

Not There Yet

The 2011 Defense Budget



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The U.S. military has already taken a hard look at some of its programs, canceling some and scaling back others. The number of F-35s the DoD originally planned to purchase has been reduced over the years due to development costs and delays. Lockheed Martin photograph by Darin Russell

As the 112th Congress convened on Jan. 5, 2011, the Department of Defense (DoD) – like all of the federal government – was being funded by a continuing resolution. In the final hours of the previous legislative session, the House and Senate had managed to agree upon the [2011 Department of Defense Authorization Bill](#) – a bill which, stripped of contentious provisions such as the repeal of the military’s “Don’t Ask, Don’t Tell” policy regarding homosexual service members, received broad bipartisan support. The bill was signed into law on Jan. 7, 2011 – more than one-fourth of the way through the 2011 fiscal year that began on Oct. 1, 2010.

The authorization was important: If Congress had failed to pass it before the end of the session, it would have marked the first time in nearly 50 years that it had done so. While authorization does not transfer money to the Department of Defense, it does serve as a detailed blueprint for the appropriations bill that will ultimately decide the DoD’s budget.



Headed Down? U.S. soldiers walk down the side of a mountain outside of Forward Operating Base Kalagush, Afghanistan, June 19, 2007, during a foot patrol to an observation post overlooking a nearby village. The soldiers were assigned to Charlie Company, 1st Battalion, 158th Infantry Regiment, Arizona Army National Guard. While proposals for budget cutting vary, the consensus is that the U.S. defense budget is going to shrink in real terms in coming years. U.S. Army photo by Staff Sgt. Isaac A. Graham

The midterm elections of November 2010, however, altered the composition of Congress – especially in the House, where a Republican majority has assumed leadership of the Armed Services and Appropriations Committees. These political changes have created uncertainty about how much a defense appropriation might reflect the policies and expenditures outlined in the authorization. It is possible, though probably unlikely, that the new political majority might assert significant changes – but as this publication goes to press, in the third week of January, Congress has not yet begun to discuss a 2011 defense appropriation.

The numbers contained in the 2011 National Defense Authorization Act, therefore, should be accepted as approximations of what the final 2011 fiscal year budget will look like; with a few minor exceptions, they are in line with what the Pentagon requested in early 2010 and are likely to bear a close resemblance to the budget that finally emerges. The Authorization Act outlines an overall expenditure of \$725 billion in defense programs, including a \$548.2 billion base budget, \$158.7 billion for the wars in Afghanistan and Iraq, and \$17.7 billion for national security programs administered by the Department of Energy. The amount is about 7 percent more than last year's defense budget, and its major categories break down roughly as follows:

- **Military Personnel:** \$138.5 billion. This account funds the basic pay and benefits (including health care, pensions, and retirement pay) for troops, and provides subsistence for their dependents. Highlights of this year's authorization include:

- a 1.4 percent across-the-board pay raise;
- the reauthorization of more than 30 types of bonuses and special pays aimed at encouraging enlistment, re-enlistment, and continued service by active-duty and Reserve component personnel;
- \$30.9 billion for the Defense Health Program;
- coverage for [TRICARE](#), the military's health care program, extended to children of service members until they turn 26;
- one-year extension on prohibition of increasing the premiums and copayments for TRICARE's Prime program, charges for inpatient care in civilian hospitals under TRICARE's Standard program, and cost-sharing requirements for drugs provided through the TRICARE retail pharmacy; and
- eligibility for TRICARE dental coverage for surviving dependents, whether or not they were enrolled prior to the death of their sponsor.

In the current debate about the defense budget, personnel costs are often cited as a primary factor in a pattern that is seen as counter-productive and even destructive to the military: Despite persistent increases in spending, the armed forces are not growing or becoming more capable of fulfilling their missions. With military health care costs consuming nearly a tenth of the base budget – an amount projected to increase substantially in coming years – the debate over these costs is likely to heat up.

- **Procurement:** \$109.4 billion. This account buys everything from paperweights to bullets to aircraft carriers, including money to upgrade and modernize existing weapons systems. The language in the 2011 authorization is, in many places, intentionally vague, kicking the debate over controversial programs down the road to the Appropriations Committees. The program to develop a second or alternate engine to the F-35 Joint Strike Fighter, for example, is not directly authorized by Congress, but the bill doesn't prevent funding from being directed toward the effort. Generally, the authorization outlines amounts to be spent (i.e., about \$18.9 billion for Navy and Marine Corps aviation programs), rather than explicitly naming controversial programs such as the Marine Corps' [Expeditionary Fighting Vehicle \(EFV\)](#) or the Navy's littoral combat ship (LCS).
- **Operations and Maintenance:** \$168 billion. This is typically the largest and least-understood portion of the budget, funding training and readiness programs as well as all the costs of maintaining forces in the field, such as base operations, food, fuel, uniforms, and weapons maintenance.
- **Research, Development, Testing, and Evaluation (RDT&E):** \$78.6 billion to develop the next generation of weapon and force protection systems.
- **Overseas Contingency Operations:** \$158.7 billion to execute the ongoing activities in Iraq and Afghanistan. Several provisions in this year's war budget are emblematic of shifts in the military's priorities as Iraq continues a trend toward political stabilization and threats to the United States and its allies emerge from other parts of the world – such as:

- \$3.4 billion for the mine resistant ambush protected (MRAP) vehicle fund for development, testing, production, and sustainment of the MRAP and its all-terrain version, the MRAP All-Terrain Vehicle;
- \$3.5 billion for the Joint Improvised Explosive Device Defeat Organization (JIEDDO) to help counter the use of improvised explosive devices against U.S. warfighters;
- \$700 million for equipment to National Guard and Reserve units;
- \$11.6 billion to train and equip the Afghan National Army and Afghan National Police;
- \$1.5 billion in assistance for Iraqi Security Forces;
- up to \$75 million to train and equip Yemeni counterterrorism forces;
- \$205 million to support Israel's "Iron Dome" air defense system;
- \$9.8 billion for [U.S. Special Operations Command](#) and funding to reintegrate low-level insurgent fighters into Afghan society; and
- an extension of the Pakistan Counterinsurgency Capability Fund, to bolster the Pakistan army in its war against radical insurgents.



Rising personnel costs make up a large part of the defense budget. U.S. Air Force photo by Tech. Sgt. Efren Lopez

Defense and the National Debt

Even excluding funding for the wars in Iraq and Afghanistan, the 2011 defense authorization represents the most the United States has spent on defense, in real (inflation-adjusted) dollars, since World War II.

Complaints about overspending and waste in government, and within the Department of Defense in particular, aren't new. But the nation's current debt crisis – a structural problem decades in the making – is acutely felt now, as the added expense of economic stimulus legislation, coupled with dramatic decreases in tax revenues, has resulted in the second-highest budget deficit in U.S. history: \$1.3 trillion for 2010. To pay for its \$3.5 trillion 2010 federal budget, in other words, the government spent nearly 40 percent more than it had.

Short-term economic factors aside, to say that such a rate of spending is unsustainable is, of course, an understatement. Early in the Obama administration, the National

Commission on Fiscal Responsibility and Reform – or [Fiscal Commission](#), appointed by the president – began developing strategies for attacking the national debt, and competing visions for the future of federal spending began to germinate.

Meanwhile, Secretary of Defense Robert M. Gates, mindful of likely future budget cuts, began to examine ways in which the DoD could get more out of its considerable share of federal dollars – more than half the nation’s discretionary budget and about a fifth of the total budget is spent on defense. The [Defense Efficiencies Initiative](#), announced on June 4, 2010, was devised with the purpose of making the military less wasteful without weakening it. Overall, the Gates plan proposed to find \$100 billion in savings from the military budget over the next five years – but these savings would not effect a cut; the savings, taken out of overhead costs and waste, would be reinvested in weapons programs or force structure. Overall, the budget will either stay the same or increase by as much as 2 percent annually over the next five years.

The Efficiencies Initiative does not introduce new ideas; under Gates, the U.S. military has already taken a hard look at some of its programs, and canceled several – such as the Air Force’s F-22 Raptor jet fighter, the Army’s high-tech Future Combat System (FCS), the Transformational Satellite Program, and the C-17 cargo plane – that had become less relevant to any present or conceivable future threat. What the Efficiencies Initiative does, more explicitly, is lay out a broad strategy for cutting fat from the defense budget.

The efficiency of the Defense Department – a global bureaucracy that employs about 3 million people – has always been a significant issue in the modern era, and in 2001, in an attempt to bring a more business-oriented approach to the DoD, Defense Secretary Donald Rumsfeld formed an advisory committee known as the Defense Business Board. In July 2010, about six weeks after the Efficiencies Initiative was announced, a task group assigned to help “find the \$100 billion” delivered a report to the board entitled “Reducing Overhead and Improving Business Observations” (text: dbb.defense.gov/MeetingFiles/Delivered.pdf; slideshow: www.globalsecurity.org/military/library/report/2010/100722-dbb-otg-report.pdf).

Among the report’s conclusions: The nation’s current fiscal posture is a national security threat, and the DoD’s overhead costs – including about 340,000 military personnel who serve in nongovernmental or “infrastructure” activities, and a suite of unsustainably generous entitlement benefits – are a major culprit. Such profligacy contributes to a poor “tooth to tail” ratio (the number of combat troops, or “tooth,” relative to the number of military personnel required to support them, or “tail”), as recently documented in a report by the global management firm [McKinsey & Company](#) (www.mckinsey.com/client-service/publicsector/pdf/TG_MoG_benchmarking.pdf). Essentially, the DoD, which employs the most expensive federal employees, is not making good use of those resources.



A new generation of stealthy UCAVs (unmanned combat aerial vehicles) could provide superior stealth and longer-range strike capabilities to the United States. Features like stealth add a considerable cost to new acquisitions and some question whether such technology is really necessary. Rendering courtesy of Northrop Grumman

Let the Debate Begin

Many of the nation's defense analysts greeted the Defense Efficiencies Initiative with skepticism. Given the economic climate, every federal department was likely to experience cuts, and there was no reason to believe the DoD would be an exception. When the details of the proposal were released on Aug. 9, they sparked considerable discussion. Some thought the proposals were too harsh. In Virginia, lawmakers, led by Sen. Jim Webb, (D-Va.), chairman of the [Armed Services Personnel Subcommittee](#), reacted swiftly to the secretary's proposal to shut down one of the military's 10 Unified Combatant Commands: the Joint Forces Command (JFCOM), established in 2001 to promote collaboration among the services. Today the command costs \$1 billion, [five times what it did nine years ago](#), and employs 3,000 DoD personnel and 3,000 contractors. The loss of these positions at JFCOM Headquarters in Norfolk, argued the legislators, would be devastating to Virginians.

Other critics thought the proposals did not achieve any real changes: In response to the secretary's proposal to freeze the hiring of civilian DoD employees, for example, Daniel Goure, Ph.D., of the [Lexington Institute](#), a nonprofit libertarian organization, [wrote](#), "Freezing senior civilian positions after more than a decade in which their numbers have mushroomed is not going to save much money." Throughout the summer and fall of 2010, plans for dealing with the nation's debt crisis began to appear in their final forms, and the most prominent ones seemed to agree that the Gates initiatives did not go far enough to restore efficiencies to the DoD. It is beyond the scope of this article to describe the plans in any detail, but links to nine of these plans, along with a summary of their different proposals, can be found at the [website](#) of the Center for Arms Control and Non-Proliferation.

The plans propose decreases in defense spending, over the next decade, of between \$550 billion and \$1.4 trillion below current projections. The spirit, if not the substance, of each

of these recommendations can be summed up by the remarks of Loren B. Thompson of the Lexington Institute, who [wrote](#) in September: “This year, over 40 percent of the federal budget is being borrowed, and the projected deficit is ... about 10 percent of the entire economy. The notion that defense spending will remain relatively stable in such circumstances is simply wrong. If it did remain stable, entitlements like Social Security and Medicare would have to be cut in half to balance the budget.”



It has been noted that many non-defense-related missions, such as tsunami relief or earthquake, hurricane, or oil spill response, fall under the DoD umbrella of responsibilities. U.S. Navy photo by Mass Communication Specialist 2nd Class Justin Stumberg

Cutting such entitlements in half – or at least dramatically – does not strike everyone as a bad idea. On Oct. 4, with a *Wall Street Journal* editorial entitled “[Peace Doesn’t Keep Itself](#),” a coalition of conservatives pushed back against widespread talk of defense cuts with the launch of Defending Defense, a joint [project](#) of the American Enterprise Institute, the Heritage Foundation, and the Foreign Policy Initiative. Defense spending, the authors of the editorial argued, has risen at a slower rate than domestic spending, comprises a lower percentage of the nation’s gross domestic product than it did during the Cold War, and is hardly the culprit in our deficit crisis – and stripping our military of its strength with the kind of steep cuts more often associated with peacetime, when in fact the nation is engaged in two wars, isn’t sensible. “A weaker, cheaper military will not solve our financial woes,” they wrote. “It will, however, make the world a more dangerous place, and it will impoverish our future.”

Todd Harrison, senior fellow for Defense Budget Studies at the non-partisan [Center for Strategic and Budgetary Assessments](#), is a former Air Force reservist who is also eager to see the military remain strong – but believes the current economic climate makes it impossible to keep pouring so much money into defense. “Right now the total defense budget, including the wars, is about equal to total spending on Social Security, and it’s about equal to total spending on Medicare and Medicaid combined,” Harrison said. “They’re each a little over \$700 billion right now. Those are ‘the Big Three’ in the budget. If you don’t touch them, you really can’t fix the deficit. That’s the bottom line.”

Finding Efficiencies

In July 2010, Harrison testified before the Senate about five areas in which the DoD might find savings in its budget. Two of these, he argued, were changes that would not appreciably affect the size, composition, or capabilities of the military:

- **Achieving greater efficiencies.** Gates' approach to getting the same – or greater – capabilities with fewer resources, Harrison said, is to allow the service branches to keep whatever savings they generate by reinvesting them in modernization. Methods for achieving these efficiencies proposed by Under Secretary of Defense for Acquisition, Technology & Logistics Ashton Carter include leveraging competition in contracts, encouraging the use of small-business contractors, stabilizing production rates, and limiting the use of award fee contracts – a practice that, according to the [U.S. Government Accountability Office](#), has a history of high award inflation, or large payouts regardless of contractor performance. While achieving such efficiencies should always be a DoD goal, Harrison said, these measures alone will not generate savings of the magnitude needed in the coming decade.
- **Refocusing on the core business of defense.** The U.S. military's relatively poor "tooth to tail" ratio is due in part to the fact that it is involved in activities that are related only tangentially to warfighting – activities that could be more appropriately executed by another agency or by the private sector. "More than 50 percent of the federal workforce is in the Department of Defense," Harrison said. "So when you need a large labor force to do something quickly, that's who you turn to, because DoD has the resources. And I think that's unfortunate for the Department of Defense, because then they get saddled with a lot of non-defense-related missions, whether it's tsunami relief or earthquakes or hurricanes – oil spills, even." Aside from these kinds of relief operations, the department also engages in what Harrison calls "artifacts" of the budget, or things the military is doing simply because it has always done them: operating its own nationwide K-12 school district for military children, for example, which made sense in the days of the frontier army but is widely seen as unnecessary today. The DoD also operates the military exchanges – essentially, a chain of retail stores for service members – and commissaries, which provide groceries to service members at subsidized rates. The \$1.2 billion spent on the commissaries could be sharply reduced, said Harrison, if the military kept the subsidy but got out of the business: "One study I read said that, on average, military families save about \$300 a year shopping at the commissaries," he said. "So raise their subsistence allowance by \$300 a year. It's not hard to do. We would still end up saving money."

Other strategies for realizing efficiencies in the budget are far more controversial, but also have the greatest potential for savings:

- **Reforming the personnel system.** The sheer size of the DoD – the single largest employer in the United States – dictates that changes to military pay and benefits have a profound effect on the federal budget. Over the past decade, Congress has greatly expanded benefits for military personnel, retirees, and their dependents,

and has expanded pay at a rate that exceeds increases in private-sector pay (see “Personnel Costs: The Pentagon’s Elephant in the Room” on page 24).

Even among those with concrete ideas for reforming the military personnel system in a way that brings these costs under control, the prospect is viewed as a political long shot – no politician wants to advocate taking things away from service members or military retirees, and the savings generated by such measures, while real and substantial, would not be apparent for years. Perhaps for these reasons, the issue of personnel costs was barely mentioned in Gates’ Efficiencies Initiative.

- **Reforming acquisition.** Procurement and acquisition funding, excluding war funding, have grown by 46 percent over the last decade, adjusting for inflation, and one notable trend has been the increasing expenditure, within that amount, on research and development of new weapons systems. New hardware or weapon systems are often not only expensive, but delays and cost overruns are now so endemic to the acquisitions system that by the time a project is in production, it is already considered by some to be obsolete or mismatched to the mission at hand.

What the military buys is an important element in the acquisitions debate, but how it buys is equally, if not more, important, and is a focus of both the Defense Efficiencies Initiative and the 2011 defense authorization. Projects are often off-track from the very beginning, Harrison said, due to a disconnect between the entity that determines project requirements – the Joint Requirements Oversight Council ([JROC](#)) – and the people who develop project budgets. “The JROC hardly ever sees a requirement they don’t like,” Harrison said. “They’re approving requirements, but they have no responsibility to fund them. And those two things shouldn’t be separate. We need to put the budget guys in the room when requirements are being considered.”

Such reforms are not easily accomplished, said DuBois, given the leadership cycle within the DoD. “Some of these people are only in their jobs for two or three years,” he said. “How do you hold someone accountable for making decisions when they’ll be gone when the full implications arrive?”

- **Altering the force structure.** Perhaps the most controversial method of trimming a military budget – but the time-honored favorite of the U.S. government – is to trim the end strength of the armed forces. In June 2010, a coalition calling itself the [Sustainable Defense Task Force](#), led by the unlikely duo of Sen. Barney Frank (D-Mass.) and Congressman Ron Paul (R-Texas) released “Debts, Deficits, and Defense: A Way Forward,” a plan for bringing defense spending in line with a deficit reduction plan. The Task Force proposes reducing the number of troops in Europe and Asia and reducing the Army and Marine Corps to pre-2007 levels.

Such cuts are in line with a strategy of “military restraint” developed by members of the libertarian Cato Institute and summed up, with characteristic bluntness, by Task Force member Winslow Wheeler, who is director of the Straus Military Reform Project at the nonprofit [Center for Defense Information](#): “This hair-trigger interventionist – and

worse – approach to the rest of the world is a real disaster, I think. It’s out of the American tradition, and we need to cut it out.” Altering force strength to match existing threats, Wheeler said, “would permit us to shrink the size of the forces in consonance with what’s going on in the rest of the world. I don’t know what the terrorists’ defense budget amounts to, but you could knock me over with a feather if they spend more in a year than we spend in a day. It’s not a problem that a larger fleet or a new intercontinental bomber or any of that will do anything about at all. And as far as conventional opponents are concerned, I’m not aware of any that we need to sweat blood over. Everybody likes to talk about China. But the level of incompetence that would result in our being in a conflict with China is pretty mind-boggling.”

For his part, Harrison doesn’t see such wholesale strategic changes in store for the military, especially given the recent Quadrennial Defense Review’s emphasis on prevention, deterrence, and preparing to succeed in a wide range of contingencies. “I give them [the Sustainable Defense Task Force] credit for coming up with what appears to be a legitimate strategy,” said Harrison. “I don’t think it is one that will get much traction with a wider audience. It is a dramatic departure from our post-World War II military mindset.”

Still, the most likely future strategic environments may require a different force structure. Dr. Gordon Adams, a distinguished fellow at the [Henry L. Stimson Center](#), helped devise the debt-reduction plan for the [Bipartisan Policy Center](#), an effort co-chaired by former Sen. Pete Domenici (R-N.M.) and former Federal Reserve Vice Chair Alice Rivlin. Adams believes the most likely contingencies for the U.S. military involve Iran and Pakistan. “In neither case is the most likely use of American military force a major ground force occupation, regime-change, stabilization mission,” he said. “I think we will choose not to do that kind of mission anywhere in the near future.” Given the nation’s wariness about another large-scale ground deployment, Adams said, it makes sense to assume some level of force shrinkage, especially in Europe, where the need for American ground forces has undergone radical transformation, and in Asia.

The Marine Corps' Expeditionary Fighting Vehicle (EFV) is one of the "big-ticket" items that Secretary of Defense Robert M. Gates has cut from the budget. USMC photo courtesy of the EFV Program Office

As long as such cuts are carefully considered and mission-driven, Adams said, the military can remain strong. “The major peer competitor threat is decades away,” he said. “It’s there. It’s always there. But right now we have a capability that is globally superior to any major peer competitor.”

Now is as good a time as any, Harrison claims, to take a hard look at the military’s priorities: “We’ve focused a lot in recent years, and rightly so, on developing our irregular warfare and counterinsurgency capabilities,” he said. “But after we’re out of Iraq and Afghanistan, we need to step back and really question: ‘Do we need this anymore? Are we going to get into some sort of a counterinsurgency operation like Afghanistan again anytime soon?’ I think probably not, in which case it would be better

to scale down that part of our force structure and instead build up some of our long-range strike capabilities and power-projection capabilities.”

Among the different deficit-reduction proposals now in circulation, the plans devised by nonpartisan or bipartisan groups, while differing on the specifics, appear to agree on one central point: The traditional approach to defense budgeting in a time of fiscal restraint – avoiding the difficult strategic questions that will make targeted cuts to low-priority items, and instead simply spreading cuts around proportionally throughout the Department of Defense – is likely to cause more pain in the future, and create a military that is both too expensive and poorly matched to the nation’s security environment.

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