



February 5, 2018

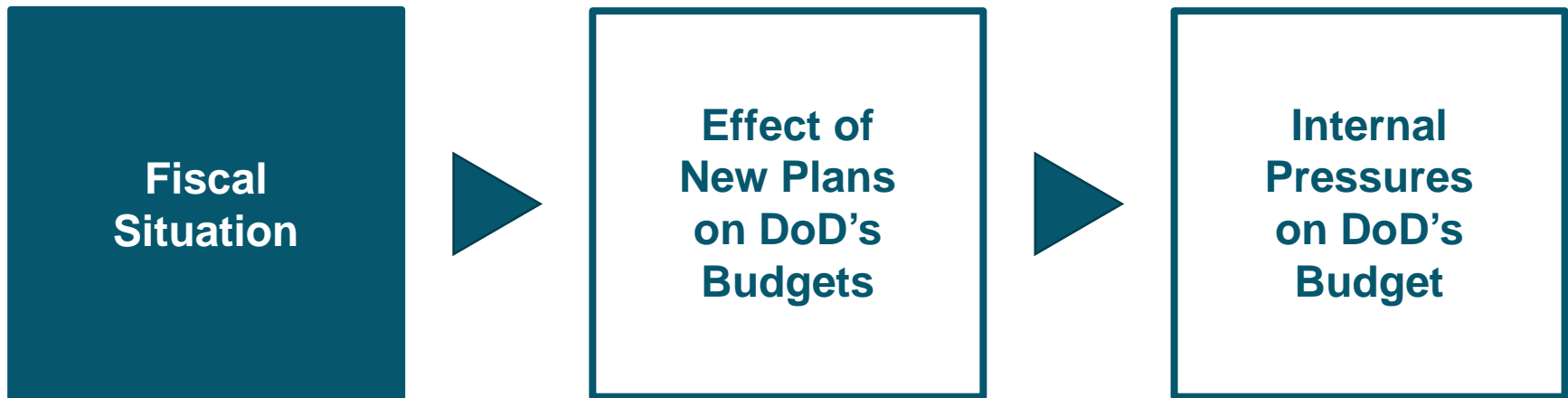
## **Prospects for DoD's Budget Over the Next Decade**

Presentation at the Professional Services Council's  
2018 Federal Strategic Planning Forum

David E. Mosher

Assistant Director for National Security

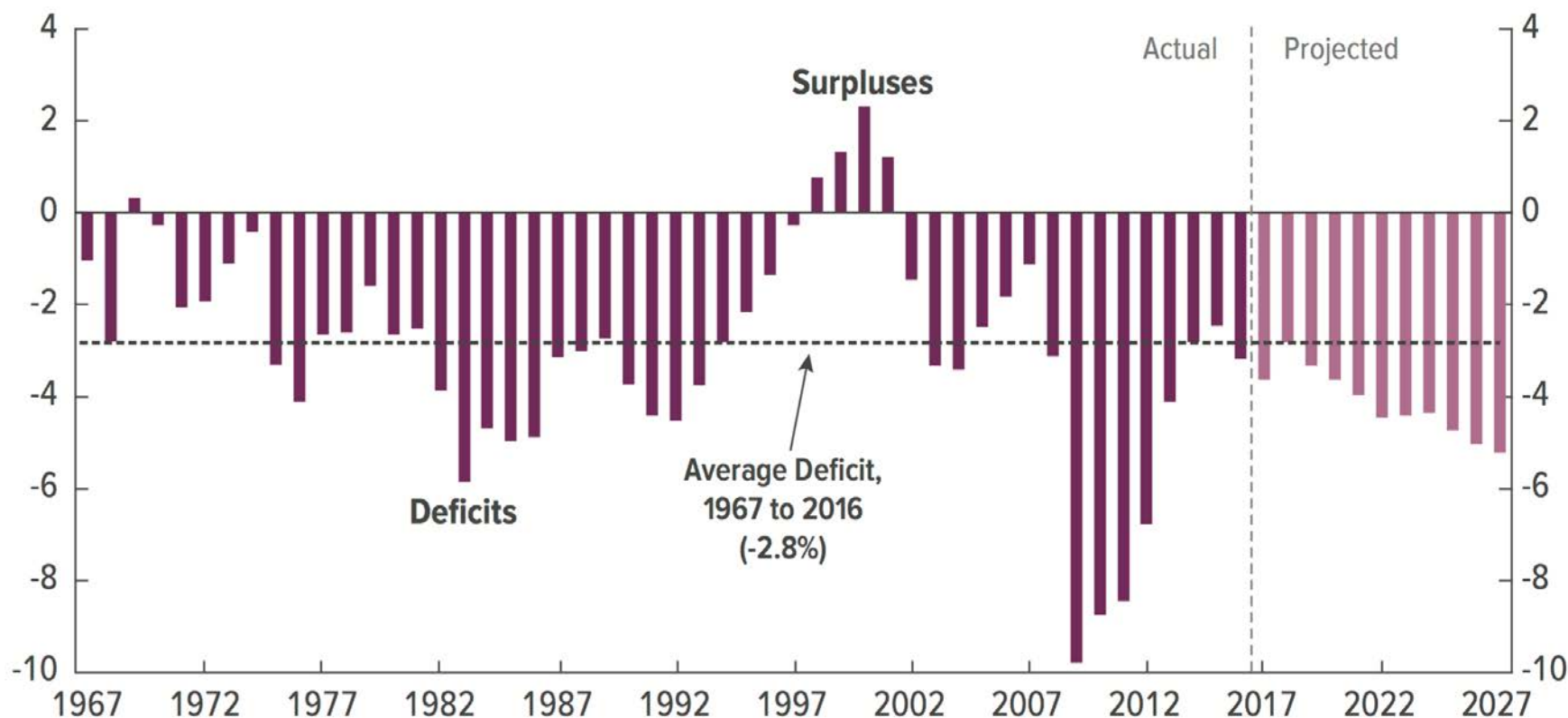
# Outline



# Deficits Grow Steadily Over the Next 10 Years

## Deficits or Surpluses Under CBO's Baseline for Fiscal Year 2017 (As of June 2017)

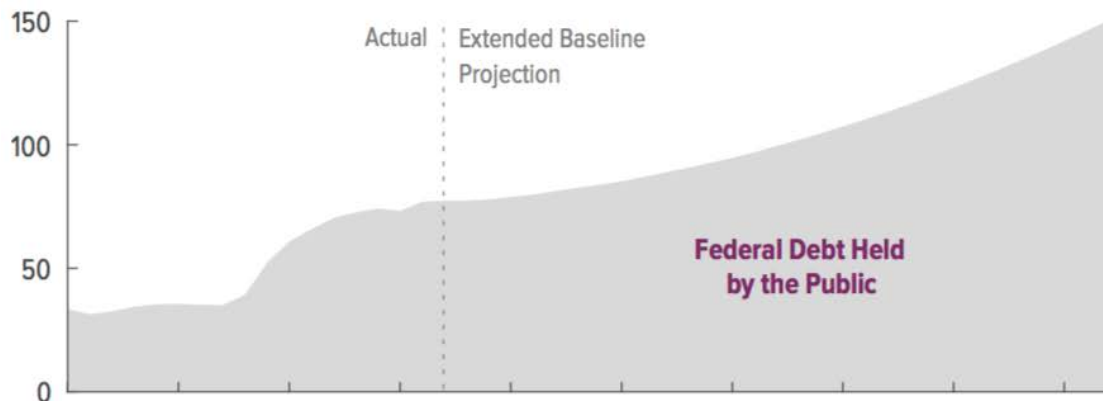
Percentage of Gross Domestic Product



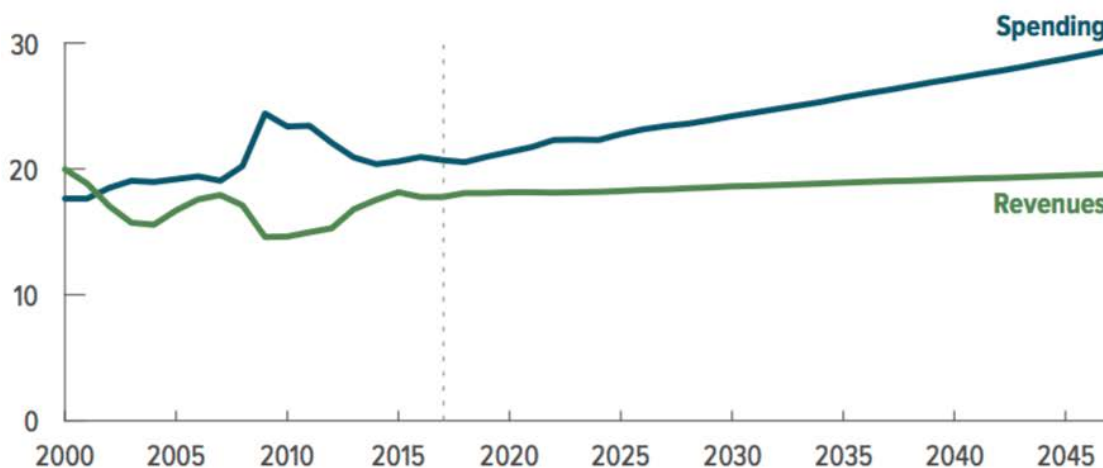
# Debt Rises to Nearly 150 Percent of GDP by 2047

## Debt Under CBO's Extended Baseline for Fiscal Year 2017 (As of May 2017)

Percentage of Gross Domestic Product



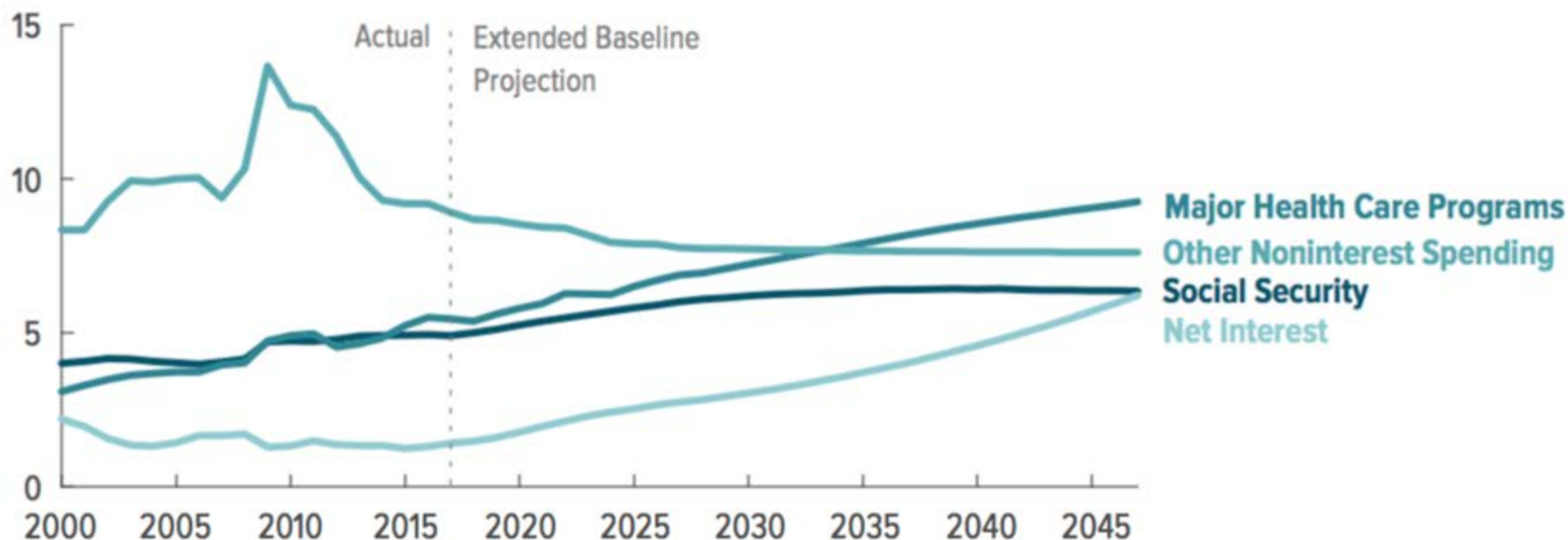
In CBO's extended baseline, **federal debt held by the public** rises . . .



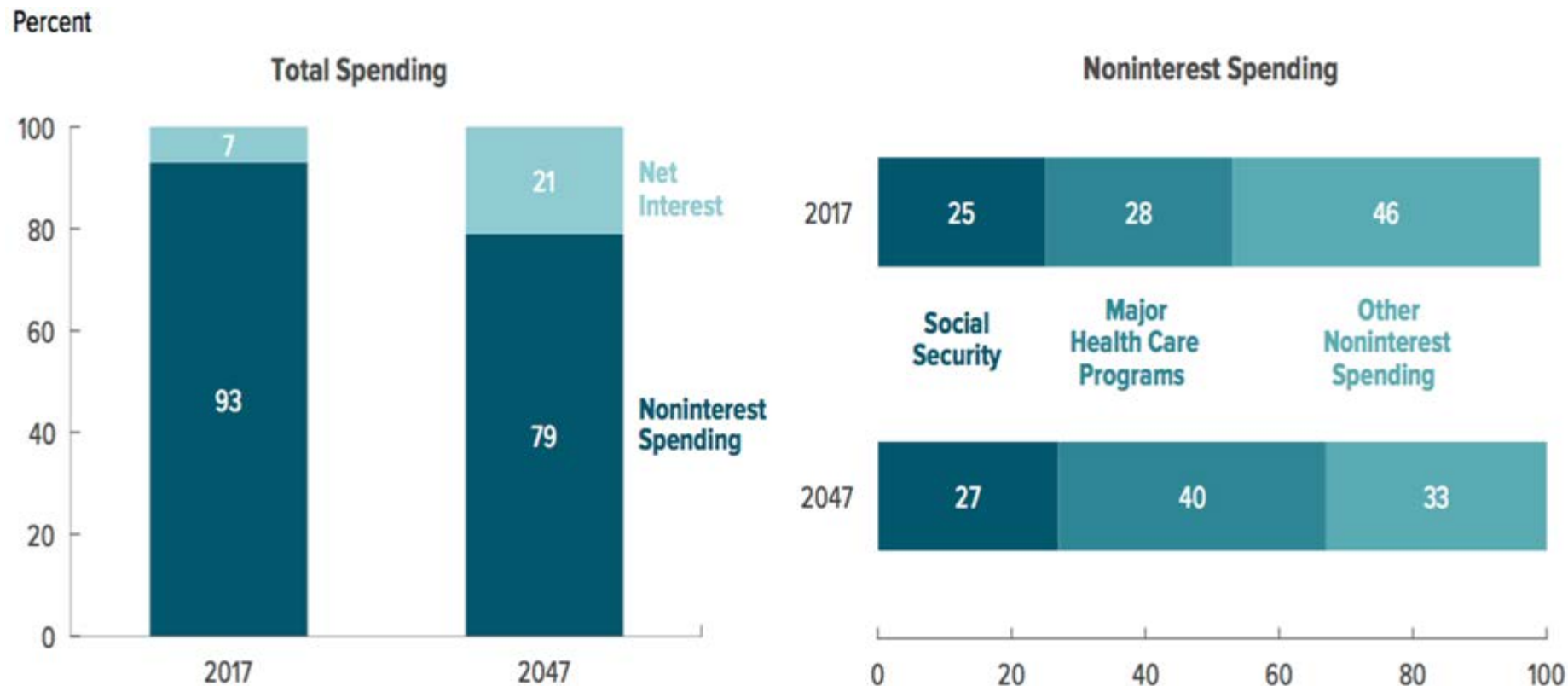
. . . because growth in **total spending** outpaces growth in **total revenues**, resulting in larger budget deficits.

# Components of Federal Spending Under CBO's Extended Baseline for Fiscal Year 2017 (As of May 2017)

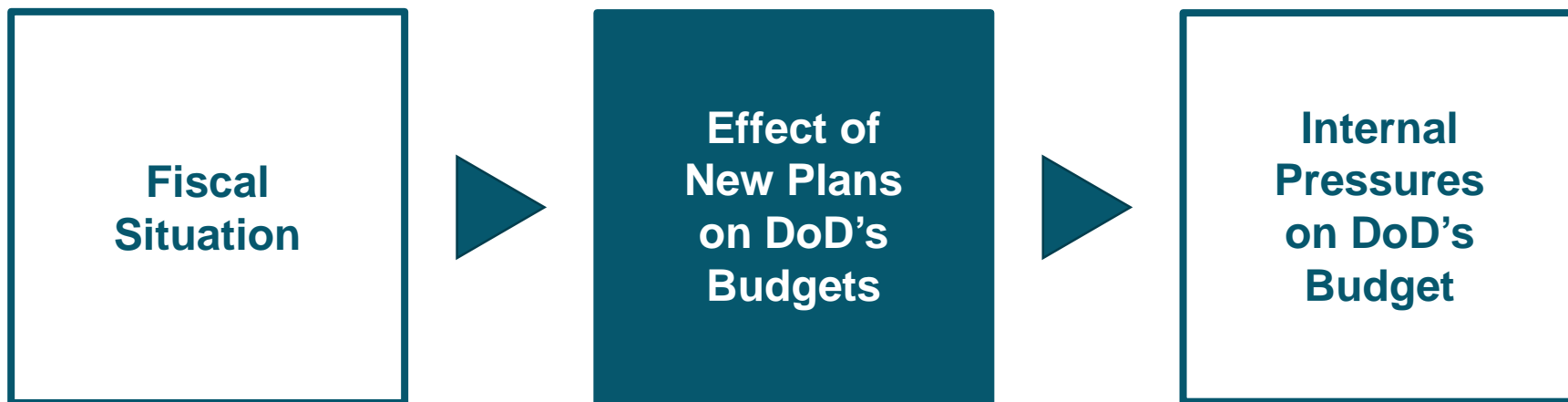
Percentage of Gross Domestic Product



# Composition of Federal Spending Under CBO's Extended Baseline for Fiscal Year 2017 (As of May 2017)

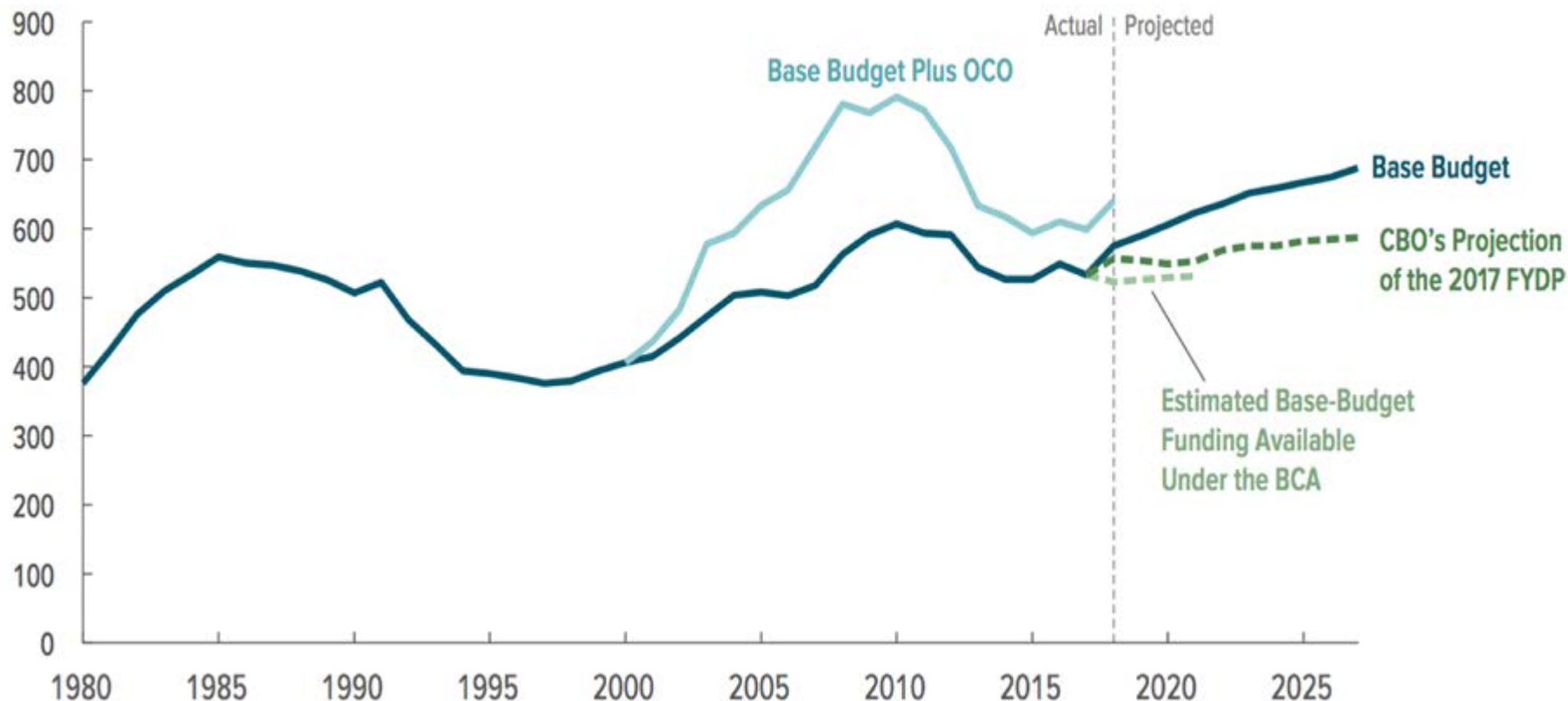


# Outline



# The Administration's Goals Would Increase Costs by \$680 Billion Over 10 Years, CBO Estimates

Billions of 2018 Dollars



Source: Congressional Budget Office, *Analysis of the Long-Term Costs of the Administration's Goals for the Military* (December 2017), [www.cbo.gov/publication/53350](https://www.cbo.gov/publication/53350).

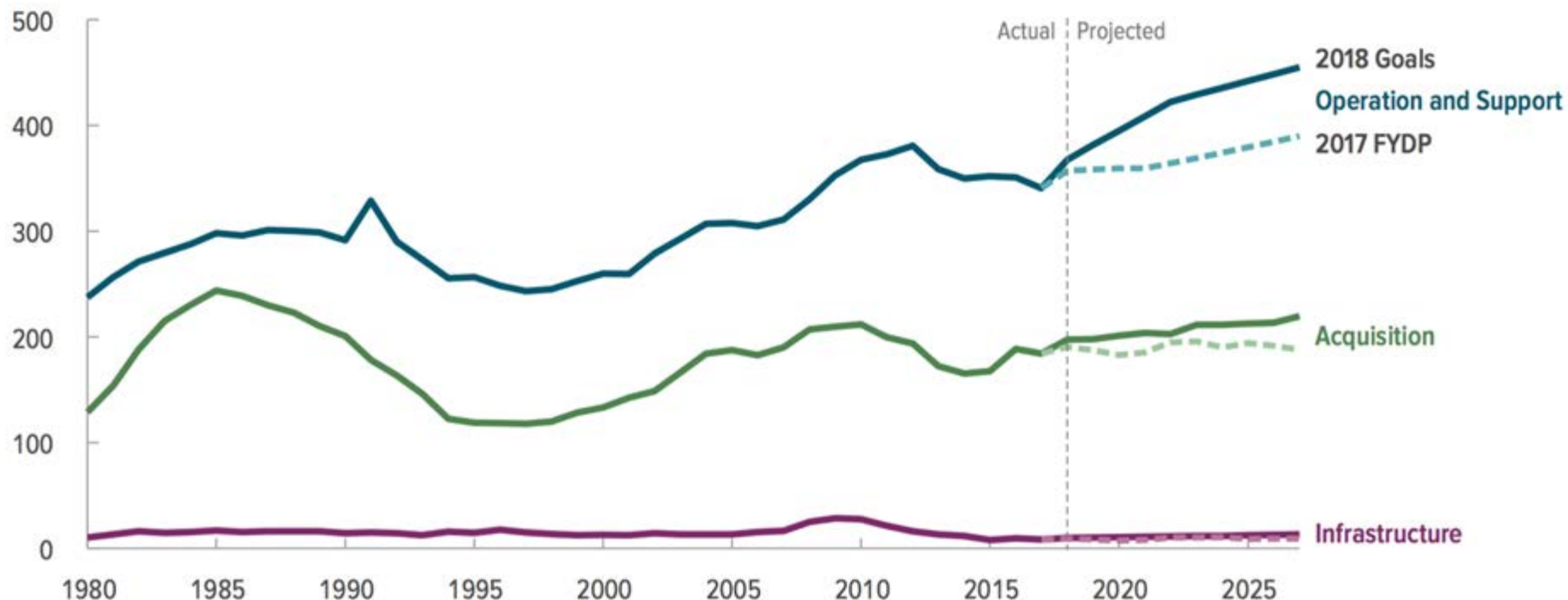


# CBO Estimated How the Administration's Goals Would Affect Budgets

- Plans are unclear, but we have some rough outlines
  - Larger Navy (355 ships, up from planned 308 and current 279)
  - Larger Army (540,000 active endstrength, up from 460,000)
  - Larger Air Force (5 more fighter squadrons)
  - Increase Marine Corps (13,000 endstrength, 4 battalions)
  - Increase in readiness and modernization (in 2018 and beyond)
- Those plans would increase budgets relative to 2018 request
  - Increase active-duty military by 237,000 in 10 years
  - Increase spending by \$342 billion over 10 years
  - Increase annual spending by \$50 billion by 2027
    - Add \$20 billion per year for Navy (costs would continue to grow)
    - Add \$22 billion per year for larger Army
    - Add \$8 billion per year for larger Air Force
- Cost \$683 billion more over the next 10 years than the Obama Administration's last plan

# Most of the Increase in Costs of Administration Goals Would Be in Operation and Support

Billions of 2018 Dollars



# The Administration's Plan in the Context of the Budget Control Act (BCA)

- The Administration requested \$575 billion for DoD's base budget for 2018. The Congress authorized \$605 billion but has not appropriated it
- That total will exceed DoD's share of the BCA cap for 2018 by \$54 billion
- The cost of implementing the Administration's goals through 2021 will exceed BCA caps by \$295 billion, by CBO's estimate
- Reports suggest the 2019 budget request will exceed CBO's estimate of about \$600 billion for 2019

# Outline



# The Three Major Categories of the Defense Budget Each Have Their Own Momentum

- Costs of developing and buying weapons have been, on average, 20 percent to 30 percent higher than DoD's initial estimates
- Costs for compensation of military personnel—including their active and retired health care benefits—have been rapidly increasing since 2000
- Costs of operation and maintenance per active-duty service member have been steadily increasing since at least 1980

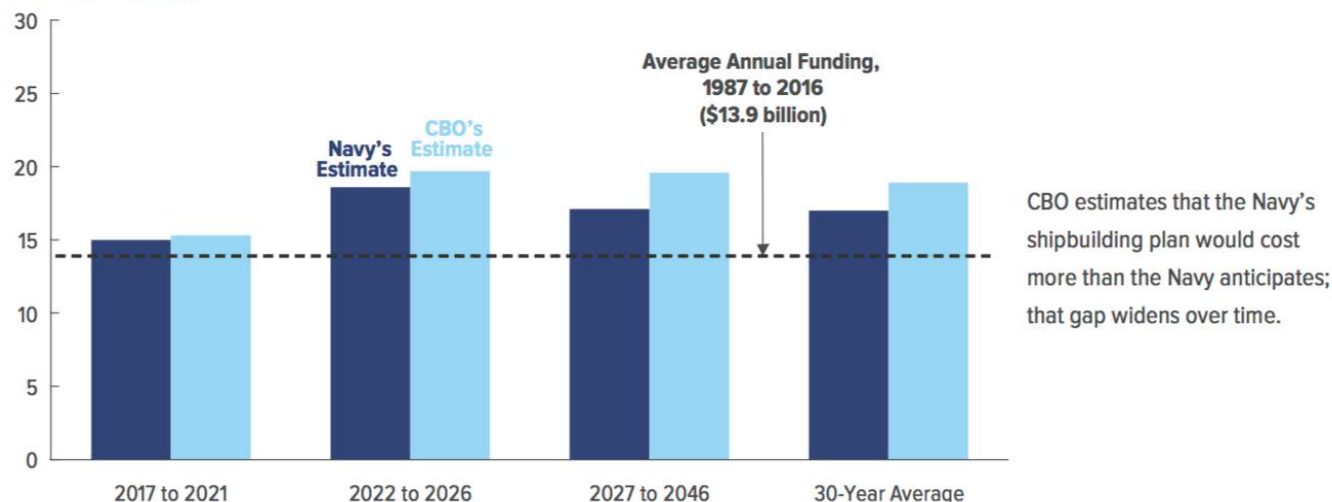
These internal pressures in DoD's budget create mismatches between the FYDP and cost of DoD's plans

# Example #1 of Budgetary Momentum: The Navy's Shipbuilding Program

- CBO estimates that the 2017 shipbuilding plan will cost more than the Navy estimates
- The plan would fall short of meeting the service's inventory goal for some types of ships
- Historical average funding would be insufficient to cover the shipbuilding contained in the plan

## Average Annual Costs of New-Ship Construction Under the Navy's 2017 Plan

Billions of 2016 Dollars

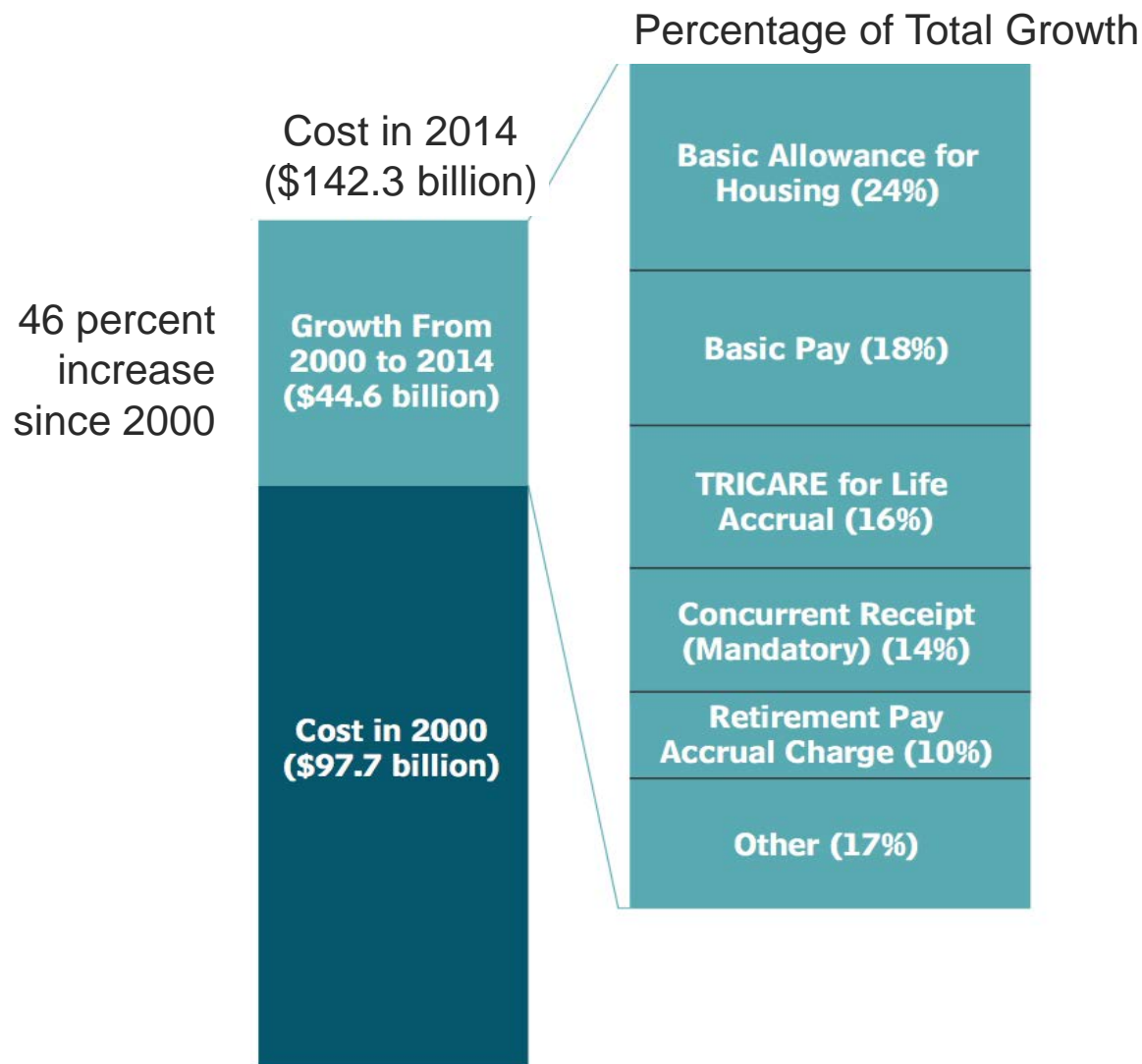


Source: Congressional Budget Office, using data from the Department of the Navy.

## Example #2 of Budgetary Momentum: Pay and Benefits of Military Personnel

- Annual increases in military basic pay exceeded the percentage increase in the Employment Cost Index (ECI) by at least 0.5 percent for each of the years between 2001 and 2010
  - Basic pay raises then equaled the ECI from 2011 through 2013
  - From 2014 through 2016, the capped basic pay raise was below the ECI
- DoD estimates that cash compensation for enlisted military personnel exceeds that for 90 percent of workers with similar education and years of experience
  - Noncash compensation (health care and others) amplifies that gap

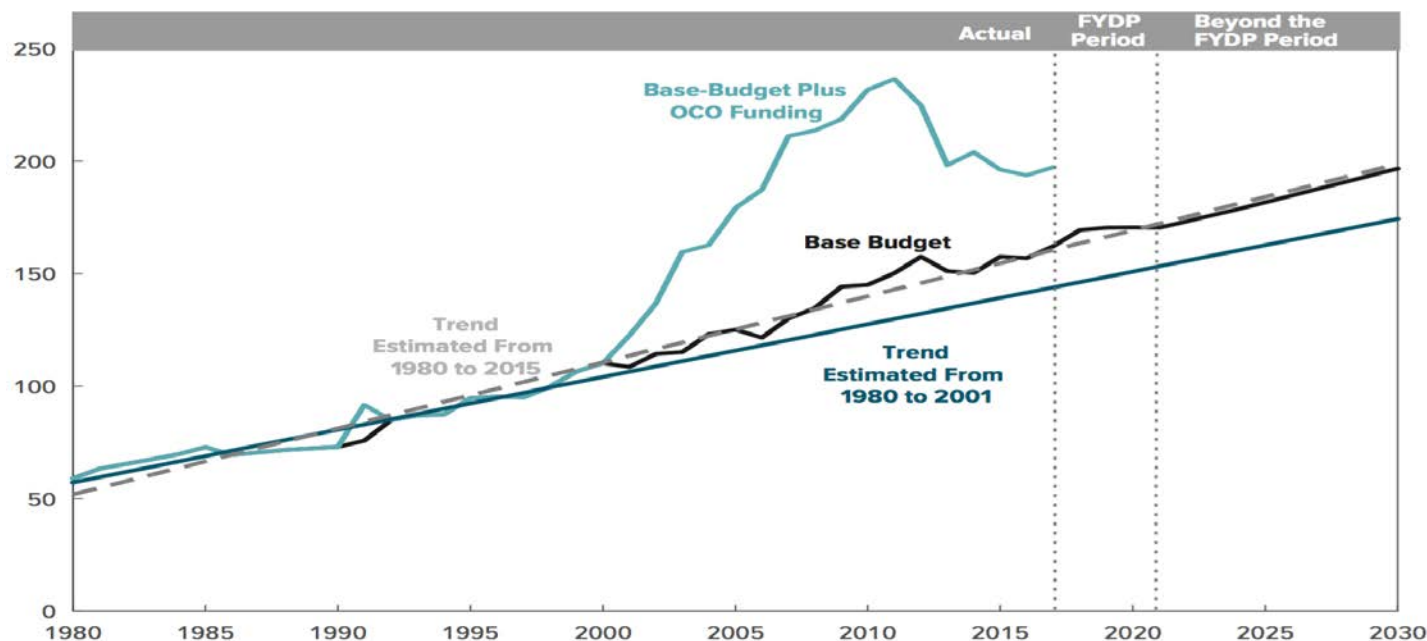
# Sources of Growth in Military Personnel Costs, Fiscal Years 2000 to 2014





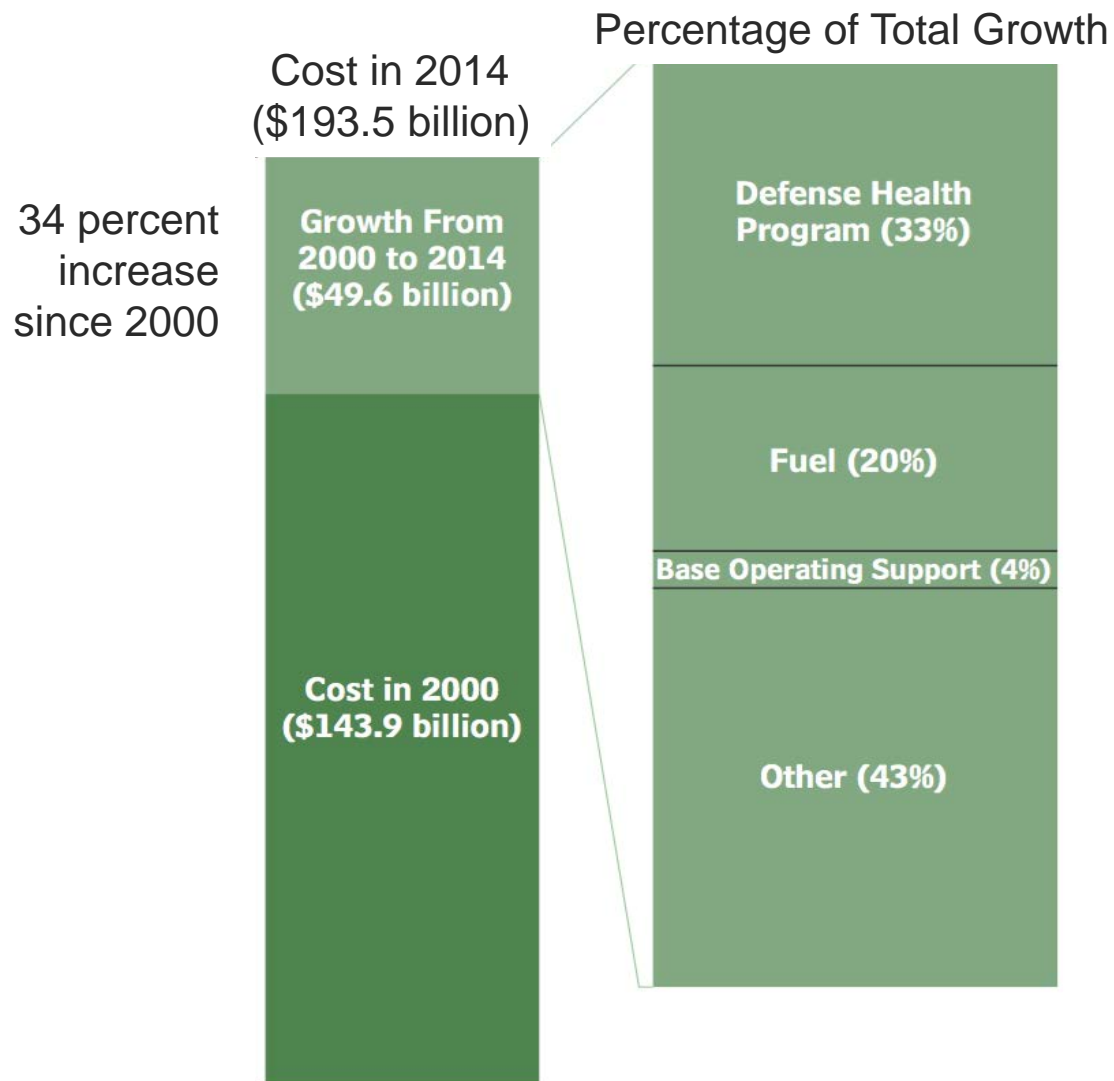
# Rising O&M Costs per Active-Duty Service Member

- O&M pays for most DoD civilians' salaries; goods and services (below procurement thresholds); fuel; maintenance; contractor services; etc.
- Compared with the prewar (1980–2001) trend, DoD's 2017 FYDP:
  - Rises at \$2,600 per year (compared with a historical rise of \$2,300 per year)
  - Becomes \$20,000 per person (about 15 percent) higher in 2020 than extrapolated prewar trend



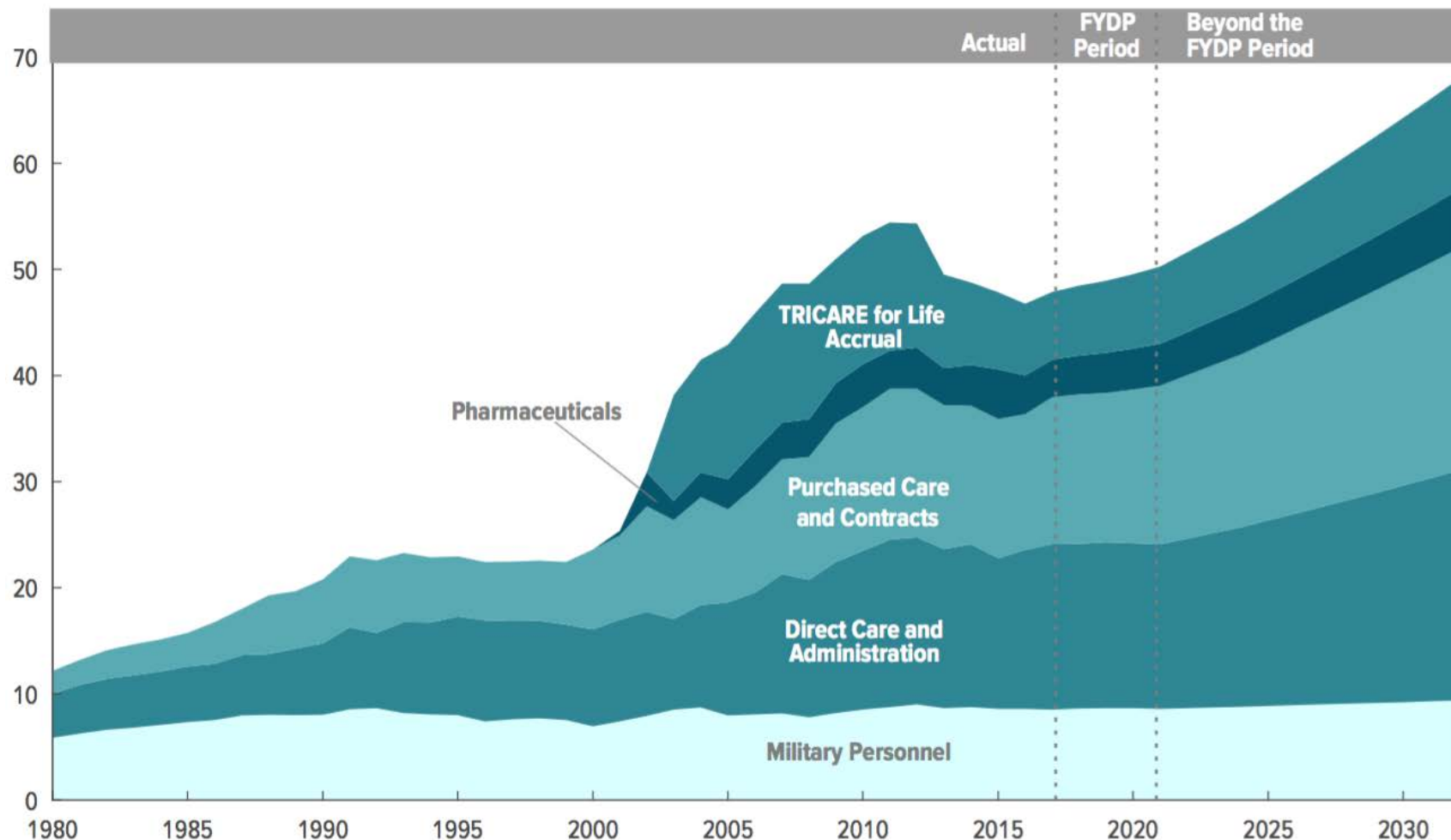
Source: Congressional Budget Office, *An Analysis of the Obama Administration's Final Future Years Defense Program* (April 2017), [www.cbo.gov/publication/52450](http://www.cbo.gov/publication/52450).

# Sources of Growth in Operation and Maintenance Costs, Fiscal Years 2000 to 2014



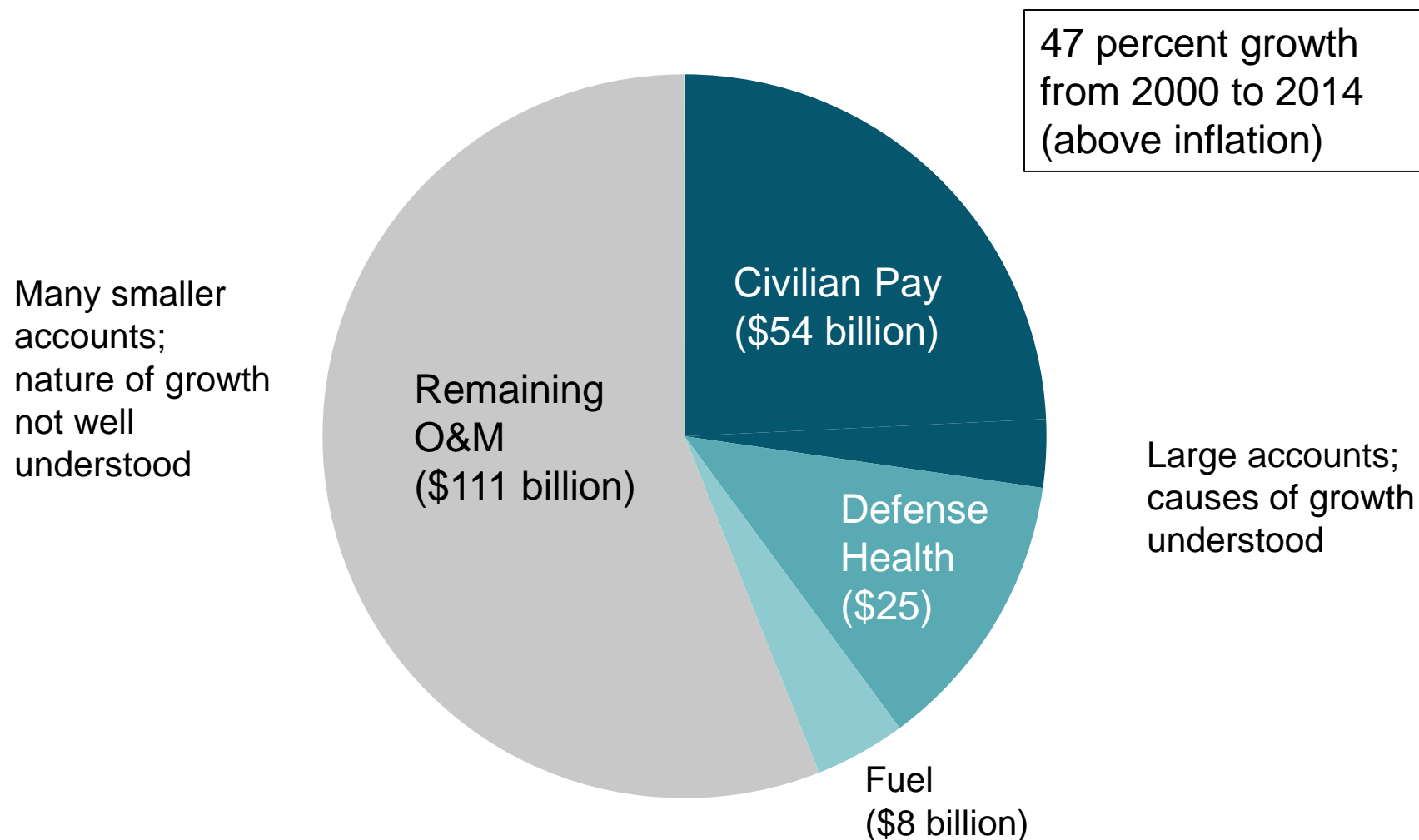
# Projected Costs for the Military Health System

Billions of FY 2017 Dollars



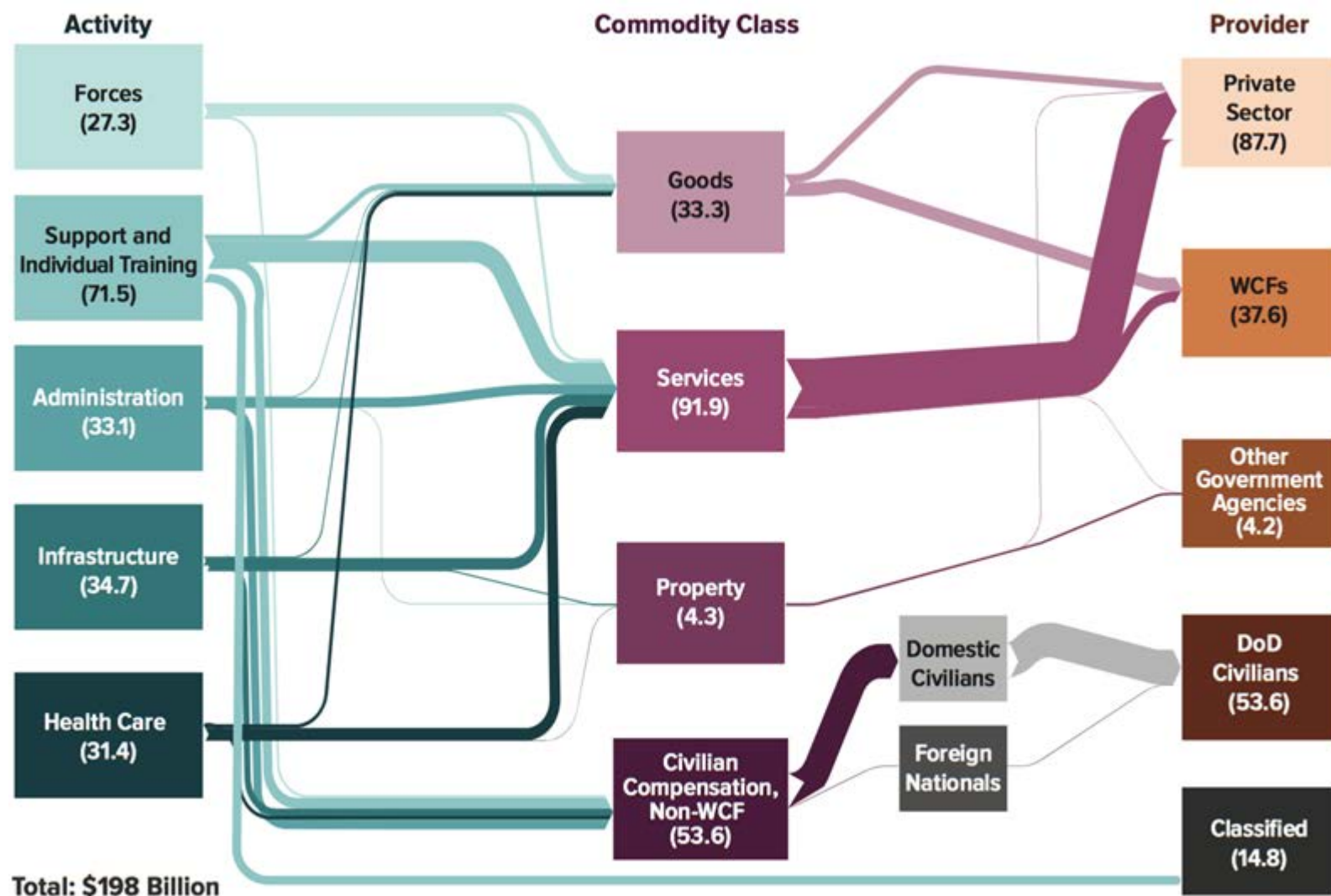
Source: Congressional Budget Office, *An Analysis of the Obama Administration's Final Future Years Defense Program* (April 2017), [www.cbo.gov/publication/52450](http://www.cbo.gov/publication/52450).

# The Elements of Operation and Maintenance Costs, 2012



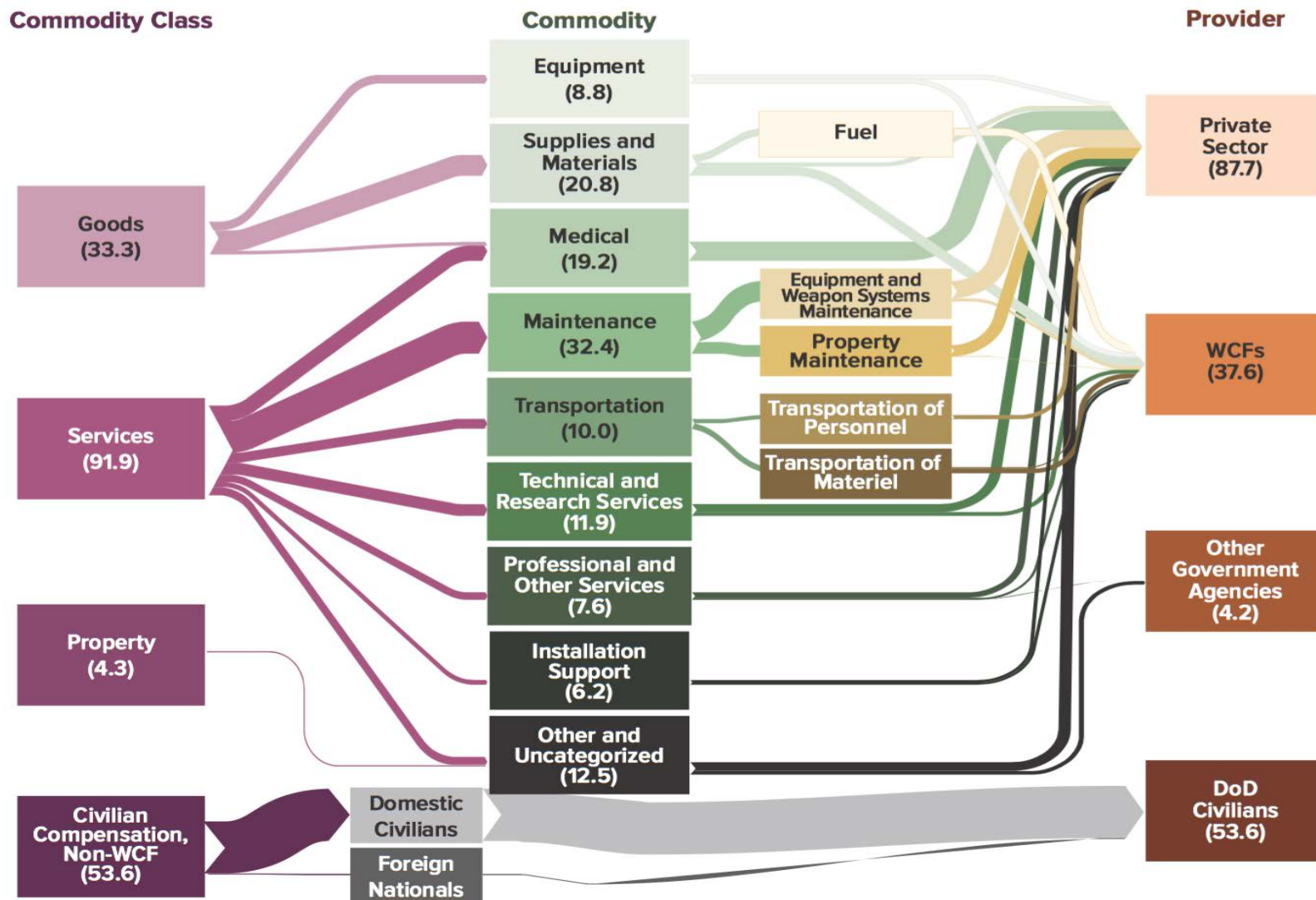
# Base-Budget O&M Purchases, 2012

Billions of 2012 Dollars



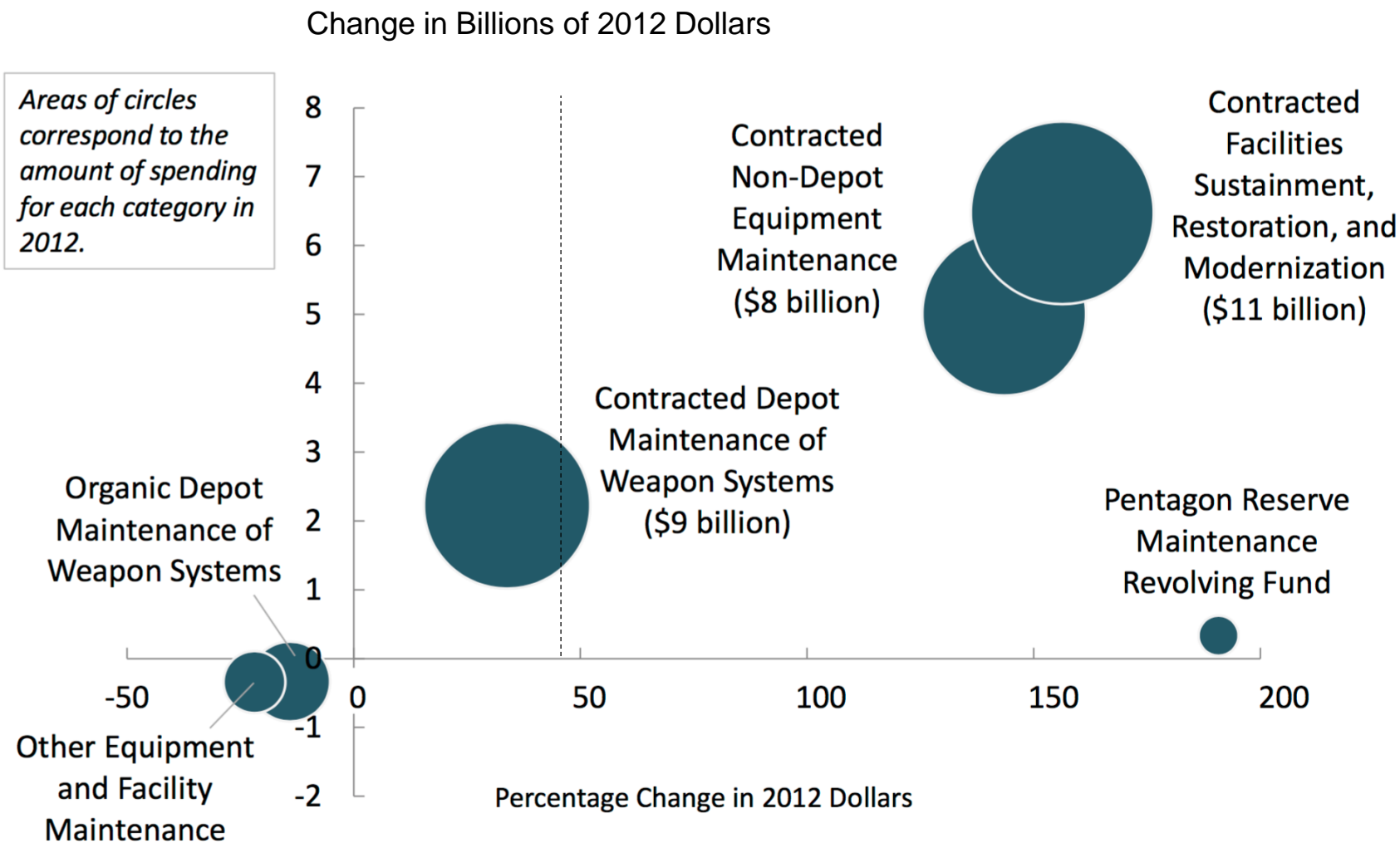
Source: Congressional Budget Office, *Trends in Spending by the Department of Defense for Operation and Maintenance* (January 2017), [www.cbo.gov/publication/52156](http://www.cbo.gov/publication/52156).

# Base-Budget O&M Purchases, Including Commodities, 2012



Source: Congressional Budget Office, *Trends in Spending by the Department of Defense for Operation and Maintenance* (January 2017), [www.cbo.gov/publication/52156](http://www.cbo.gov/publication/52156).

# Growth in Base-Budget O&M for Equipment Maintenance and Property Maintenance, 2000 to 2012



# DoD May Face Continuing Budget Pressure in the Future

- The U.S. fiscal picture gets steadily worse over the next decade and even worse after that
- The end of the Budget Control Act may not reduce pressure on defense spending
- Internal pressures on DoD's budget from rising O&M and military personnel costs will:
  - Reduce the buying power of defense dollars by a few percentage points every year (after removing the effects of inflation)
  - Reduce the amount of procurement and R&D that can be done