CSBA

Backgrounder

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THE FY 2012 DEFENSE BUDGET: WHAT TO EXPECT IN AN AGE OF AUSTERITY

By Todd Harrison

The Obama Administration will soon release its Fiscal Year (FY) 2012 budget request. This request comes as Congress is still debating the FY 2011 budget and the Department of Defense (DoD), along with other the rest of the federal government, is operating under a continuing resolution at FY 2010 funding levels. Despite the delays in getting an FY 2011 defense budget in place, work on the FY 2012 budget is proceeding. On January 6, 2011, Secretary Gates held a press conference announcing the results of his initiative to identify efficiency savings in the defense budget and the topline figures for the FY 2012 budget request. According to these early numbers, real growth in the base defense budget will slow in FY 2012 and stop altogether in FY 2015. This backgrounder addresses the current state of the FY 2011 defense budget, identifies insights stemming from Secretary Gates' announcement on the FY 2012 budget, and raises budgetary and programmatic issues likely to complicate DoD's planning over the Future Year Defense Program (FYDP).

Congressional Action on FY 2011 Budget

The 111th Congress adjourned on December 22, 2010 without passing a defense appropriations bill for FY 2011. It did, however, pass the Ike Skelton National Defense Authorization Act for FY 2011. The authorization act *implies* a funding level of $548.2 billion for the base discretionary defense budget and $158.7 billion for the wars in Afghanistan and Iraq, which is only slightly less than the $548.9 billion and $159.3 billion, respectively, requested by the Administration.[1] But as the late congressman John Murtha was fond of saying, "you can't spend an authorization" amount:[2] the authorization bill authorizes programs and policies for the Department of Defense but does not appropriate funding for them.

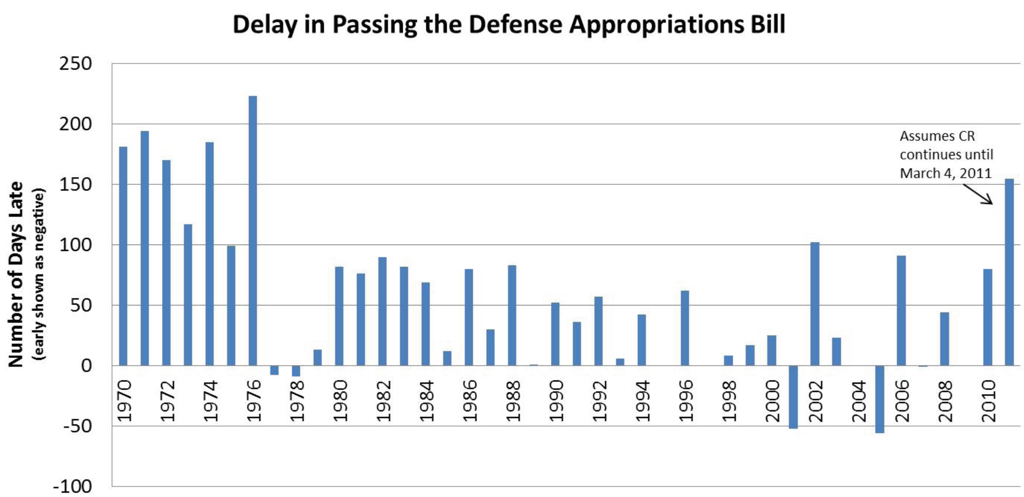
Early in the session, the House and Senate Appropriations Committees each set funding levels for the Department of Defense that were below the president's request. The House reduced the budget by $7 billion, and the Senate reduced it by $8.1 billion. The Senate appropriations bill was reported out of the full committee in September but was

1 "Joint Explanatory Statement of the Committees on Armed Services of the U.S. Senate and House of Representatives on H.R. 6523, Ike Skelton National Defense Authorization Act For Fiscal Year 2011," December 22, 2010.

2 The cite is from an interview with the Defense Writers Group on June 24, 2009, accessed at: http://www.airforce-magazine.com/DWG/Documents/2009/June%202009/062409murtha.pdf.

never voted on by the full chamber. The House appropriations bill was never reported out of committee.[3] At the start of the new fiscal year on October 1, Congress began passing a series of continuing resolutions to temporarily fund the government at FY 2010 levels. In the final days of the 111th Congress, the House passed a full-year continuing resolution which would have kept the defense budget at the FY 2010 level of $530 billion for all of FY 2011—a $19 billion decrease from the president's request.[4] The Senate debated an omnibus appropriations bill that would have funded DoD at $539 billion, or $10 billion below the president's request for FY 2011.[5] Ultimately the 111th Congress adjourned without enacting either of these measures and instead passed another continuing resolution that expires on March 4, 2011.[6] The new Congress will need to pass either an appropriations bill or another continuing resolution by that date.

The Defense Department has not gone this far into the fiscal year without an appropriations bill since 1976, as shown in the figure below.[7] While DoD is certainly accustomed to operating under a continuing resolution for the first few months of the fiscal year, this does impose some important constraints on the Department. Under the continuing resolution, funding for each program and activity is set at FY 2010 levels. This means that for programs which had planned to increase spending in FY 2011, DoD must either reprogram money from other funding lines to pay for the increase or revise program



3 Pat Towell, "Defense: FY2011 Authorization and Appropriations," CRS R41254, November 23, 2010.

4 "Summary: FY 2011 Year Long Funding Act," U.S. House of Representatives Committee on Appropriations Press Release, December 7, 2010, available at http://democrats.appropriations.house.gov/images/stories/pdf/Full/Summary_of_FY11__Year_Long_Funding_Act.pdf.

5 "Summary: Fiscal Year 2011 Department of Defense Appropriations Consolidated Appropriations Bill," U.S. Senate Committee on Appropriations Press Release, December 14, 2010, available at http://appropriations.senate.gov/news.cfm?method=news.view&id=9ac3518e-7e19-4328-bf52-16a6c2a1d333.

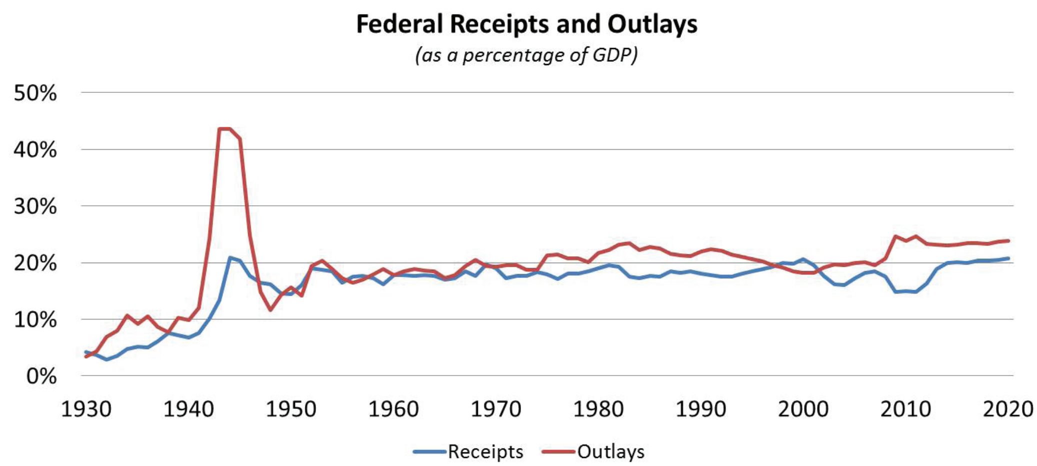
6 "Summary of Continuing Resolution through March 4, 2011," U.S. Senate Committee on Appropriations Press Release, December 21, 2010, available at http://appropriations.senate.gov/news.cfm?method=news.view&id=4841b7f6-bbac-486b-959f-43b1979a60f.

7 Data is from Mari-Jana "M-J" Oboroceanu, "Defense Authorization and Appropriations Bills: FY1970-FY2010," CRS Report, February 17, 2010, pp. 11-16.

plans to slow progress and stay at or below the FY 2010 level.[8] Further complicating matters, the authorization act that was signed into law increases military pay by 1.4 percent, but no additional funds have been appropriated for the pay increase—it must be paid for by transferring money out of other accounts. If the new Congress waits until March 4 to pass a full year appropriations bill, which appears likely, it will be 155 days late—the longest delay in getting a defense appropriations bill signed into law since 1976.

Growing Pressure for Deficit Reduction

The federal budget deficit totaled $1.3 trillion in FY 2010, down slightly from the $1.4 trillion deficit recorded in FY 2009. Much of the current deficit is due to a combination of increased spending on stimulus programs and reduced revenues from the economic recession. In the current fiscal year, revenues are projected to be at the lowest level as a percentage of GDP (14.8 percent) since 1950, and spending is near the highest level as a percentage of GDP (24.7 percent) since World War II. Spending is likely to decline and revenues are likely to increase as the effects of the recession subside, but the underlying structural deficit that existed before the recession began will remain and even widen toward the end of this decade, as shown in the figure below.[9]



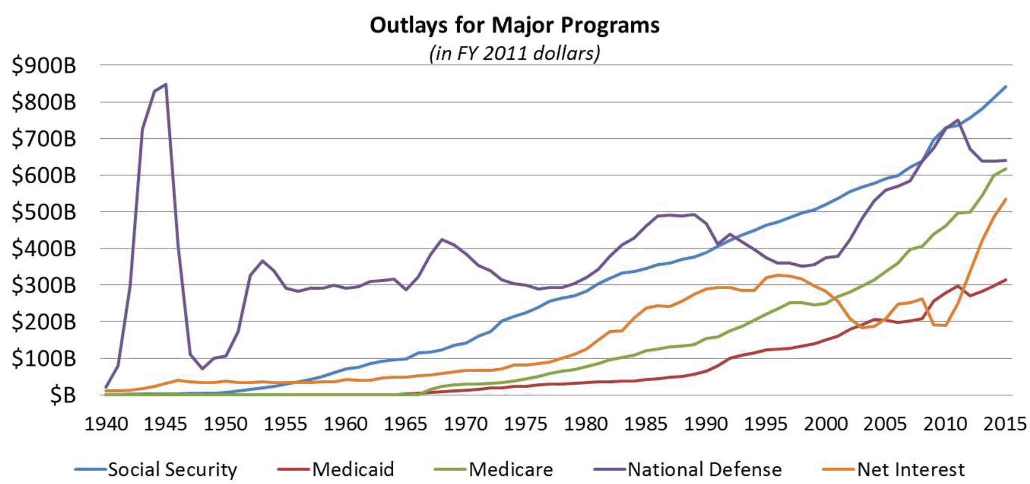
While the deficit is a result of both unusually low revenues and unusually high spending, policy makers have essentially taken the option of revenue increases off the table for the time being by passing a two-year extension for the tax cuts of 2001, 2003, and 2009.[10] This means that deficit reduction efforts in the near future are likely to focus almost exclusively

8 One notable exception to this is funding for the 2005 Base Realignment and Closure (BRAC) account, which was set at $7 billion in FY 2010 but was planned to fall to $2.35 billion in FY 2011 as the BRAC process draws to a close. The continuing resolution funds BRAC at the lesser amount requested in the FY 2011 budget.

9 Outlay and revenue data in the figure for fiscal years 1940 to 2009 are from "Budget of the United States Government, Fiscal Year 2011: Historical Table 1.2," OMB, February 2010. For fiscal years 2010 to 2020, data are from "The Budget and Economic Outlook: Fiscal Years 2011 to 2021," CBO Pub. No. 4236 , January 2011.

10 "The Budget and Economic Outlook: Fiscal Years 2011 to 2021," CBO Pub. No. 4236 , January 2011, p. 9.

on reductions in government spending. In FY 2010, the three largest spending programs (in terms of outlays) were Social Security ($721 billion), national defense ($719 billion), and Medicare ($457 billion).[11] While each of these programs have grown significantly over the past sixty years, as shown in the figure below[12], defense funding has grown the fastest since the last time the federal budget was balanced in FY 2001, due in part to the wars in Iraq and Afghanistan. But as members of the Baby Boomer generation begin to retire in large numbers and the national debt continues to grow over the decade, spending on Social Security, Medicare, Medicaid and net interest on the debt are projected to grow significantly faster than spending on national defense, becoming the driving factors behind the growing deficit. A recent public opinion poll conducted by the New York Times and CBS News found that when faced with a choice between cutting spending on the "big three" government programs, Social Security, Medicare, and defense, 55 percent picked cutting defense, compared to 21 percent for Medicare, and 13 percent for social security.[13] All of these factors combine to create a politically challenging environment for defense spending in the FY 2012 budget.



Secretary Gates' Announcement

On January 6, 2011, Secretary Gates announced the results of his efficiency initiative and provided a preview of the FY 2012 defense budget request. The efficiency initiative, begun nearly a year ago, identified a total of $154 billion in potential savings over the next five years (FY 2012 to FY 2016). These savings amount to five percent of the planned funding over that time period. Some two thirds of the savings came from the Services and one third from defense-wide agencies.[14] While the details of the proposed savings have not

11 "Budget of the United States Government, Fiscal Year 2011: Historical Table 3.1," OMB, February 2010.

12 Ibid.

13 The New York Times / CBS News poll was conducted January 15-19, 2011 and had a sample size of 1,036 and a margin of error of +/- 3 percent. The full results of the poll can be found at http://www.nytimes.com/2011/01/21/us/politics/21poll.html?_r=. The question referenced from the poll is number 38.

14 Robert Gates, "Statement on Department Budget and Efficiencies," Speech delivered at the Pentagon, January 6, 2011, http://www.defense.gov/speeches/speech.aspx?speechid=1527.

yet been released, several high-profile weapon systems were affected by the announcement, although not as many as by Gates' April 2009 announcement.[15]

As part of the efficiency initiative, Secretary Gates terminated the Expeditionary Fighting Vehicle (EFV). The EFV, intended to replace the 1970s-era Amphibious Assault Vehicle (AAV), was designed to launch from up to 25 miles from shore carrying a total of 20 marines. The program dates to 1988 when the concept exploration/definition phase of the program began. The Marine Corps awarded a contract to General Dynamics to begin engineering development of the EFV in 1996, and the program entered the system development and demonstration (SDD) phase in 2001. Soon after the SDD phase began, the program encountered numerous problems and was rebaselined three times between 2002 and 2005. Following a disappointing Operational Assessment in 2006, the Marine Corps issued a sources-sought notice to industry seeking alternatives to the EFV. Ultimately, they decided to relax performance and reliability requirements for the vehicle and continue with the current program.[16] Since 2006, the program acquisition unit cost of the vehicle has increased by 170 percent. The design of the vehicle has also come under scrutiny because its range of 25 miles from ship to shore leaves the launching platform at risk of rocket and missile attack and the flat bottom of the vehicle makes it vulnerable to improvised explosive devices (IEDs) when operating on land.[17] While the program had a total projected cost of $15.6 billion (in then-year dollars), $3.3 billion of which had already been spent, the EFV's cancellation does not create $12.3 billion in savings in the Marine Corps budget.[18] A total of $2.1 billion was programed for FY 2012 to FY 2015 in the most recent budget request, meaning that this money will now be available to apply to higher priorities, such as other Marine Corps ground vehicle programs. The remaining $10.2 billion in savings is merely cost avoidance for years beyond the Future Year Defense Plan (FYDP).[19]

Secretary Gates also announced his decision to terminate the Surface Launched Advanced Medium Range Air-to-Air Missile (SLAMRAAM), an Army air defense system designed to replace the Stinger missile and supplement the more expensive Patriot system. SLAMRAAM ran into acquisition trouble in 2007 when a Department of Defense Inspector General report revealed cost growth, schedule delays, and management deficiencies in the program.[20] While Secretary Gates did not specify the Department's rationale for canceling SLAMRAAM, critics of the program have argued that the Army already has sufficient anti-

15 See Robert Gates, "Defense Budget Recommendation Statement," Speech delivered at the Pentagon, April 6, 2009, at: http://www.defense.gov/speeches/speech.aspx?speechid=1341.

16 Andrew Feickert, "The Marines' Expeditionary Fighting Vehicle (EFV): Background and Issues for Congress," Congressional Research Service Report RS22947, August 3, 2009, pp. 1-5, at http://assets.opencrs.com/rpts/RS22947_20090803.pdf.

17 The Marine Corps and General Dynamics explored the idea of adapting a v-shaped hull design for the EFV but determined that it was not feasible given internal space constraints and speed requirements for the vehicle in water. See Meagan Scully, "Marines weigh redesign of expeditionary fighting vehicle," *Congress Daily*, October 18, 2007.

18 "Selected Acquisition Report (SAR) Summary Tables As of June 30, 2010," Department of Defense, August 12, 2010, at: http://www.acq.osd.mil/ara/am/sar/SST-2010-06.pdf.

19 "Department of the Navy FY 2011 Budget Estimates, Research, Development, Test, and Evaluation, Navy, Budget Activity 4," February 2010, pp. 579 and 584, at http://www.finance.hq.navy.mil/FMB/11pres/RDTEN_BA4_book.pdf.

20 "Acquisition of the Surface Launched Advanced Medium Range Air-to-Air Missile," Inspector General of the United States Department of Defense Report No. D2008-032, December 6, 2007.

air systems and most likely will operate in an environment where the United States has already established air superiority.

Another major weapon system adversely affected by the announcement was the Joint Strike Fighter program. Secretary Gates placed the Marine Corps variant of the jet, known as the Short Take Off Vertical Landing (STOVL) or F-35B, on a two-year probation. Recent testing of the F-35B uncovered significant structural and thermal issues that require redesign work and will likely increase the weight of the aircraft and reduce its effective range. As part of the probation, DoD is adding $4.6 billion to the JSF research, development, testing, and evaluation (RDT&E) budget over the next five years to cover additional development costs. It is also slowing the pace of aircraft procurements, reducing the total number of aircraft procured from FY 2012 to FY 2016 by 124.[21] The reduction in aircraft will decrease the procurement budget by $11.5 billion over the FYDP, for a net reduction in funding for the program of $6.9 billion.[22]

Gates' announcement also includes a number of other savings apart from weapon systems. As part of the efficiency initiative, the Air Force will consolidate air operations centers in the United States and Europe, consolidate headquarters staff, reduce the cost of communications infrastructure, and reduce fuel consumption within Air Mobility Command. The Army will reduce end strength by 27,000 soldiers, consolidate installation management commands, reduce construction costs by sustaining existing facilities instead of building new ones, and consolidate its email and data centers. The Navy and Marine Corps will use multi-year procurements to buy new systems more economically, disestablish Second Fleet Headquarters in Norfolk, Virginia, and reduce Marine Corps end strength by between 15,000 and 20,000 marines. The Office of the Secretary of Defense (OSD) plans to consolidate information systems infrastructure and data centers, continue with plans to reduce the cost of support contractors by 30 percent over three years, freeze the size of the DoD civilian workforce, downsize and consolidate the intelligence workforce, eliminate 100 general and flag officer positions (approximately 10 percent of the total) and 200 Senior Executive Service positions (approximately 14 percent of the total), and eliminate some 400 internally-generated recurring reports. In addition to DoD's efficiency initiative, approximately $14 billion will be freed up from a government-wide pay freeze, which applies to DoD civilians but not the uniformed military, and from a downward revision in inflation assumptions.[23]

Of the $154 billion from efficiency savings and the $14 billion from the pay-freeze and revision in inflation assumptions, $78 billion is being used to reduce total defense spending from FY 2012 to FY 2016 compared to what was projected in the FY 2011 FYDP. The remaining $90 billion in savings is being reinvested within the defense budget in programs and activities deemed a higher priority. These include:

21 "JSF Fact Sheet," Under Secretary of Defense for Acquisition, Technology, and Logistics, January 6, 2011.
22 "Pentagon Cuts $6.9 Billion From JSF Procurement Over Five Years," *Inside Defense*, January 25, 2011.
23 Gates, "Statement on Department Budget and Efficiencies."

- Forty-one additional F/A-18E/F Super Hornets, one destroyer, one LCS, and additional support ships for the Navy;
- Additional MQ-9 Reapers and Evolved Expendable Launch Vehicles (EELV) for the Air Force;
- Modernization of Abrams tanks, Bradley Fighting Vehicles, and Stryker wheeled vehicles and additional MC-12 and MQ-1C Grey Eagle reconnaissance aircraft for the Army;
- Upgrade of existing amphibious assault vehicles and the accelerated reset of vehicles used in Iraq and Afghanistan for the Marine Corps.

A portion of the savings is also being used to start or accelerate new weapon systems, such as a long-range bomber, next-generation jammer, and carrier-based unmanned strike and surveillance aircraft.

Importantly, Secretary Gates' announcement recognizes that even in a constrained budget environment DoD can and should continue making investments in new and expanded capabilities. But investments in new weapons can be risky when funded by projected savings, since history has shown that these projected savings often do not materialize as expected. In a 2002 report, Robert Hale, now Undersecretary of Defense (Comptroller), argued that there are fundamental barriers within DoD that make it difficult to achieve planned efficiencies, such as the pressure to spend annual budgets to avoid future cuts, the lack of incentives for field-level managers to hold down costs, and the perennial interference of Congress. All of these factors still exist today. As Hale noted in the report, "DoD should avoid using efficiency savings to fill budget shortfalls until the savings are actually realized."[24]

Another potential impediment to Secretary Gates' announced plans is the tendency of new programs, such as the long-range bomber and next-generation jammer, to encounter the same problems as some of the failed acquisition programs that preceded them. One of the underlying reasons high-profile programs like Future Combat Systems (FCS), Transformational Satellite Communications (TSAT), and the Expeditionary Fighting Vehicle (EFV) failed in recent years is that the requirements development process is effectively disconnected from the budget process.[25] This disconnect leads to the piling on of what Secretary Gates has termed "exquisite requirements" that are not affordable given the real budgetary constraints the Department faces, and it often leads to cascading cost and schedule overruns. If this fundamental disconnect between requirements and budgets remains unaddressed, the new programs being started may be just as likely as the programs that preceded them to overrun cost and schedule estimates and, ultimately, be cancelled or have their procurement quantities significantly reduced.

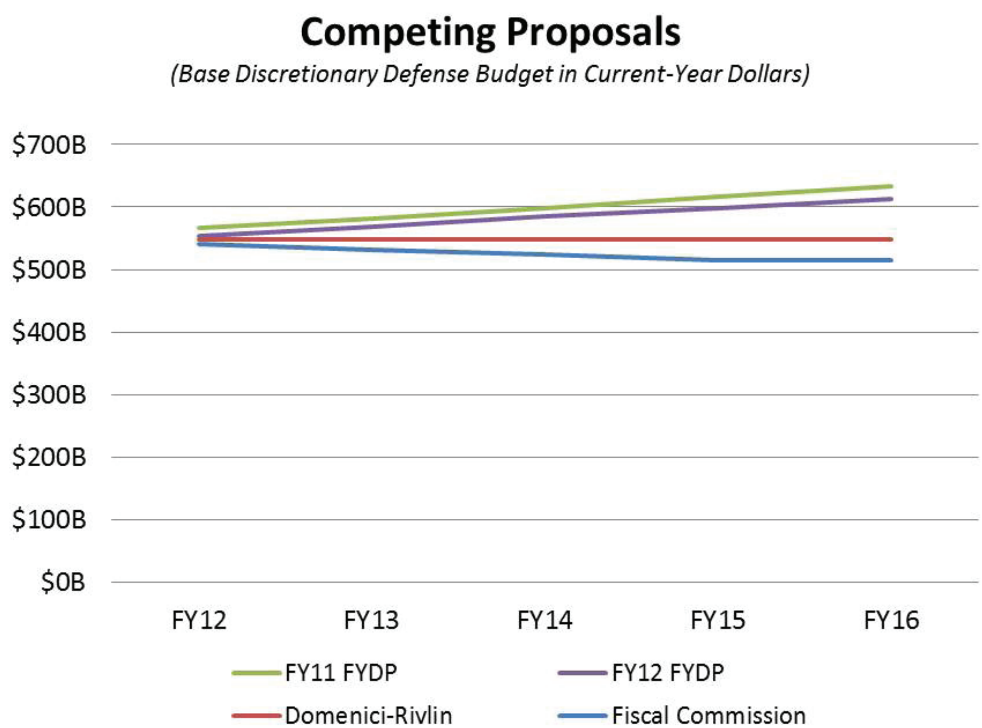
24 Robert Hale, "Promoting Efficiency in the Department of Defense: Keep Trying, But Be Realistic," CSBA, January 2002.

25 The Joint Requirements Oversight Council (JROC) approves requirements for major acquisition programs but does not provide funding for programs. Thus, the JROC can approve requirements without regard for the budgetary implications they will have on the Services.

What to Look for in the President's FY 2012 Budget Request

In what is shaping up to be an unusual budget year, the Pentagon announced the topline budget for the Department of Defense in advance of the official roll-out of the FY 2012 budget request. The FY 2012 FYDP for the base discretionary defense budget, shown in the figure below, totals $78 billion less over the next five years than the FY 2011 FYDP, a 2.6 percent reduction in planned funding. However, the FY 2012 FYDP maintains real growth in the defense budget through FY 2014 before flattening out. In contrast, two bi-partisan deficit reduction panels, the President's National Commission on Fiscal Responsibility and Reform and the Bipartisan Policy Center's Domenici-Rivlin Debt Reduction Task Force, released reports in late 2010 proposing real cuts in defense spending. The Fiscal Commission called for a reduction in annual defense spending of $100 billion below FY 2011 budget projections by FY 2015.[26] The Domenici-Rivlin Task Force called for a freeze in defense spending through FY 2016 at the level requested in FY 2011.[27] The decline in defense spending these two groups proposed highlights the gap between current defense planning and efforts to reduce the budget deficit.

While the topline budget has already been announced, the details of how that funding is allocated within the defense budget are not yet known. Costs for military and DoD civilian personnel consume a growing share of the defense budget, totaling $247 billion, or 45 percent of the base budget request in FY 2011. Growth in personnel-related costs is



26 Erskine Bowles and Alan Simpson, "CoChairs' Proposal," National Commission on Fiscal Responsibility and Reform, November 10, 2010, pp. 18-20.

27 Pete Domenici, Alice Rivlin, et al., "Restoring America's Future: Reviving the Economy, Cutting Spending and Debt, and Creating a Simple, Pro-Growth Tax System," Bipartisan Policy Center, November 2010, p. 100.

driven by pay, benefits, and the overall size of the workforce. The administration typically proposes a military pay increase equal to the Employment Cost Index (ECI) for the twelve-month period ending the previous September, which was 1.6 percent in September 2010,[28] as well as increases in the allowances for housing and subsistence. One of the fastest-growing areas of the defense budget is military healthcare, which totaled $50.7 billion in the FY 2011 budget request.[29] One efficiency initiative announced by Secretary Gates calls for raising the annual TRICARE premiums paid by working-age military retirees. Over time this would generate significant savings—as much as $6 billion annually according to previous DoD estimates.[30] But in FY 2012 the savings would be relatively small, depending on how quickly the changes are phased in. The cost of DoD civilian employees is not likely to rise in the FY 2012 budget because of the overall hiring freeze (with the exception of the acquisition workforce) and the pay freeze imposed on all federal civilian workers. Given these factors, the rate of growth in personnel costs in the defense budget is likely to slow in FY 2012, which could ease the budget pressure on acquisition accounts.

The FY 2011 budget projected real growth in overall acquisition funding for FY 2012 to FY 2015. But within acquisition accounts, RDT&E funding was projected to decline as a greater share of acquisition funding moved to procurement, reflecting a shift in priority away from starting new programs and toward procuring weapon systems already in production or near the end of development. The results of the efficiency initiative, however, may counter this trend of declining RDT&E funding. DoD's largest acquisition program, the Joint Strike Fighter, is being restructured to add $4.6 billion to its RDT&E accounts and cut $11.5 billion from its procurement accounts over the FYDP.[31] Additionally, the new programs announced, such as the long-range bomber and next-generation jammer, will increase RDT&E funding above what was previously budgeted. In total, these changes could be sufficient to slow or even reverse the decline of RDT&E funding in the FY 2012 FYDP.

While family housing and military construction typically consume a relatively small share of the defense budget, the 2005 Base Realignment and Closure (BRAC) process significantly increased funding for military construction. The 2005 BRAC is expected to conclude in FY 2011 with funding falling from $2.7 billion in FY 2011 to an average of $175 million per year for FY 2012 to FY 2015.[32] The Army's plan to save money by maintaining existing facilities instead of building new ones—part of its efficiency proposals—may also depress military construction spending in future years.

Funding for the wars in Iraq and Afghanistan is expected to decline in FY 2012. The FY 2011 FYDP did not include a projection of future war costs and instead included a

28 "Employment Cost Index Historical Listing: Continuous Occupational and Industry Series, September 1975 – December 2010," Bureau of Labor Statistic, January 28, 2011, p. 34, avaiable at http://www.bls.gov/web/eci/ecicois.pdf.

29 "United States Department of Defense Fiscal Year 2011 Budget Request Overview," Office of the Under Secretary of Defense (Comptroller) /CFO, February 2010, p. 3 – 3, available at http://comptroller.defense.gov/defbudget/fy2011/FY2011_Budget_Request_Overview_Book.pdf.

30 "The Effects of Proposals to Increase Cost Sharing in TRICARE," CBO Pub. No. 3201, June 2009, p. 3.

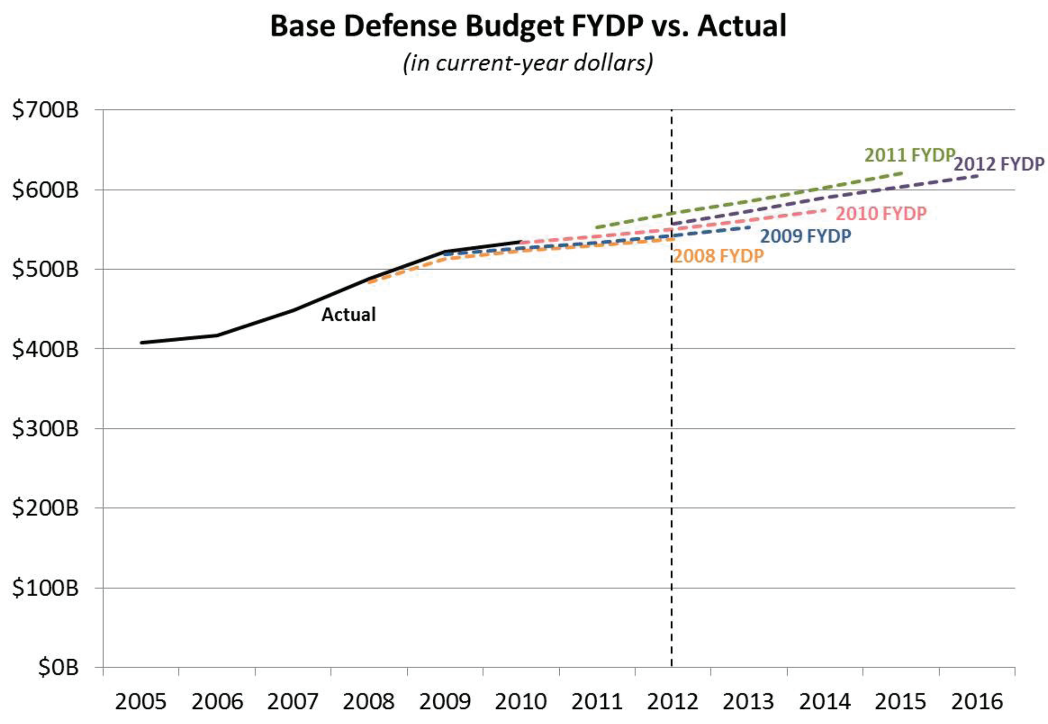
31 See footnotes 14 and 15.

32 "National Defense Budget Estimates for FY 2011," Office of the Under Secretary of Defense (Comptroller), March 2010, p. 91.

placeholder of $50 billion per year for FY 2012 to FY 2015. According to Secretary Gates, the request for war funding will be $120 billion in FY 2012—some $70 billion higher than the placeholder but $39 billion less than was requested in FY 2011.[33] This reduction in funding would be consistent with current plans to continue the drawdown in Iraq and gradually begin winding down the surge in Afghanistan.

Future Direction of Defense Spending

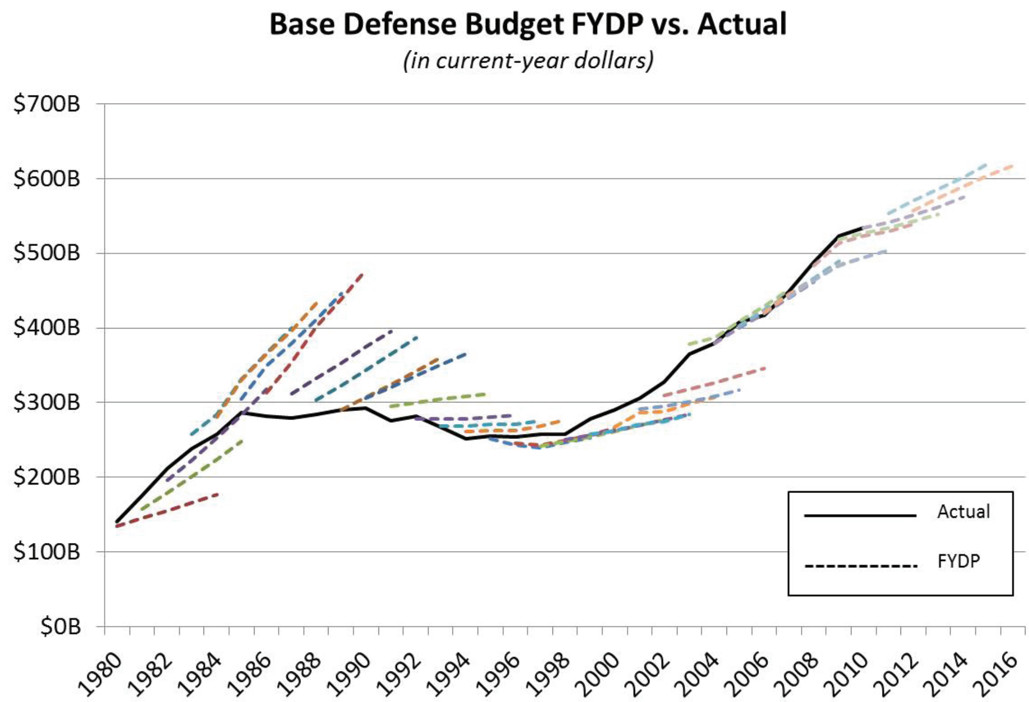
The topline budget figures released in advance of the FY 2012 budget request indicate that the base defense budget will continue to grow in real terms through FY 2014, albeit at a much reduced level. However, the FYDP has not been a reliable predictor of what the budget will actually be in future years. Over the past decade, the FYDP has more often underestimated growth in the base defense budget, with the difference between the projected level of funding in the FYDP and the actual funding enacted growing larger the farther into the future the FYDP projects. For example, the FY 2001 FYDP (the last budget of the Clinton Administration) and the FY 2002 FYDP (the first budget of the Bush Administration) projected that base defense budget in FY 2005 would be $316 billion and $336 billion respectively, far less than the $408 billion that was ultimately enacted for FY 2005.[34]



33 Transcript of Media Availability with Secretary Gates en route to Ottawa, Canada, January 26, 2011, available at http://www.defense.gov/transcripts/transcript.aspx?transcriptid=4759.

34 The data shown is from the DoD National Defense Budget Estimates (Greenbook) and OMB Historical Tables for years FY 1998 to FY 2011. The data has not been adjusted for inflation, and the inflation assumptions used in each FYDP can vary from budget to budget and can differ from the actual level of inflation observed.

The proposed $557 billion in mandatory and discretionary funding for FY 2012 is higher than was projected in the FY 2008 FYDP ($538 billion), FY 2009 FYDP ($542 billion), and FY 2010 FYDP ($551 billion). In fact, the proposed level of funding for FY 2012 exceeds all previous projections for that year except the FY 2011 FYDP. While this downward revision does not represent a true cut in defense funding, it may signal an inflection point in the budget since it is the first time since the mid-1990s that the new FYDP projects significantly lower funding than the previous FYDP. Indeed, this is what occurred the last time defense spending peaked and began a steady decline in the mid-1980s, as shown inthe graph below. During this period, the FYDP released with each budget request projected progressively lower levels of funding, and these projections still proved to be far higher than the funds ultimately enacted by Congress. With this history in mind, the FY 2012 FYDP may represent an upper bound for the defense budget in the coming years.



The central question for policy makers in the current budget environment is: What is the proper level of funding for defense? The fact that the Department is spending money inefficiently or on poorly performing programs does not necessarily mean that the level of funding is too high or that the capabilities DoD is trying to acquire are excessive. Efficiency is a separate question from need, and the two should not be conflated. Likewise, insistence that real growth of two to three percent in the defense budget is needed just to maintain the current force structure and capabilities should also be viewed with some skepticism. While current trends suggest this may indeed be true, the Department should not accept current trends as a given and should instead strive to do better than the status quo.

Strategy is central to determining the proper level and composition of defense spending because a strategy the nation cannot afford is not a good strategy, and a budget disconnected from strategy wastes money. A good strategy recognizes the real budgetary constraints the nation faces and makes the hard choices these constraints require. In a period of fiscal austerity, that means accepting some risks and divesting of lower priority programs and capabilities. But making these hard choices now will free up current and future resources to allow for investments in higher priority capabilities. In this respect, the FY 2012 budget request appears to be a step in the right direction. It eliminates some lower priority programs, such as the EFV and SLAMRAAM, accepts greater risk in some areas, such as Army and Marine Corps end strength, and invests in higher priority capabilities, such as a new long-range bomber and carrier-based unmanned strike and surveillance aircraft. But it is too soon to tell if these measures are indeed part of a coherent strategy or, importantly, if Congress will agree to the changes proposed.