The President’s FY 2016 Defense Budget
Issues, Trends, and Questions

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EXECUTIVE SUMMARY

The Obama administration has requested well over half a trillion dollars for fiscal year 2016, exceeding statutory caps on the Pentagon’s base budget alone by $35 billion. These excess funds do little to address the internal problems at the Department of Defense that drive increased spending without contributing to national security. Moreover, exceeding the caps weakens the Pentagon’s incentive to undertake internal reforms. The continued use of the war funding account as a slush fund, because it exempt from the spending limits, contributes to that problem.

Congress would better serve both fiscal responsibility and national security by holding the Department of Defense budget to Budget Control Act spending levels, which remain well above the Cold War average for defense spending and the defense budgets of America’s closest competitors. It should also look at decentralizing Department of Defense management. The resulting competition for missions and budget share will create powerful incentives for the armed forces to operate more efficiently.
INTRODUCTION

On February 2\textsuperscript{nd}, the Obama administration submitted its budget request for fiscal year (FY) 2016. The administration is requesting $585 billion for the Department of Defense. The Pentagon base budget receives $534.1 billion in the requested budget, while $50.9 billion goes to the department’s overseas contingency operations account.

The base budget request is $35 billion higher than the spending limit established by the Budget Control Act of 2011 (BCA) and its subsequent amendments.\footnote{1} Moreover, as Chart 1 shows, the Obama administration plans to continue spending more than the BCA allows until its authority expires after FY 2021.\footnote{2} Over that period, the administration will request funds in excess of the caps on the Pentagon’s base budget by $169.8 billion.

Congress should reject the president’s budget proposal. As former Secretary of Defense Robert Gates previously stated, half a trillion dollars is more than adequate to provide for the safety and security of the American people and to defend U.S. national interests.\footnote{3} Viewed in both historical and global contexts, the United States spends profligately on defense. Fiscal pressure at the Pentagon is the result of a failure to address internal issues, rather than inadequate funding. Simply increasing the defense budget will take away any incentive the Department of Defense has to reform, thus doing little to improve the quality of America’s military.
THE DEFENSE BUDGET IN CONTEXT

The United States continues to spend an inordinate amount of money on defense from both historical and global perspectives. Chart 2 shows Department of Defense spending from 1948 to the present. While defense spending has dropped from the historic peaks at the height of the wars in Iraq and Afghanistan, it remains well above the historical average of $490 billion (all figures in FY 2015 dollars). Even taking the FY 2016 BCA cap of $499 billion as a basis for comparison, defense spending today would remain well above the Cold War average of $453.9 billion.

Chart 2: Department of Defense Budget Authority
Since, 1948-2014

The United States today also remains head-and-shoulders above its potential competitors. As Chart 3 demonstrates, in 2014 Washington spent nearly as much on defense as the next fourteen countries combined. Twelve of those countries are either members of NATO, major non-NATO allies, U.S. strategic partners, or countries with otherwise friendly relations with the United States. America’s two closest competitors, China and Russia, combined, spent nearly $300 billion less than the United States. Moreover, both countries, and their militaries in particular, face internal challenges that will continue to inhibit their ability to project power.
**Drivers of Growth**

The Department of Defense has its own internal problems. There are three main internal drivers of growth in the Pentagon’s budget: personnel costs, operations and maintenance (O&M) spending, and weapon systems acquisitions (in that order). The FY 2016 budget request does little to address growth in these areas, and in some cases, exacerbates existing problems.

*Personnel*

Spending on military personnel accounts for 46 percent of the growth in defense spending since FY 2000. The Obama administration’s budget requests $136.7 billion for the Pentagon’s personnel account, a 1.26 percent increase over FY 2015. While personnel costs in the budget request increase at a lower rate in the FY 2016 request than the annual 2.7 percent average increase since 2000, that is likely due to unrealistic assumptions on the part of the administration that Congress will approve its proposed compensation reforms.

While its recommendations are not included in the administration’s budget request, the recommendations of the congressionally mandated Military Compensation and Retirement Modernization Commission (MCRMC) are worthy of Congressional consideration. For instance, the MCRMC report calls for establishing a 401(k)-type plan that would provide retirement benefits to a greater number of service members than the
current retirement system, which only provides benefits for those who have served a minimum of twenty years.\textsuperscript{9} While there are increases in federal outlays during the first five years of the program due to immediate government contributions, the commission projects that its recommendation will produce savings for the Pentagon of $6.1 billion between FY 2016 and FY 2020.\textsuperscript{10}

Something must be done, however, to address personnel costs in the near-term. One obvious possibility is to reduce the number of active-duty service members. Several analysts have proposed shifting active duty personnel to the National Guard and Reserve components, preserving the institutional knowledge gained over a decade-plus of war at a far lower cost.\textsuperscript{11} Others have argued for reorganizing the Army with a smaller force structure that would provide greater striking power with fewer personnel.\textsuperscript{12} Neither of these ideas need be considered in isolation, and will likely generate more savings over the long term when implemented in conjunction with retirement reforms.

\textit{Operations & Maintenance}

For operations and maintenance (O&M) the Pentagon is seeking $209.8 billion in FY 2016, a 7.37 percent increase from last year. O&M spending grew by 34 percent between 2000 and 2014, increasing on average 2.1 percent each year.\textsuperscript{13} Increased O&M spending is not a new phenomenon though. Since 1955, O&M spending has increased annually by 2.5 percent per active duty service member.\textsuperscript{14}

While the annual increase in O&M spending per service member might suggest certain inexorable trends, it is actually the result of a number of specific decisions. According to Cindy Williams of the Massachusetts Institute of Technology, those decisions include the expansion of “family-friendly” military infrastructure between 1955 and 1965, the inability to rapidly downsize infrastructure built for the Vietnam War during the transition to all-volunteer force in the 1970s, a definitional change that shifted the cost of some spare parts to the O&M account in the 1980s, and the inability to quickly reduce infrastructure during the post-Cold War drawdown during the 1990s.\textsuperscript{15} As Chart 4 shows, rising O&M spending also roughly coincides with increases in the defense budget as a whole, meaning at least some avoidable O&M spending is as much a product of increased defense spending as it is a cause.\textsuperscript{16}
While several factors drive increased O&M spending due to the numerous functions the account funds, CBO has found that rising civilian personnel costs are the common factor across all the components of increased O&M spending. Compensation for Department of Defense civilian personnel has increased 35 percent since 2000, reflecting both a 10 percent increase in the number of civilian employees after September 11th, as well as increases in pay. As Chart 5 shows, outlays for civilian pay alone have increased 27 percent over the same period after declining by 25 percent in real terms from 1970 to 1999.
Acquisition

The Pentagon proposes to spend on acquisition—the combination of its procurement and research, development, test, and evaluation (RDT&E) accounts—$177.5 billion in FY 2016, a 13 percent increase from last year. While the increased request represents the Pentagon’s desire to recapitalize its forces after the wars in Iraq and Afghanistan, CBO finds that the increasing complexity of the weapons the Pentagon buys is the most important factor in increased acquisition spending since 2000.20

Two such complex weapon programs funded in the FY 2016 budget request continue to take up undue amounts of acquisition funding. The first is the Pentagon’s largest acquisition program, the F-35 Joint Strike Fighter. The FY 2016 budget request includes $10.6 billion in procurement and RDT&E funding for 57 F-35s; 14.6 percent of the Pentagon’s major weapons acquisition budget and, as Chart 6 shows, 43 percent of the requested funds for military aircraft. Thus far, $97.1 billion has been appropriated for the F-35.21 The other program is the Navy’s Ford-class aircraft carrier. The Pentagon is requesting $2.8 billion for the program in its FY 2016 budget. That represents 17 percent of the shipbuilding acquisition budget.
Both programs reflect problems inherent in the way the Pentagon buys weapons that will only be exacerbated with increased spending. Due to its joint development, the F-35 is intended to serve multiple purposes but is ill suited to succeed at any of them. The ability to serve multiple needs was supposed to keep the final price down, but costs have continued to increase while the program is adapted to meet the individual requirements of three separate services.

Decisions on jointly developed programs are more complex because at least some agreement is needed among all the parties involved, with capability most often sacrificed in the name of consensus. In the end, even that consensus is unlikely to produce savings as the managerial and technical problems that inevitably arise in executing the compromised decision result in continued cost overruns.

The *Ford*-class program is likewise notorious for its delays and cost overruns. Regardless, the case for making such large investments in aircraft carriers is dubious. While aircraft carriers have been the nation’s most important means of power projection since World War II, today’s advanced anti-ship ballistic missiles (ASBMs) and other anti-access/area-denial (A2/AD) weapons may make it too risky to employ carriers in a crisis. While not obsolete, carriers are unlikely to have the same utility they previously enjoyed.
Recognition of the fact that carriers are becoming more vulnerable has not been enough to change where the Navy chooses to invest its resources. Militaries are notoriously conservative institutions that do not change easily, and the Navy is perhaps the most tradition-bound of America’s armed services.\(^{27}\) It is also the most hierarchical service, and atop that hierarchy since World War II has sat carrier-based aviation.\(^{28}\) The Navy also judges the number of capital ships it maintains as indicative of the service’s health.\(^{29}\) All these cultural factors militate against a transition away from carriers to platforms better suited to operating in A2/AD environments as long as the Navy is secure in the knowledge its budget will grow. Increases in its budget will only encourage the Navy to invest in expensive defensive systems for its carriers that may not mitigate enough of the risk posed by ASBM\(\text{s}\) to continue to use them in their traditional power projection role.

The money being spent on the Ford-class would be better served as an investment in less vulnerable undersea capabilities, such as Virginia-class attack submarines or the replacement program for the Ohio-class ballistic missile submarine—the latter of which is projected to cannibalize the Navy’s shipbuilding budget in the coming decade, absent cuts elsewhere.\(^{30}\) As CBO reported last year, the Navy already underestimates how much its shipbuilding plans will cost, with the price of the proposed increase to 306 ships totaling $66 billion, or 13 percent, more than its own projection.\(^{31}\) The potential loss of missions or resources other services will provide the incentive to prioritize new capabilities better suited for future operating environments in which the Navy is most likely to find itself.

**OVERSEAS CONTINGENCY OPERATIONS SPENDING**

As noted above, the Obama administration is requesting $50.9 billion for the overseas contingency operations (OCO) account, a 21 percent decrease from last year. The amount includes $42.5 billion for ongoing operations in Afghanistan, $5.3 billion for the campaign against the Islamic State, $2.1 billion for the Counterterrorism Partnership Fund, and $789 million for the European Reassurance Initiative.

While the administration has touted the reduced OCO funding request, the decline is misleading. Between 2005 and 2013, supplemental funding for the war in Afghanistan averaged approximately $1.2 million per service member in theater.\(^{32}\) In recent years that number has gone up, even as overall OCO funding has declined. Last year the cost per service member was $4.2 million.\(^{33}\) This year, based on the Pentagon’s estimate of 5,853 troops in Afghanistan in 2016, the average cost per service member will increase to $7.2 million.\(^{34}\)

The Obama administration argues that the disparity reflects funds needed to transport forces from the war zone and to repair and replace damaged equipment, but that explanation is hard to accept. Instead, the likely reason is that the Pentagon wishes to use the OCO account as a slush fund exempt from BCA spending limits.\(^{35}\) Also,
because portions of the OCO budget are classified, it can be used to hide spending from scrutiny and debate.

**PROPOSED SAVINGS**

Besides the proposed personnel changes noted above, the Department of Defense claims it will garner savings from two other measures. First, it will cancel the Joint Standoff Weapon program and retire the Air Force’s fleet of A-10 Thunderbolt II close air support aircraft—which it claims will save a combined $469 million.  

Second, it will attempt to eliminate unnecessary infrastructure through base realignment and closure. Both measures have been proposed before, but neither is likely to be accepted.

The proposed A-10 retirement has been particularly controversial. The Air Force has argued that it needs to retire the popular “Warthog” to train maintenance crews for the introduction of the F-35, which will eventually take over the A-10’s role in close air support. The Air Force has gone to great lengths to make its case against the Warthog, with at least one effort drawing accusations that the service cherry-picked figures to inaccurately show that the A-10 had more friendly fire incidents than other close air support platforms.

While the A-10 is the military’s best platform for close air support, Congressional fidelity to it might also be part of the problem. At least one analyst has suggested that the Air Force proposal to retire the Warthog is a “poison pill” because the service knows Congress will not go along. Instead, the Air Force hopes Congress will appropriate more funds to train additional maintenance crews—which it did last year to the tune of $337 million. It makes sense to preserve the A-10, but rather than rewarding the Air Force, offsets should be found elsewhere to provide funding.

Efforts to close military bases and facilities have also been resisted on Capitol Hill. The Pentagon argues that its base infrastructure is 20 percent over what it needs and that the money saved by closing those facilities can be put toward improving readiness. Lawmakers rebut this argument, decrying upfront costs and noting the lackluster savings generated by the last round of base closings in 2005.

Base closures have always met with considerable congressional opposition due to fears of job losses in home states and districts. However, the data on past base closures demonstrates that reducing military infrastructure generally only affects direct military transfers from the area with little affect on per capita income. Moreover, congressional arguments about the lack of savings from the 2005 round of base closings ignore the fact that those closures were accompanied by a round of base construction and the force mobilization for the wars in Iraq and Afghanistan. Allowing the Pentagon to rid itself of excess infrastructure is an easy way for Congress to free space in the defense budget over the long term.
INNOVATION AND REFORM

The Pentagon is pursuing a Defense Innovation Initiative to develop advanced technologies as part of an attempt to maintain the U.S. military’s qualitative technological edge. Accordingly, the FY 2016 budget request includes $12.2 billion for the RDT&E account to pursue applied research. There is little indication, however, that the initiative provides incentives for innovation, that the military would adopt new technologies if they were developed, or that new doctrines for the technology would develop if adopted.

Money itself is not an incentive to innovate. While scholars differ on the causes of military innovation, research suggests that competition between the military services for scarce resources creates a market-like dynamic that provides powerful incentives for innovation. Under the current system, the incentive is for the services to collude to preserve their favorite programs. If they are decentralized they will be forced to innovate to ensure they retain missions and budget share.

The centralization of the Defense Innovation Initiative reflects larger problems plaguing the Pentagon. Management of the Department of Defense has been increasingly centralized since the end of World War II, reaching its zenith in 1986 with the Goldwater-Nichols Department of Defense Reorganization Act. This centralized management structure eliminated useful feedback mechanisms that generated information about what the Pentagon is doing right and what it is doing wrong.

Secretary of Defense Ashton Carter has repeatedly expressed his interest in reforming the Department of Defense, and Congress should encourage him to pursue greater decentralization in defense management. The “jointness” consecrated by Goldwater-Nichols may provide operational benefits, but it has perverse effects on planning. Managerial jointness encourages collusion among the military services where they might otherwise inform civilian defense officials and congressional overseers about wasteful practices that can be eliminated. Moreover, the services are able to present a united front against civilian attempts to cancel problematic and expensive weapon systems. Legacy platforms crowding out innovation in the acquisition budget are likely to persist as long as the services can collude to maintain their favored systems.

CONCLUSION

The Obama administration’s defense budget request for FY 2016 represents political calculation by the White House and a failure to plan by the Department of Defense. The administration hopes it can leverage domestic spending increases by promising to increase defense spending, while the Pentagon refuses to come to terms with Budget Control Act spending limits and plan accordingly. Defense officials continually invoke hypothetical across-the-board cuts to the Pentagon’s budget, ignoring that such cuts only occur if money is appropriated above BCA spending limits.
Meanwhile, the internal drivers of growth in the defense budget go largely unaddressed. The Department of Defense lacks the requisite knowledge to reduce its civilian workforce and continues to pursue complex weapons systems ill suited to future operating environments. The overseas contingency operations account continues to be used as a slush fund. Congress can assist the Department of Defense by allowing it to do away with unneeded infrastructure and enacting compensation reforms. However, simply increasing defense spending will do little to fix the Pentagon’s current problems and in some cases will make them worse.

Questions for Policymakers

- How does the Department of Defense plan to cut back its civilian workforce?
- Why does the Department of Defense continue to invest in expensive platforms against which potential adversaries have found less expensive countermeasures?
- How does the Pentagon plan to spur innovation? What incentives will the military services have to adopt new technologies developed through the Defense Innovation Initiative?


5 Figure based on budget authority from the founding of the Department of Defense in 1948 to 1989; see DoD, “Green Book”, Table 6-8.

6 International Institute of Strategic Studies, Military Balance 2015, 21.


10 Ibid, 255.


13 CBO, Growth in DoD’s Budget From 2000 to 2014, 5.


16 Cindy Williams, “The U.S. Defense Budget,” 10; and DoD “Green Book,” Table 6-8.

17 CBO, Growth in DoD’s Budget From 2000 to 2014, 6.

18 Ibid.

19 Calculations based on data from DoD, “Green Book,” Table 6-15.

20 CBO, Growth in DoD’s Budget From 2000 to 2014, 6.


22 The problems with the F-35 have been well documented. Besides the cost overruns and schedules delays in its development, criticisms about its performance center on its ability to perform close air
support because it does not loiter or provide protection for the pilot against ground fire like the A-10 Thunderbolt II, and that it is to heavy to maneuver in air-to-air combat against smaller fighters.

28 Ibid, 25.
29 Ibid, 21.
33 Ibid.
36 OMB, Fiscal Year 2016 Budget of the United States Government, 50 & 86.
Harvey M. Sapolsky, "Interservice Competition: The Solution, Not the Problem," Joint Force Quarterly (Spring 1997) 52.


Sapolsky, "Interservice Competition," 51.

Ibid; The united front presented by the military services was at least a contributing factor in Donald Rumsfeld’s inability to cancel programs during his attempt to transform the military, see Caitlin Talmadge, "Transforming the Pentagon: McNamara, Rumsfeld and the Politics of Change," Breakthroughs XV, no. 1 (Spring 2006), 19.