

THE FY 2015 DEFENSE BUDGET: BALANCING STRATEGY AND RESOURCES

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Backgrounder

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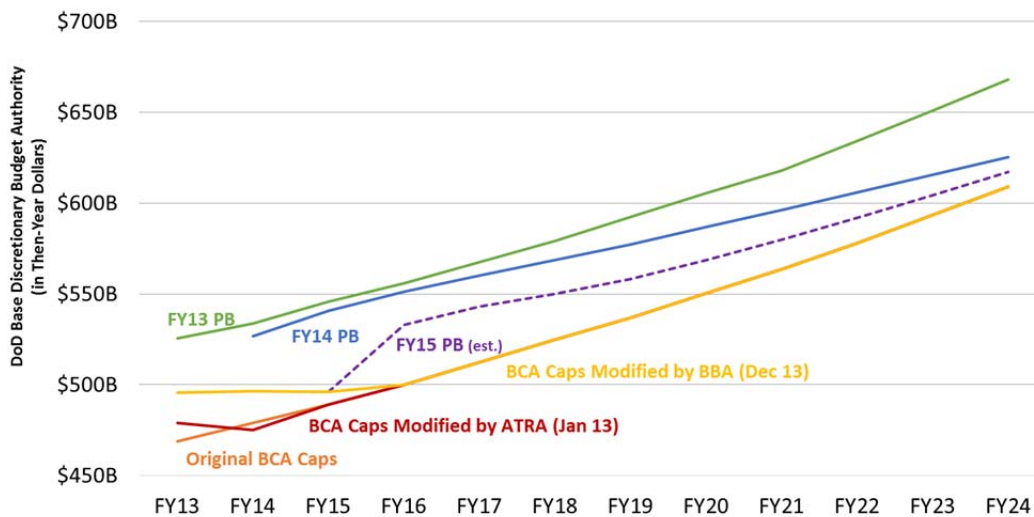
Center for Strategic and Budgetary Assessments

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The FY2015 Department of Defense (DoD) budget to be released this week by the Obama administration does not fully comply with the budget caps set by the Budget Control Act of 2011 (BCA) and subsequently amended by the Ryan-Murray Bipartisan Budget Act of 2013 (BBA). While the budget request meets the cap for FY 2015 at \$496 billion, it exceeds the caps in FY 2016-19 by a cumulative \$115 billion.¹

The gap between DoD's annual budget requests and the BCA budget caps has created a high degree of uncertainty in the Pentagon's planning and in the defense industry. While DoD has not submitted a budget that fully complies with the caps, each budget request since 2012 has moved closer to the caps, as shown in Figure 1. Congress has not stuck to the original budget caps either, adjusting them first through the American Taxpayers Relief Act in January 2013² and then again in the Bipartisan Budget Act in December 2013.³ The result is a slow convergence between the budget caps set by Congress and the budget requests submitted by the administration. The FY 2015 budget request narrows the gap but does not eliminate it.

Figure 1: Comparison of Budget Requests and Budget Caps Over Time



The administration also plans to submit an Opportunity, Growth, and Security Initiative, which includes \$26 billion in additional funding for DoD in FY 2015. Secretary Hagel

¹ Remarks by Secretary of Defense Chuck Hagel, "FY 2015 Budget Preview," February 24, 2014, accessed on February 27, 2014 at: <http://www.defense.gov/Speeches/Speech.aspx?SpeechID=1831>

² See Todd Harrison, *What the Fiscal Cliff Deal Means for Defense* (Washington, DC: Center for Strategic and Budgetary Analysis, January 2013), accessed on February 27, 2014 at: <http://www.csbaonline.org/publications/2013/01/what-the-fiscal-cliff-deal-means-for-defense/>

³ "Summary of the Bipartisan Budget Act of 2013," December 10, 2013, accessed on February 27, 2014 at: <http://budget.house.gov/uploadedfiles/bba2013summary.pdf>

has indicated that the funding would be used for readiness, but it may also include funding for modernization, similar to the unfunded priority lists the Services routinely submitted to Congress in prior years.⁴

A major unknown factor in this budget concerns the level and composition of Overseas Contingency Operations (OCO) funding. The OCO budget request will be submitted separately and is dependent on the status of U.S. forces in Afghanistan after 2014. Since the enactment of the BCA, which does not count war-related funding against DoD's budget cap, Congress and DoD have moved items that had been funded in the base budget to the OCO budget. In FY 2014, this practice appeared to expand. DoD transferred some \$20 billion in operations and maintenance funding from the base budget to OCO in the budget request (author's estimate),⁵ and Congress moved an additional \$9.6 billion from base to OCO in the appropriations bill.⁶ These transfers are in addition to funding traditionally associated with the base budget already in the OCO budget, such as the full cost of pay and benefits for 38,000 active duty soldiers and marines. When combined, these transfers appear to have largely offset the cuts to the base budget mandated by the BCA. The risk to DoD from using the OCO budget to fund normal peacetime costs is that this uncapped funding stream masks the true impact of the BCA and could disappear quickly, especially if U.S. forces do not remain in Afghanistan after 2014.

A Balancing Act

This budget request is in many respects a delicate balancing act. The Department must make a number of difficult trades while trying not to break the force or compromise the administration's defense strategy. For example, keeping faith with the troops has consistently been a top priority articulated by the Department and the administration. Yet keeping faith with the troops means more than just protecting pay and benefits. It also means ensuring the U.S. military is well trained and equipped. Indeed, the training and equipment the military provides can be an important factor in recruiting and retaining quality service members. The modest reforms to military compensation proposed in this budget, such as a 1.0 percent pay raise instead of 1.8 percent,⁷ attempt to strike a balance between maintaining an attractive compensation package and providing the training and equipment the troops need to do their jobs effectively.

Another balance this budget attempts to find is between capability and capacity. As outlined in the Strategic Choices and Management Review of 2013, the Department must

⁴ Secretary of Defense Chuck Hagel, "FY 2015 Budget Preview."

⁵ Todd Harrison, *Chaos and Uncertainty: The FY 2014 Defense Budget and Beyond* (Washington, DC: Center for Strategic and Budgetary Assessments, October 2013), pp. 11-14.

⁶ In H.R. 3547, Congress transferred \$8.6 billion in operations and maintenance funding from the base budget to the OCO budget and added \$1.0 billion in procurement funding for National Guard and Reserve equipment. *Cong. Rec.*, 113th Congress, Second Session, Vol. 160, No. 9 Book II, p. 829-830, accessed on February 28, 2014 at: [http://www.dtic.mil/congressional_budget/pdfs/FY2014_pdfs/AppropriationsCREC-2014-01-15-pt2-PgH475-2\[1\].pdf](http://www.dtic.mil/congressional_budget/pdfs/FY2014_pdfs/AppropriationsCREC-2014-01-15-pt2-PgH475-2[1].pdf).

⁷ The military pay raise is normally set to the Employment Cost Index for the 12-month period ending the September before the budget is released, which this year is 1.8 percent. See U.S. Bureau of Labor Statistics, *Employment Cost Index Historical Listing—Volume III* (Washington, DC: GPO, January 2014), p. 97.

make a number of choices between protecting the size and readiness of the current force and the capabilities of the future force. The decisions announced last week by Secretary Hagel indicate that the Air Force and Navy tend to prioritize capability over capacity by taking near-term cuts in legacy weapons and force structure to protect long-term investments in modernization. For example, the Air Force proposes cutting the entire fleets of legacy A-10s and U-2s while protecting investments in the KC-46 tanker, F-35 Joint Strike Fighter, and the next generation bomber (Long Range Strike – Bomber).

The Army and Marine Corps, however, appear to place a higher priority on near-term capacity. The Marine Corps plans to maintain 182,000 active duty personnel, the same as planned in last year's budget and five percent higher than its pre-war level in 2001. The Army is reducing its end-strength to 440-450,000, which is lower than the 490,000 planned in last year's budget but only six to nine percent below its pre-war level of 481,000. In comparison, the Air Force and Navy are already 7 and 14 percent below their pre-war levels, respectively, before any proposed reductions in the FY 2015 budget are taken into account. The Army is also cancelling the Ground Combat Vehicle program, which had been at the center of its modernization plans.

Strategic Choices

In each budget submission, the Defense Department is forced to articulate specific decisions on force structure, end-strength, modernization, and readiness. This budget request is particularly important because it is being submitted at the same time as the Quadrennial Defense Review and under tighter budget constraints. The Department must make a number of important strategic choices to meet the budget cap for FY 2015 and come closer to meeting the caps for FY 2016 and beyond. While there are many ways the Department could choose to implement these cuts, the budget provides insight into its priorities and the trades it is willing to make when funding is constrained. To understand the types of trades involved and the magnitude of the choices, the list below provides a few examples of what roughly a billion dollars in annual defense spending buys:

- Annual pay and benefits for roughly 10,000 active duty service members (not including healthcare)
- Procurement of two Littoral Combat Ships
- Procurement of nine F-35As (with engines)⁸
- Procurement of five P-8As
- Annual operating costs for roughly 200 A-10s (including support personnel)
- Half of the Office of the Secretary of Defense's annual operations budget
- Two-thirds of the annual Commissary subsidy


In early February, CSBA hosted a joint strategic choices exercise with scholars from the American Enterprise Institute, Center for a New American Security, and Center for Strategic and International Studies. In this exercise, the participants were asked to reexamine defense strategy, priorities, force structure, and programs under two levels of

⁸ The F-35 engines are funded separately from the air frames.

budget constraints: the full BCA cuts as currently prescribed in law, and cuts totaling roughly half of what the BCA requires over the next ten years. The half BCA fiscal scenario corresponds roughly to the FY 2015 President’s Budget, and the full BCA fiscal scenario matches the sequester level DoD also planned for in this year’s budget process.


As shown in Figures 2 and 3 below, the think tank teams agree with the choices DoD announced in this budget in a number of areas, such as the decisions to retire A-10s and U-2s, cancel or delay the Army’s Ground Combat Vehicle, and begin another round of base closures. In both fiscal scenarios, however, all teams cut more aircraft carriers than DoD, and three of the four teams cut Army and Marine Corps end-strength below what is DoD is proposing.⁹

Figure 2: Comparison of Choices in Half BCA Scenario



<i>Army Active End Strength</i>	434K	450K	406K	380K	440-450K
<i>USMC Active End Strength</i>	150K	183K	175K	145K	182K
<i>Carriers</i>	7	9	9	8	11*
<i>F-35 Joint Strike Fighter</i>	+180	-340	-240	No Change	No Change*
<i>Littoral Combat Ship</i>	+4	-4	-14	-18	-20
<i>Ground Combat Vehicle</i>	Cancel	Delay 5 yrs.	Delay 5 yrs.	Delay 5 yrs.	Cancel
<i>A-10s</i>	Retire All	Retire All A/C, Keep Half R/C	Retire All	Retire All A/C, Keep All R/C	Retire All
<i>U-2s</i>	Retire All	Retire All	Retire All	Retire All	Retire All
<i>Long Range Strike – Bomber</i>	Accelerate	Accelerate	Accelerate	Delay	No Change
<i>Base Closures</i>	Yes	Yes	Yes	Yes	Yes

Figure 3: Comparison of Choices in Full BCA Scenario



<i>Army Active End Strength</i>	411K	450K	401K	350K	420K
<i>USMC Active End Strength</i>	138K	182K	161K	142K	175K
<i>Carriers</i>	7	9	9	8	10*
<i>F-35 Joint Strike Fighter</i>	+100	-340	-320	-80	-48*
<i>Littoral Combat Ship</i>	+4	-4	-14	-18	-20
<i>Ground Combat Vehicle</i>	Cancel	Delay 5 yrs.	Delay 5 yrs.	Delay 5 yrs.	Cancel
<i>A-10s</i>	Retire All	Retire All A/C, Keep Half R/C	Retire All	Retire All A/C, Keep All R/C	Retire All
<i>U-2s</i>	Retire All	Retire All	Retire All	Retire All	Retire All
<i>Long Range Strike – Bomber</i>	Accelerate	Accelerate	Accelerate	Delay	No Change
<i>Base Closures</i>	Yes	Yes	Yes	Yes	Yes

⁹ The comparison is based on Secretary Hagel’s public remarks on the FY 2015 budget. An asterisk (*) indicates that the speech provided insufficient or incomplete information, and the value listed may change once more details are made available.

The FY 2015 defense budget is in many respects a turning point for the Defense Department. While it does not fully comply with the budget constraints set by Congress, it comes much closer to complying than previous budget requests. The choices made in this budget reflect the trades DoD has chosen to make when resources are constrained, not the choices it would make if funding were less constrained. While Congress is likely to modify or reject many of these decisions, as it is empowered to do in its oversight role, it should be mindful of how these changes affect the balance DoD has attempted to find and the ability of the Department to execute the defense strategy outlined in the QDR.

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