



November 19, 2018

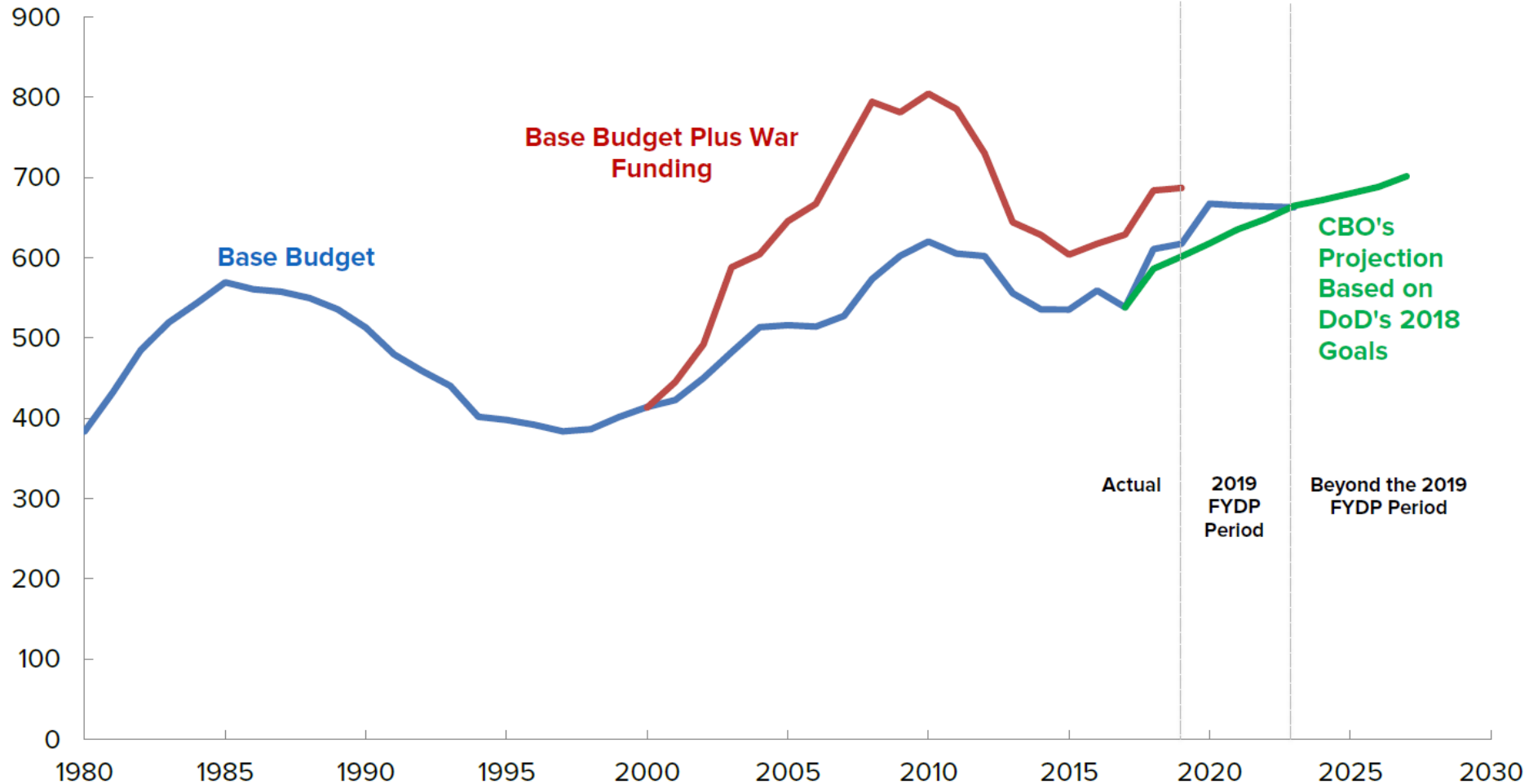
The Increasing Costs of the Department of Defense

Southern Economic Association Annual Meeting
Washington, D.C.

David A. Arthur
National Security Division

Historical Funding and Projected Costs for the Department of Defense (DoD)

Billions of 2019 Dollars

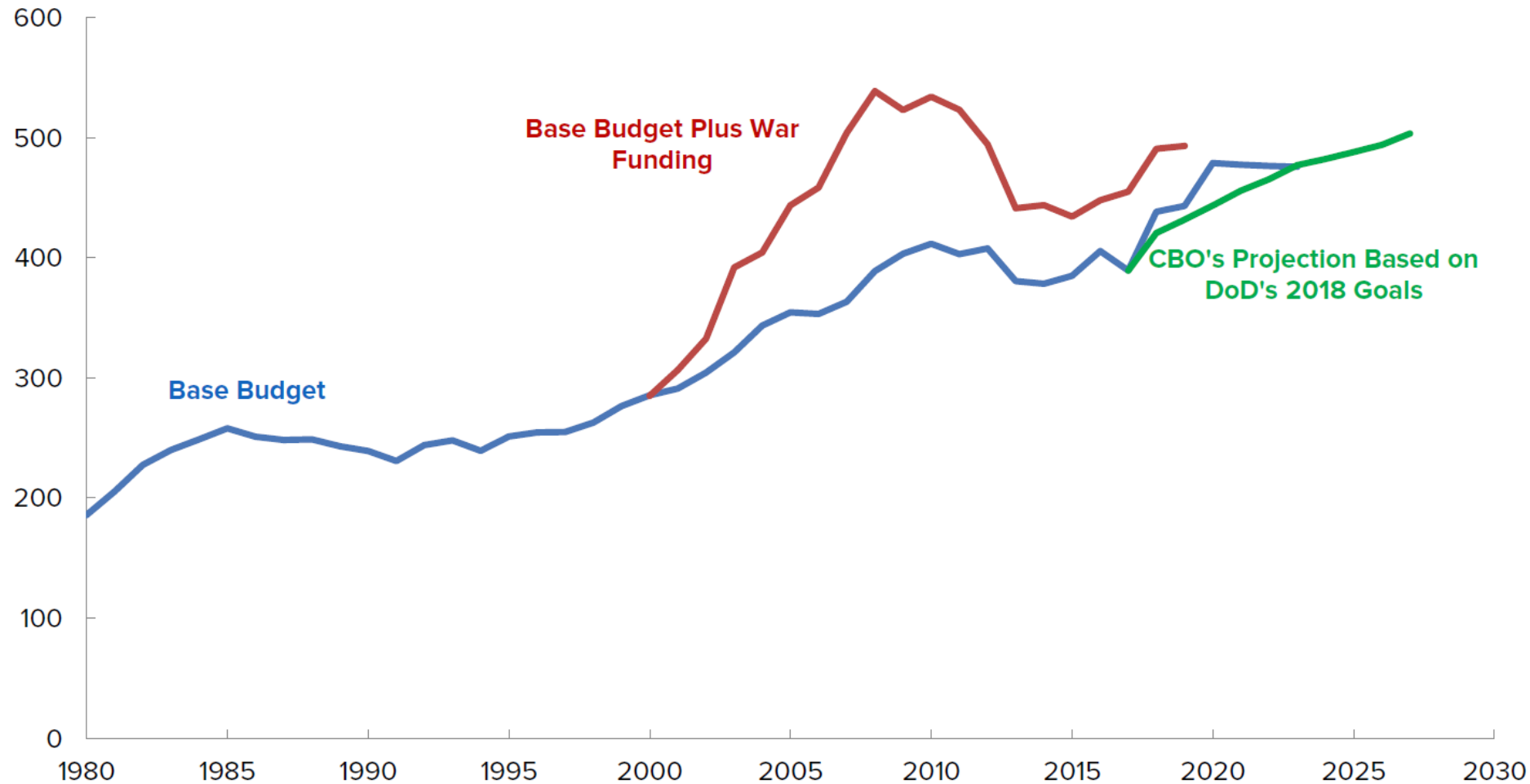


DoD's 2019 Future Years Defense Program (FYDP) describes its budget plans through 2023.

CBO's most recent projection of DoD's costs beyond that "FYDP period" is based on DoD's 2018 goals.

Historical Funding and Projected Costs for the Department of Defense, Normalized for Changes in the Size of the Military

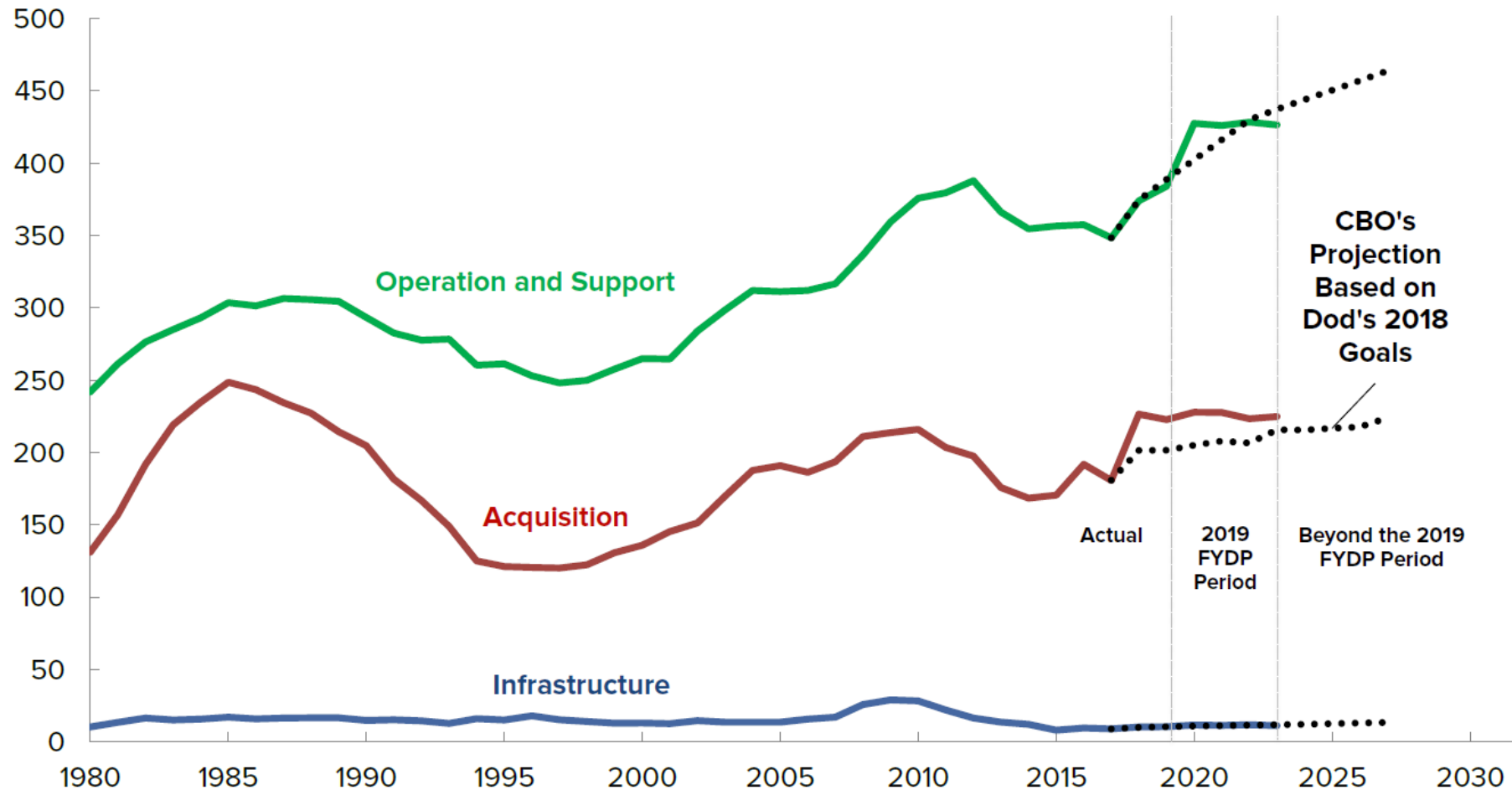
Thousands of 2019 Dollars per Active-Duty Service Member



Sources: Department of Defense, *National Defense Budget Estimates for 2019*; Congressional Budget Office, *Analysis of the Long-Term Costs of the Administration's Goals for the Military* (December 2017), www.cbo.gov/publication/53350.

Historical Funding and Projected Costs of 2019 Plans, by Category of the Defense Budget (Base Budget Only)

Billions of 2019 Dollars

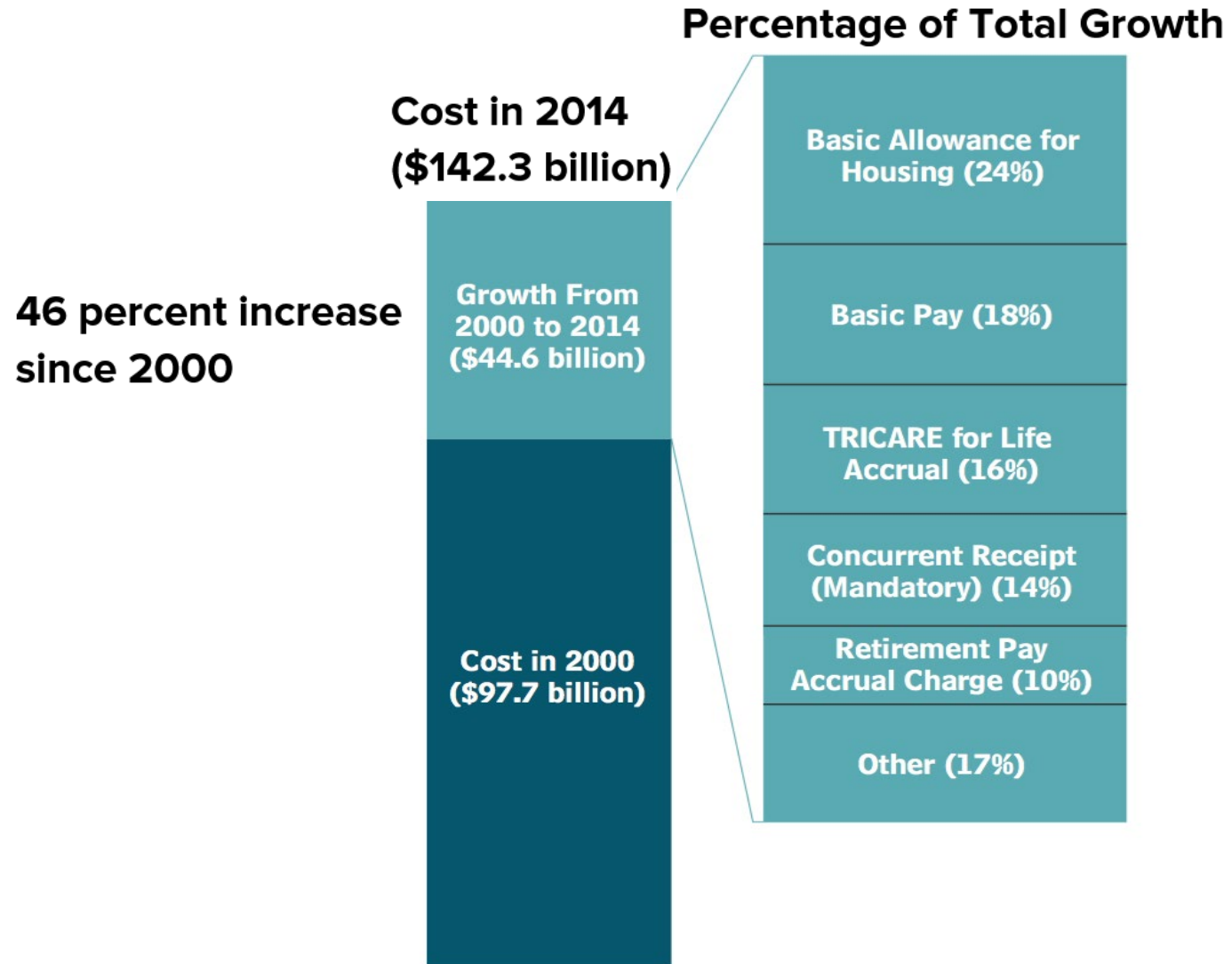


Sources: Department of Defense, *National Defense Budget Estimates for 2019*; Congressional Budget Office, *Analysis of the Long-Term Costs of the Administration's Goals for the Military* (December 2017), www.cbo.gov/publication/53350.

Three Major Contributors to the Increasing Cost of Defense

- Costs for compensation of military personnel—including health care benefits for active-duty and retired service members—have been rapidly increasing since 2000.
- Costs of operation and maintenance per active-duty service member have been steadily increasing since at least 1980.
- New weapon systems tend to be more expensive than the ones they replace.

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

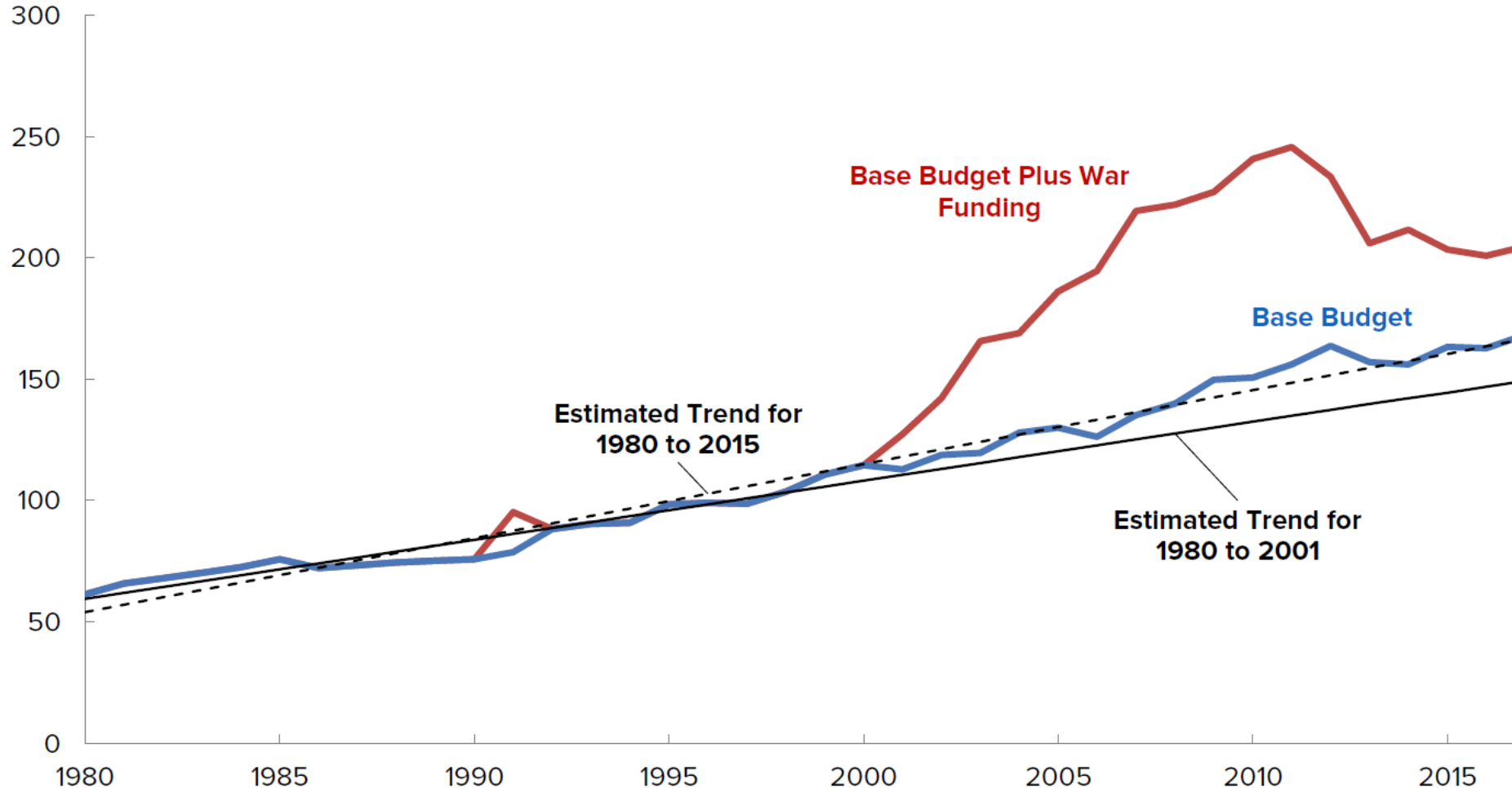


Costs grew even as the number of military personnel decreased 2 percent from 2000 to 2014.

Similar growth has continued since 2014.

Operation and Maintenance (O&M) Costs per Active-Duty Service Member

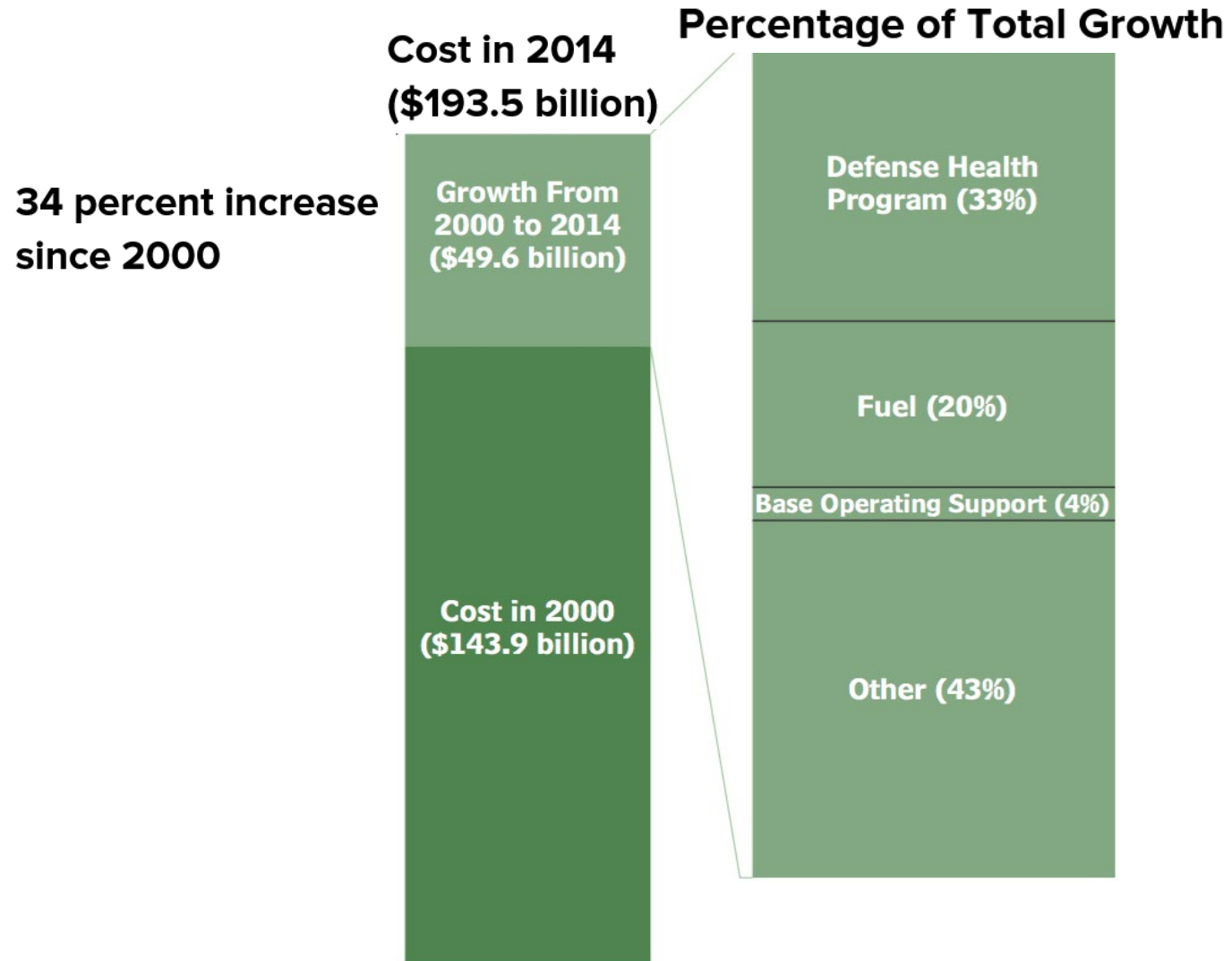
Thousands of 2019 Dollars



O&M includes the cost of most DoD civilians' salaries, goods and services, fuel, maintenance, and contractors.

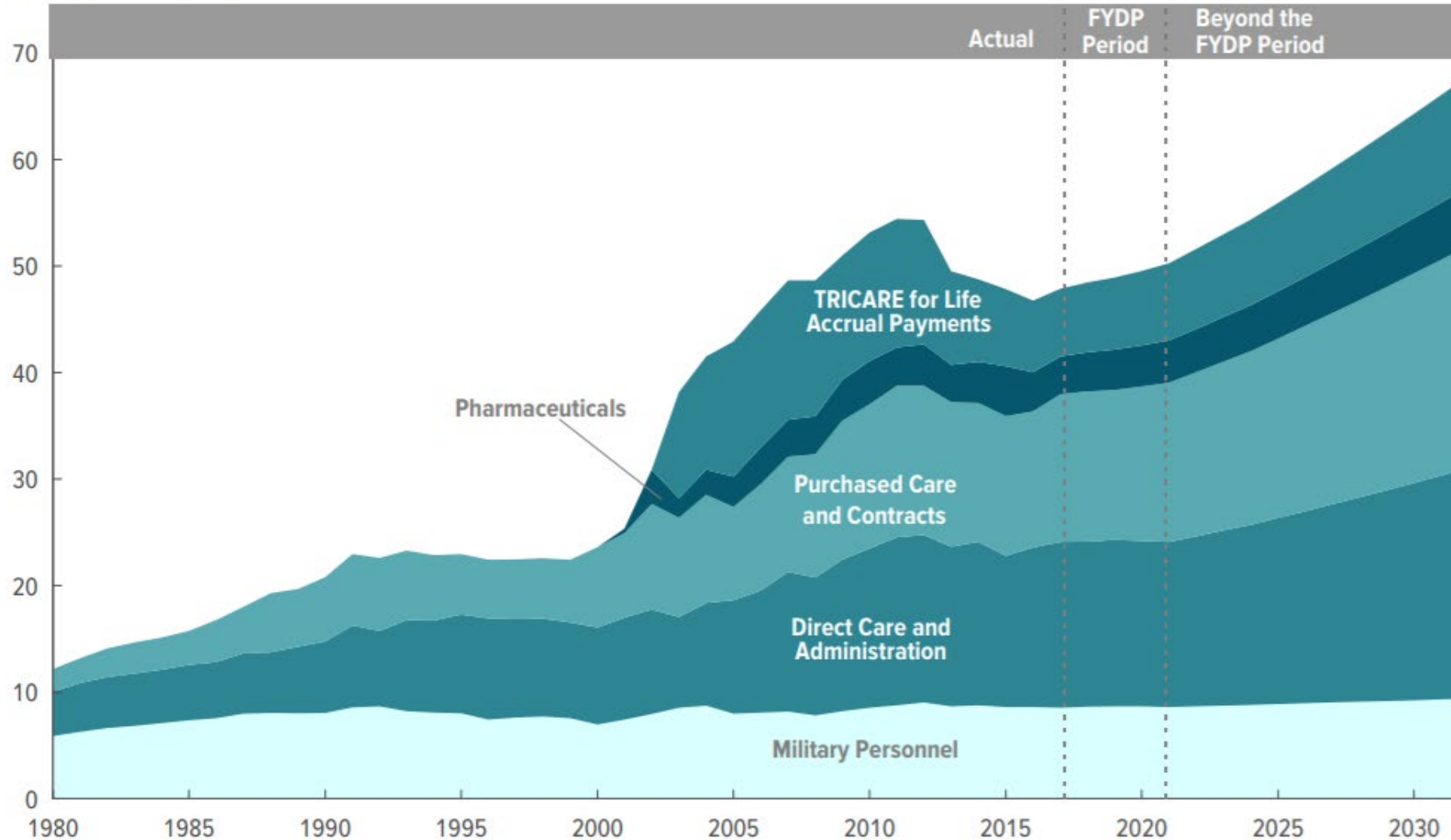
The rate of increase in these costs has been higher since 2001. They nearly tripled from 1980 to 2017.

Some Sources of Growth in Operation & Maintenance Costs, 2000 to 2014



Projected Costs of the Military Health System

Billions of 2017 Dollars



Military health care costs have approximately doubled since 2000.

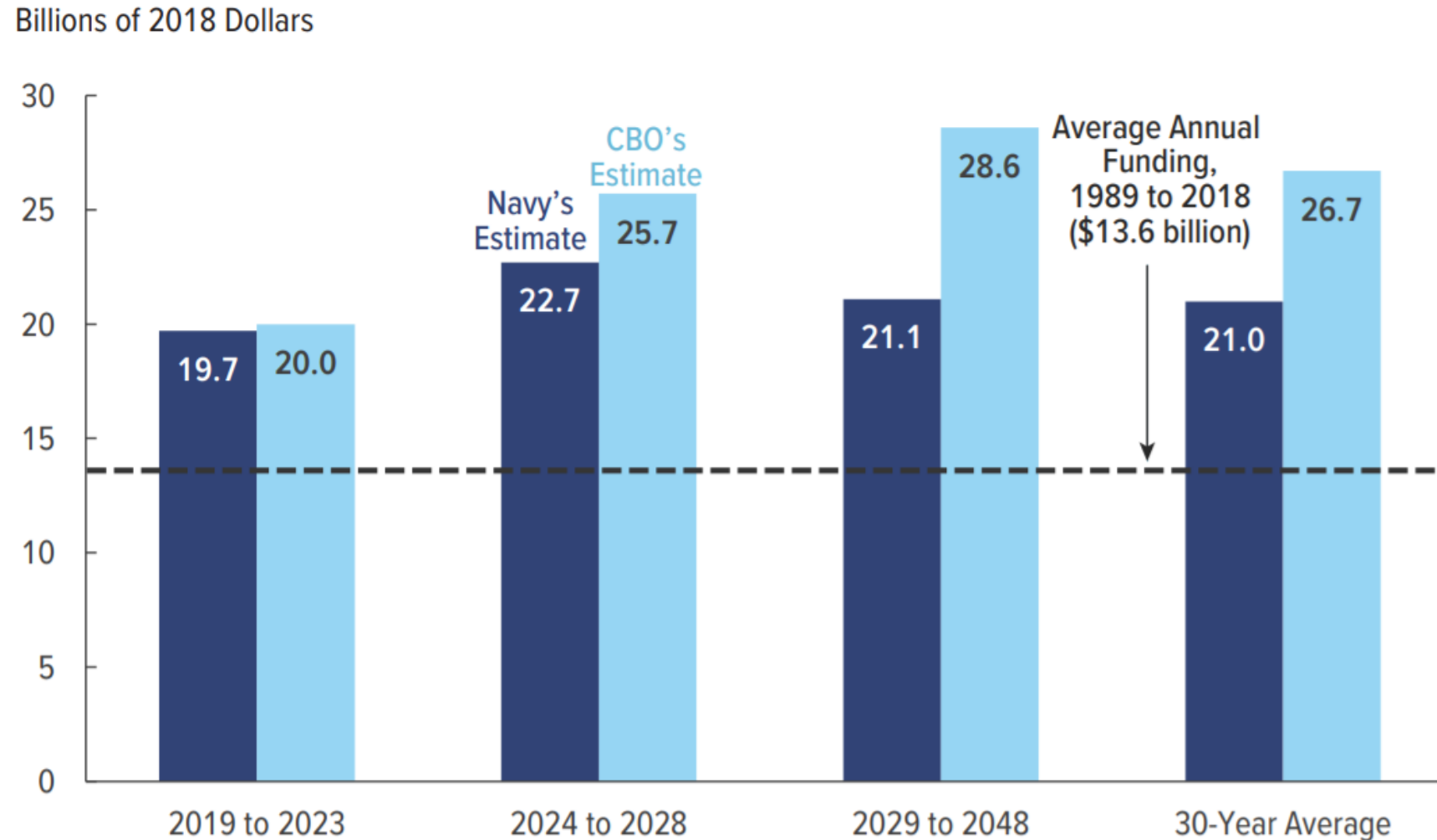
Unit Costs for Weapon Systems Are Rising

- Technological sophistication has grown. For instance, compare the B-52 bomber with the B-2 stealth bomber.
- Purchase quantities have fallen to equip a smaller force. For instance, there were 101 attack submarines and 39 ballistic missile submarines in 1986; today, there are 52 attack submarines and 18 ballistic or cruise missile submarines.
- Purchase rates have fallen. During the 1980s, the military bought 355 fighters per year, on average; 105 per year are currently planned for the F-35.

An Example of Growth in Weapon Acquisition: The Navy's Shipbuilding Program

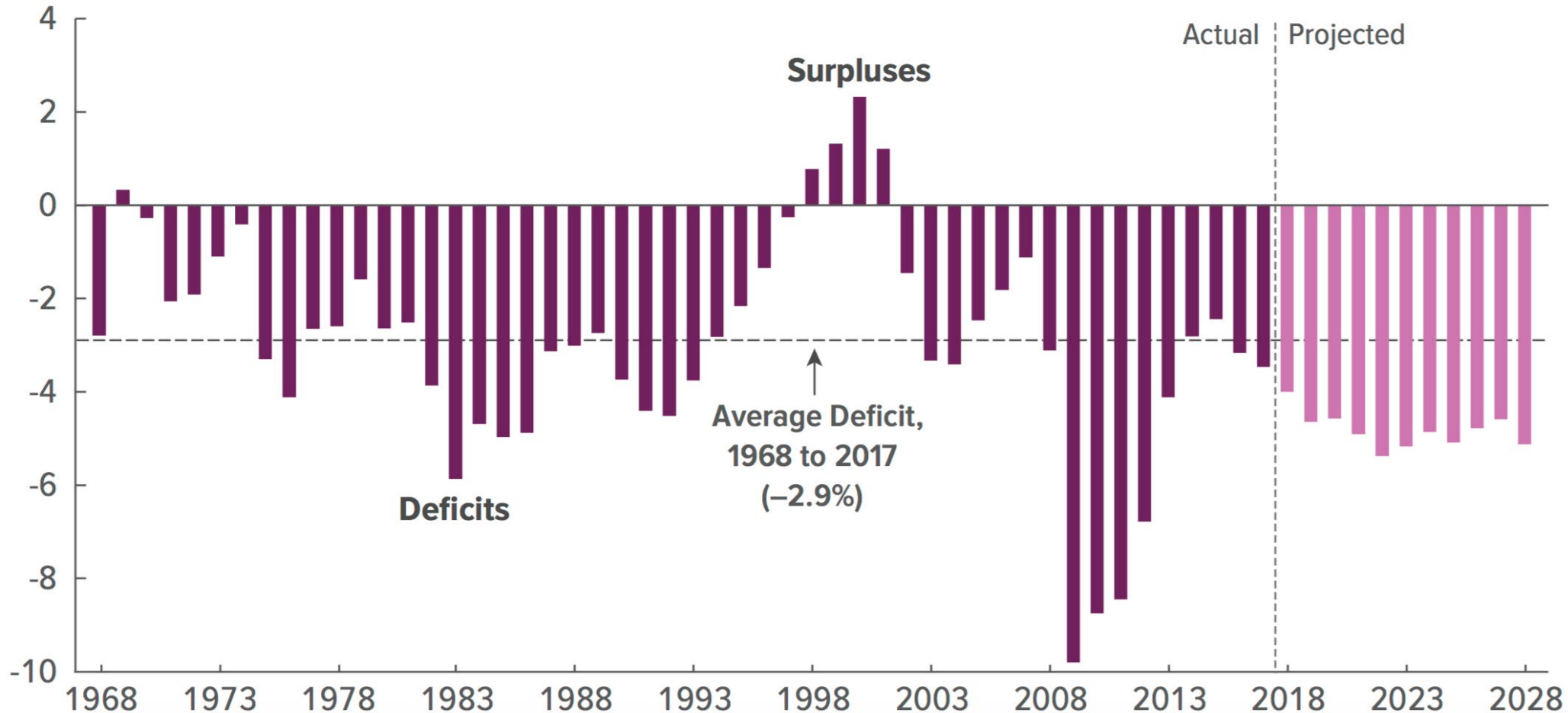
- CBO estimates that the Navy's 2019 shipbuilding plan will cost more than the Navy estimates.
- The plan would fall short of meeting the service's inventory goal for some types of ships.
- Historical average funding would be insufficient to cover the shipbuilding contained in the plan.

Average Annual Costs of New-Ship Construction Under the Navy's 2019 Plan

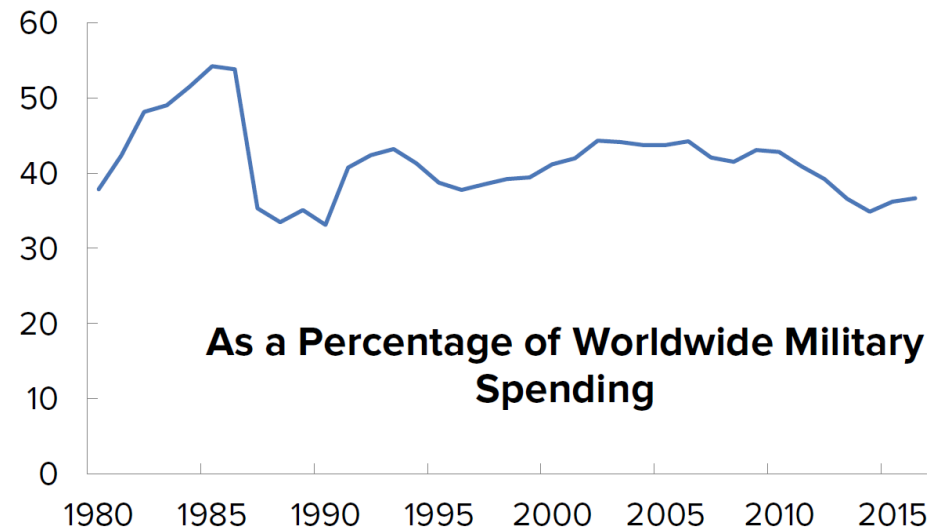
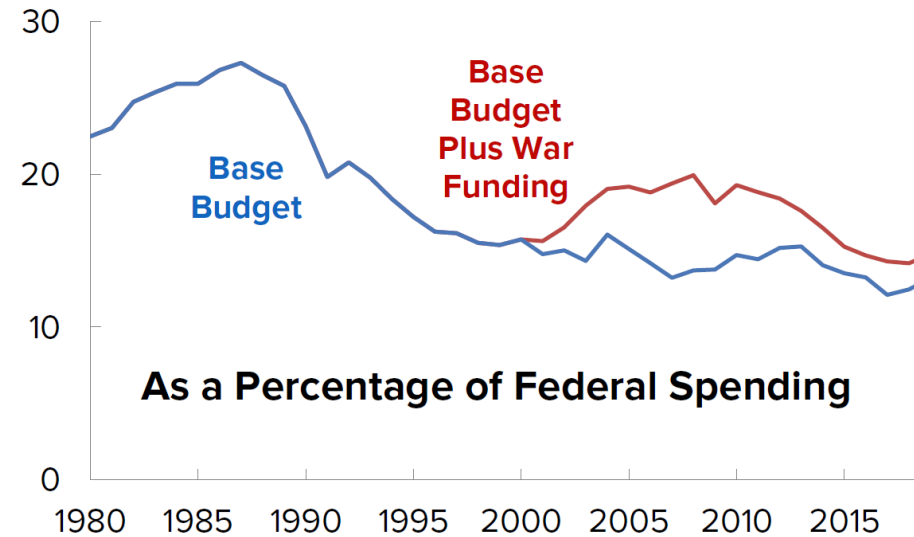
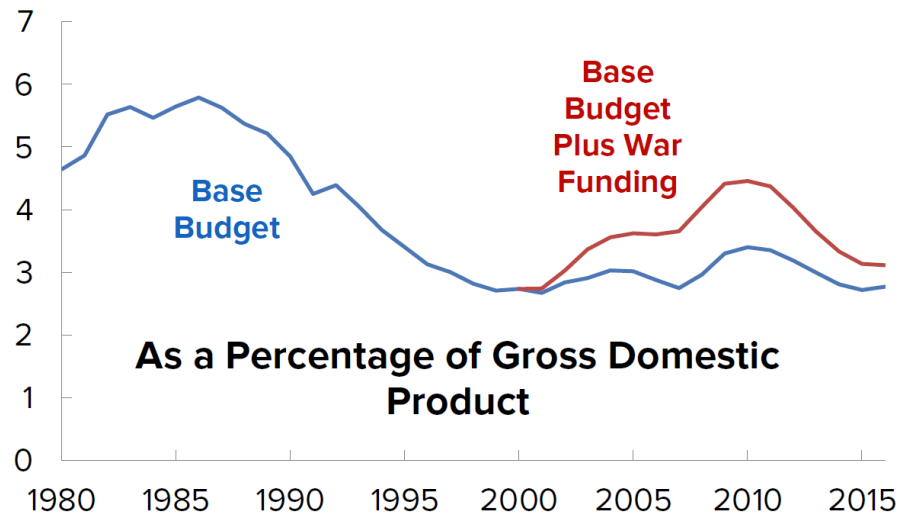


The Broader Context: Deficits or Surpluses Under CBO's Baseline Projections

Percentage of Gross Domestic Product



Contexts for Thinking About the Size of the Defense Budget



Possible Responses to the Increasing Cost of Defense

- Do nothing. Accept current defense strategies, plans, and costs as generally appropriate and necessary for today's international security environment.
- Try to find savings in specific areas.
 - Slow the growth of pay and benefits.
 - Reform how weapons are developed and purchased.
 - Reduce overhead.
- Constrain DoD's overall budget and let internal forces find the savings.
- Scale back the role of military force in the national security strategy.