress. The budget seeks \$580 billion for the core defense budget in 2011, the majority of which maintains the building blocks to support a comprehensive defense posture with a special emphasis on developing and deploying the next generation of weapons and equipment that U.S. forces will need to fight effectively in the future.<sup>1</sup> This represents a nominal increase of 3.7 percent over FY 2010 levels and an inflation-adjusted increase of 2.3 percent. For the remainder of the five-year budget program, spending on core defense programs will see modest annual real increases averaging 1.4 percent.

In addition, the President's budget seeks \$159.3 billion for ongoing overseas contingency operations (OCO) in FY 2011. The five-year budget plan includes \$50 billion placeholders for OCO in each subsequent year through FY 2015, although realistically OCO funding is expected to remain around \$160 billion in FY 2012 and then gradually decline relative to operations tempo overseas. As Congress considers the President's budget request, Members should protect the core defense budget and provide additional funds for modest growth—at least 5 percent above inflation—throughout the next decade as part of the 2011 congressional budget resolution that will be considered this spring.

**Pentagon Budgets Come in Underfunded and Go Downhill from There.** Each year, the defense budget request underfunds the Pentagon's own

plans and programs. While the President's topline increase for defense spending in FY 2011 is welcome, this small bump is still insufficient to pay all of the Pentagon's bills. Further, it remains unclear whether the core defense budget is growing at all given the volume of supplemental spending bills moving into the core defense budget without enough funds to fully cover the costs.

According to the Congressional Budget Office (CBO), funding the existing proposals in the Pentagon's Future Years Defense Program will require "sustaining annual defense funding over the long term at higher real (inflation-adjusted) levels than those that occurred at the peak of the buildup in the mid-1980s." Plans to buy new equipment, develop new capabilities, and increase endstrength generate a high need for defense dollars, notes former CBO analyst J. Michael Gilmore, especially when operations and maintenance (O&M) and personnel costs keep rising.<sup>2</sup>

**Even with Recently Rising Budgets, Defense Dollars Are Scarce.** Under the President's five and 10-year budget outlines, core defense spending will fall from 3.8 percent of GDP in 2011 to 3.4 percent

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in 2015 and just 3 percent in 2019. Defense spending is also set to drop as a share of the federal budget from 15.7 percent to 14.6 percent over five years.

While 1 percent real growth is important in FY 2011 for defense, this marginal increase falls short: A flat defense budget is really a declining defense budget. The costs of doing business in the military—from paying people to buying new equipment—greatly outpaces inflation by an average of 3–7 percent annually.

Congressional Research Service (CRS) analyst Stephen Daggett helps elucidate why defense dollars remain tight despite growing budgets. The high costs of paying for America's all-volunteer force—especially while engaged in protracted conflict—are growing 8 percent faster than the historical trend line.<sup>3</sup>

Unsustainable growth in personnel bills is primarily driven by rapidly rising compensation and health care costs, which reflect numerous benefits and entitlements added by Congress over the past decade. The average military service member was about 45 percent more expensive, after adjusting for inflation, in FY 2009 than in FY 1998.

CRS agrees with CBO that another reason current defense budgets cannot sustain military plans is the constant growth of operation and maintenance budgets. Since the end of the Korean War, annual O&M budgets have grown “by somewhere between 2.5 percent and 3 percent above inflation every year.” This, too, partly reflects rising medical care costs—many of which are funded through the O&M budget, as well as increasing civilian personnel compensation. It also reflects the cost of maintaining aging equipment employed at wartime rates.

### **Defense Budget Shortfalls Are Undeniable.**

Acknowledging the obvious—that the military is underfunded—is a nonpartisan exercise, as it should be. Last June, respected defense budget expert Michael O'Hanlon wrote that President Obama's 2010 defense budget plans are “insufficient to support the national security establishment over the next five years.”<sup>4</sup> He notes that by adopting a policy of zero real growth in the base budget, the Administration will leave the U.S. military with a cumulative funding shortfall of about \$150 billion against stated requirements through 2014.

Mismatches between requirements and resources confront military leaders across all services. Just two years ago, the former Secretary and Chief of Staff of the Air Force argued that the Air Force faced a modernization shortfall of \$20 billion per year. As CRS points out, Air Force officials claim that the acquisition budget, which was scheduled to increase from \$63 billion in FY 2009 to just \$70 billion in FY 2013, is 30 percent short of the amount necessary to fund equipment purchases and upgrades.

In addition, the Army is now reportedly “projecting ongoing budget requirements of \$170 to \$180 billion a year, which is \$30 to \$40 billion per year higher than currently projected base funding,” according to CRS. Finally, CRS notes that the Navy has “increased substantially its estimates of the cost of its 30-year shipbuilding plan, and it has warned of a substantial shortfall in fighter aircraft inventories as well.”<sup>5</sup>

**Reform Is Needed to Address Shortfalls and Modernize the Force.** When personnel and O&M accounts rise anywhere from 2 to 8 percent above inflation every year but the overall defense topline

1. Core defense spending is total defense spending (Budget Authority 050) minus spending on overseas contingency operations. It includes non-DoD defense-related spending, such as atomic energy defense activities.
2. J. Michael Gilmore, “The 2009 Future Years Defense Program: Implications and Alternatives,” Congressional Budget Office testimony before Committee on the Budget, U.S. House of Representatives, February 4, 2009, at [http://www.cbo.gov/ftpdocs/99xx/doc9972/02-04-Long-Term\\_Defense\\_Testimony.pdf](http://www.cbo.gov/ftpdocs/99xx/doc9972/02-04-Long-Term_Defense_Testimony.pdf) (February 4, 2010).
3. Stephen Daggett, “The Sustainability of Current Defense Plans,” Congressional Research Service testimony before the Committee on the Budget, U.S. House of Representatives, February 4, 2009, at [http://budget.house.gov/hearings/2009/02.04.2009\\_Daggett\\_Testimony.pdf](http://budget.house.gov/hearings/2009/02.04.2009_Daggett_Testimony.pdf) (February 4, 2010).
4. Michael O'Hanlon, “Obama's Defense Budget Gap,” *The Washington Post*, June 10, 2009, at <http://www.washingtonpost.com/wp-dyn/content/article/2009/06/09/AR2009060902647.html> (February 4, 2010).
5. *Ibid.*

stays flat, modernization becomes a billpayer. This is the real challenge facing defense leaders as they make decisions about tradeoffs between people and equipment. Although in reality, there is no real decision to make: People are must-pay bills, whereas equipment purchases can be indefinitely delayed—albeit at a high cost in dollars and risk to U.S. forces.

Congress should begin to address the internal imbalances within the defense budget through careful reform, including the deregulation of the defense market to help reduce cost overruns and allow more small businesses to compete. Additionally, by increasing cash compensation for those in uniform while restructuring defined-benefit plans for health care and retirement without sacrificing quality, Congress could help the military reap significant savings that could be reinvested into modernization.

Congress should study the possibility of moving health care coverage for military dependents to the Federal Employees Health Benefits Program—thereby allowing the military health care system to focus more on the unique requirements of military medicine. Retirement plans could also be adjusted to include certain personnel serving less than 20 years on active duty and allow them to make their benefits portable from the military to the private sector.

**Amend the Upcoming Budget Resolution for Defense.** Ultimately, the persistent underfunding of defense plans cannot be solved without a sustained

commitment by Congress to increase the core defense budget at a rate that takes defense cost inflation, which outpaces the general economy, into account. Adequately funding Pentagon plans would stop the bleeding in many defense modernization programs. The steady erosion of modernization plans only makes it more expensive to purchase new equipment when the older systems have worn out.

To address these concerns, the Congressional Budget Resolution should grow the defense budget at least 5 percent above inflation in FY 2011 and beyond in order to address the Pentagon's underfunded plans and remedy many cuts from last year's inadequate defense budget. This would allow more robust procurement, increased build rates, greater economies of scale, enhanced contractor competition, and a healthier defense industrial base.

By fighting for a higher topline above the President's Budget request, Congress would improve the defense budget in two important and mutually reinforcing ways: First, it would give the military all of the resources it needs to meet the demands made of it by the nation. Second, it would create the conditions under which those resources could go much further.

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