



February 5, 2018

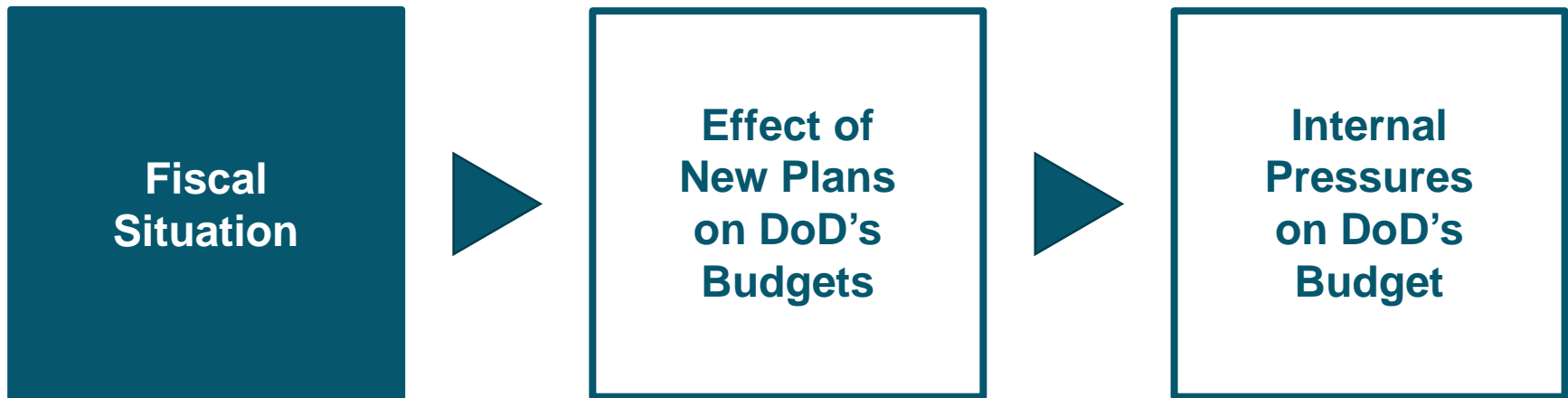
Prospects for DoD's Budget Over the Next Decade

Presentation at the Professional Services Council's
2018 Federal Strategic Planning Forum

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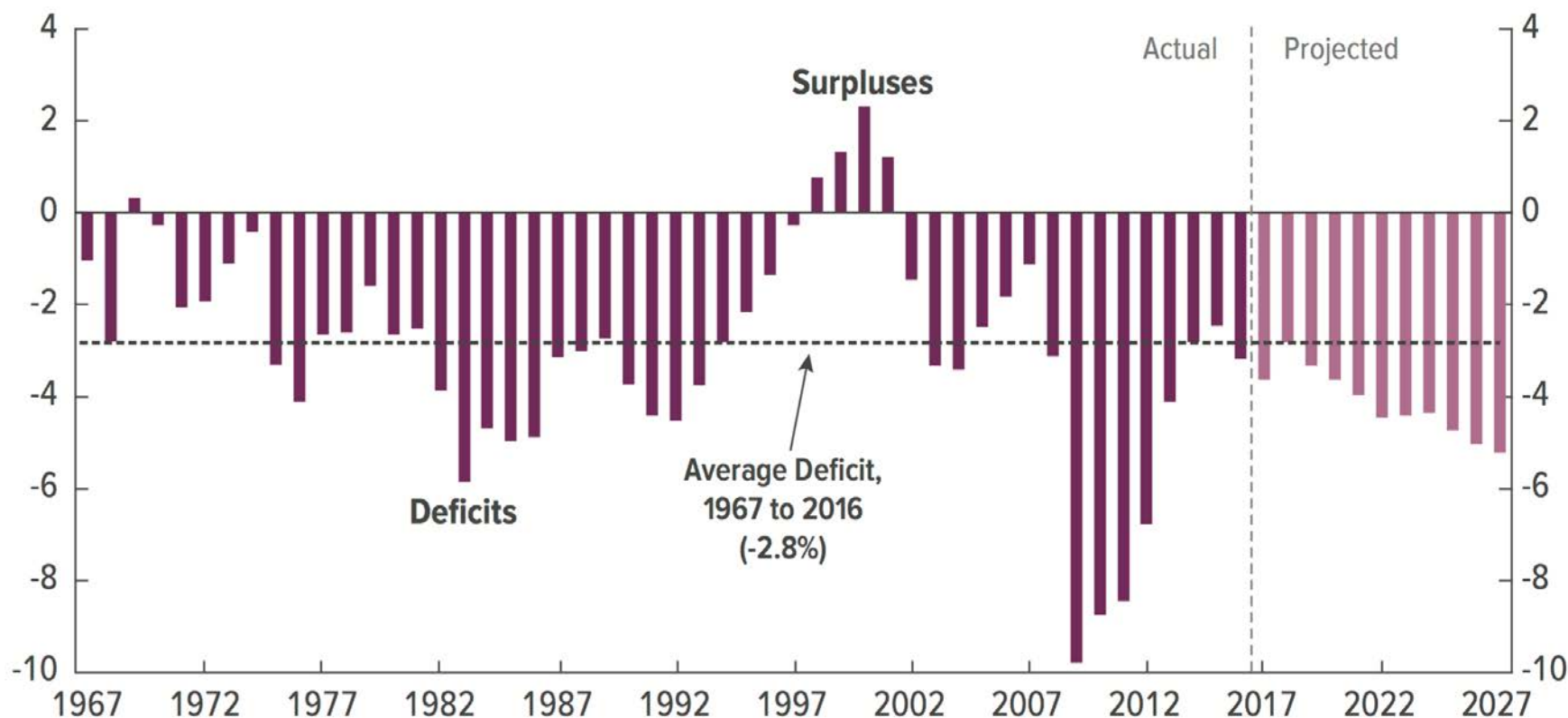
Outline



Deficits Grow Steadily Over the Next 10 Years

Deficits or Surpluses Under CBO's Baseline for Fiscal Year 2017 (As of June 2017)

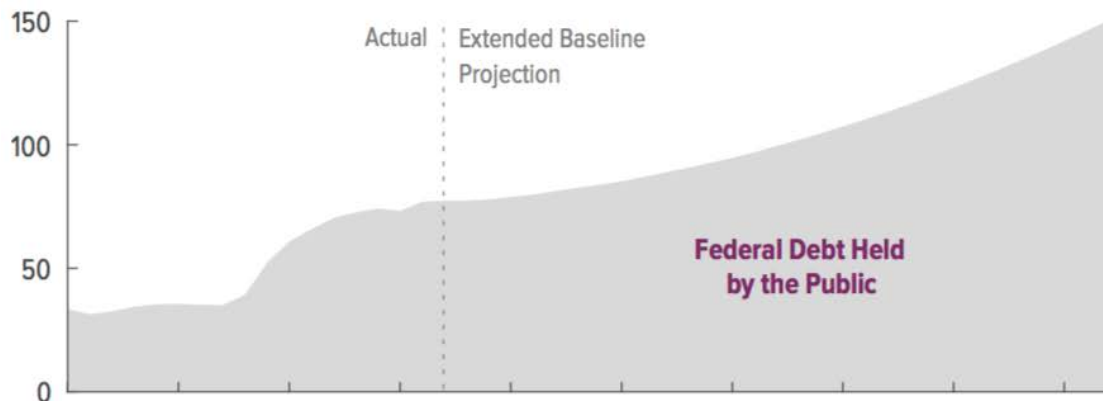
Percentage of Gross Domestic Product



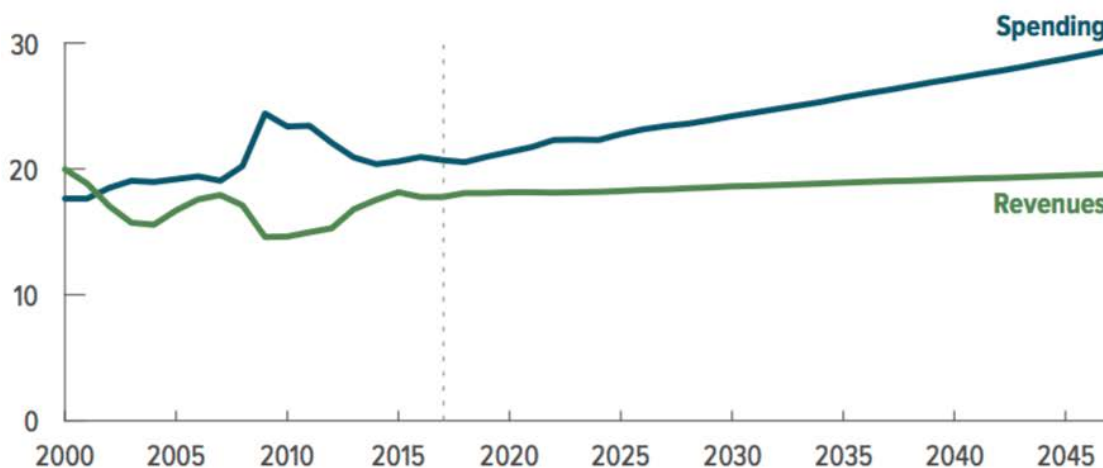
Debt Rises to Nearly 150 Percent of GDP by 2047

Debt Under CBO's Extended Baseline for Fiscal Year 2017 (As of May 2017)

Percentage of Gross Domestic Product



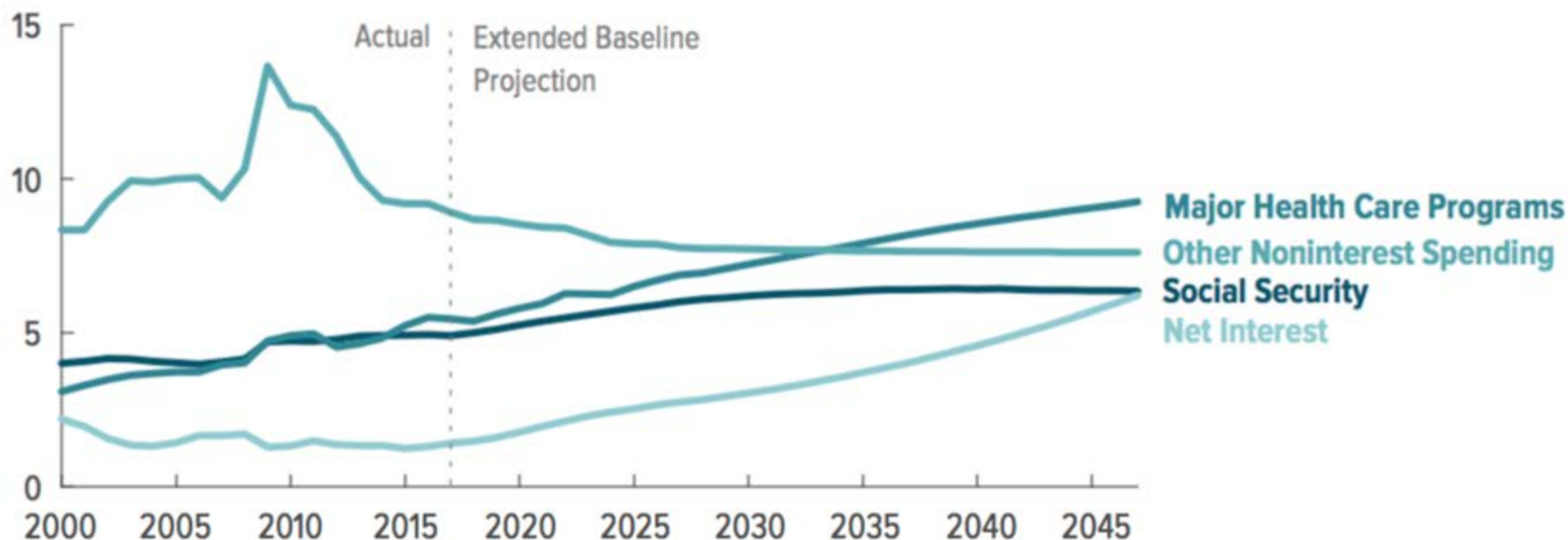
In CBO's extended baseline, **federal debt held by the public** rises . . .



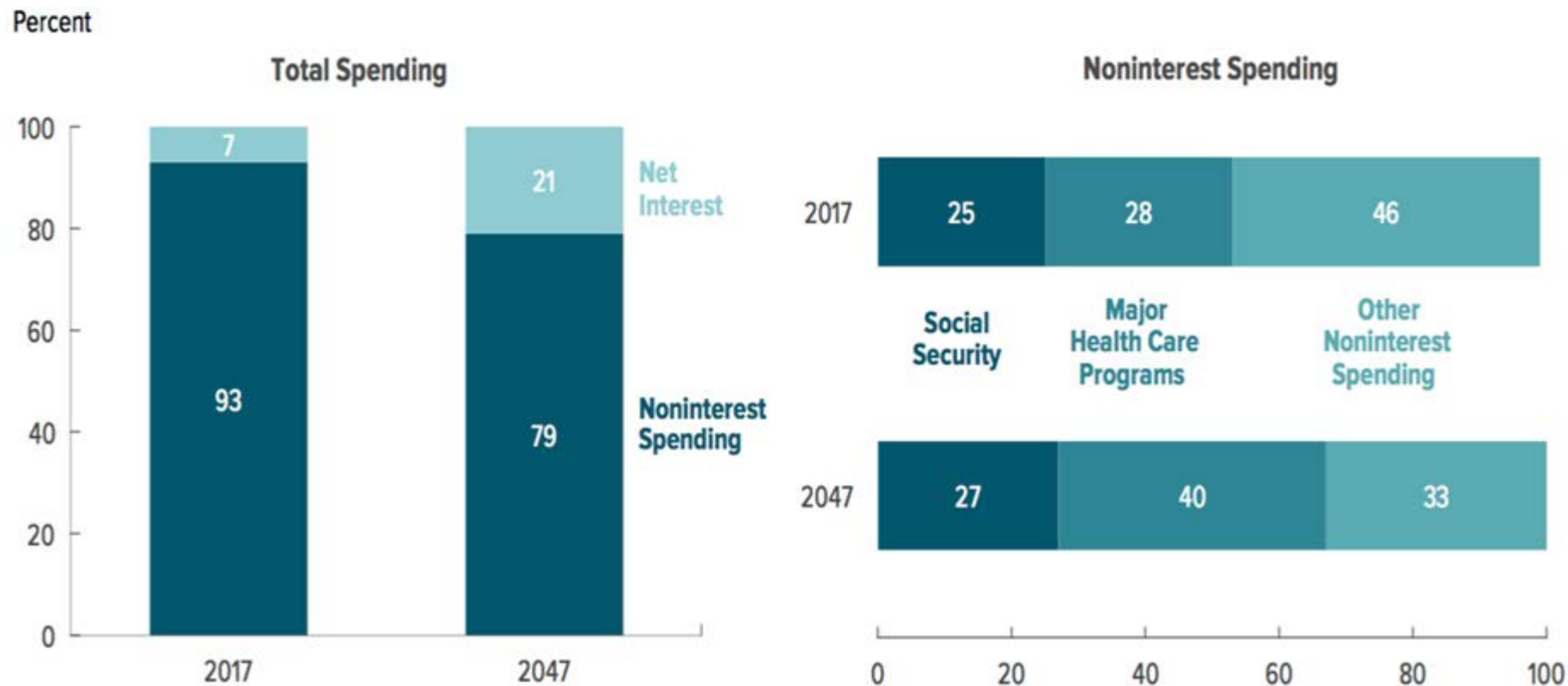
. . . because growth in **total spending** outpaces growth in **total revenues**, resulting in larger budget deficits.

Components of Federal Spending Under CBO's Extended Baseline for Fiscal Year 2017 (As of May 2017)

Percentage of Gross Domestic Product



Composition of Federal Spending Under CBO's Extended Baseline for Fiscal Year 2017 (As of May 2017)

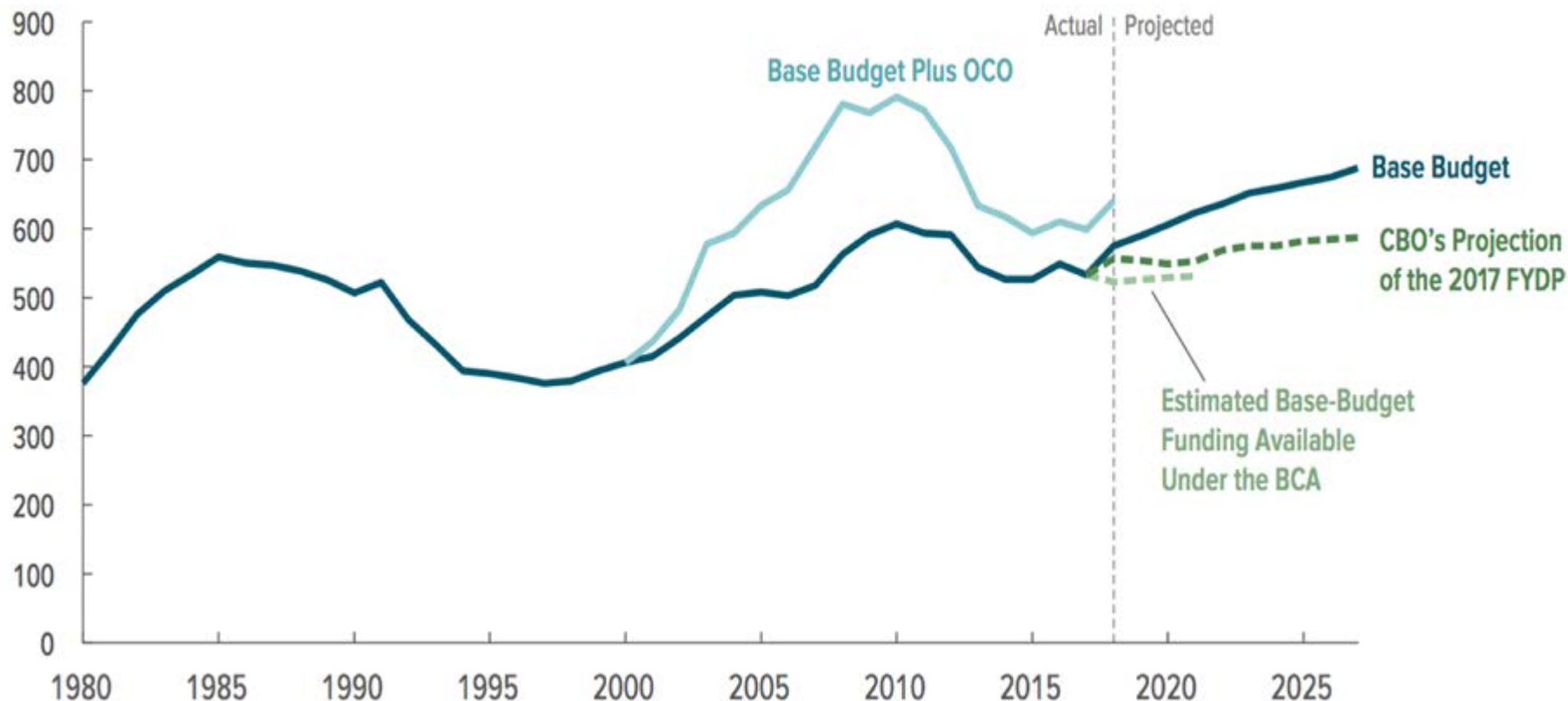


Outline



The Administration's Goals Would Increase Costs by \$680 Billion Over 10 Years, CBO Estimates

Billions of 2018 Dollars

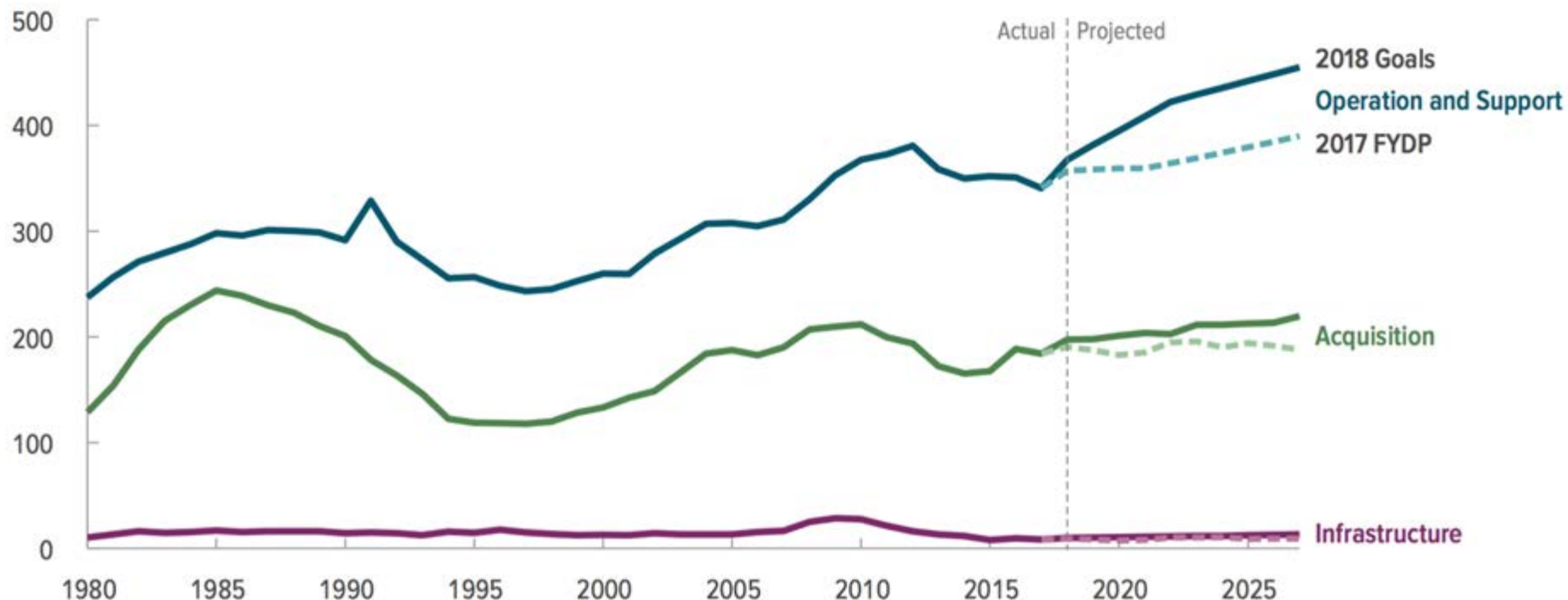


CBO Estimated How the Administration's Goals Would Affect Budgets

- Plans are unclear, but we have some rough outlines
 - Larger Navy (355 ships, up from planned 308 and current 279)
 - Larger Army (540,000 active endstrength, up from 460,000)
 - Larger Air Force (5 more fighter squadrons)
 - Increase Marine Corps (13,000 endstrength, 4 battalions)
 - Increase in readiness and modernization (in 2018 and beyond)
- Those plans would increase budgets relative to 2018 request
 - Increase active-duty military by 237,000 in 10 years
 - Increase spending by \$342 billion over 10 years
 - Increase annual spending by \$50 billion by 2027
 - Add \$20 billion per year for Navy (costs would continue to grow)
 - Add \$22 billion per year for larger Army
 - Add \$8 billion per year for larger Air Force
- Cost \$683 billion more over the next 10 years than the Obama Administration's last plan

Most of the Increase in Costs of Administration Goals Would Be in Operation and Support

Billions of 2018 Dollars



The Administration's Plan in the Context of the Budget Control Act (BCA)

- The Administration requested \$575 billion for DoD's base budget for 2018. The Congress authorized \$605 billion but has not appropriated it
- That total will exceed DoD's share of the BCA cap for 2018 by \$54 billion
- The cost of implementing the Administration's goals through 2021 will exceed BCA caps by \$295 billion, by CBO's estimate
- Reports suggest the 2019 budget request will exceed CBO's estimate of about \$600 billion for 2019

Outline



The Three Major Categories of the Defense Budget Each Have Their Own Momentum

- Costs of developing and buying weapons have been, on average, 20 percent to 30 percent higher than DoD's initial estimates
- Costs for compensation of military personnel—including their active and retired health care benefits—have been rapidly increasing since 2000
- Costs of operation and maintenance per active-duty service member have been steadily increasing since at least 1980

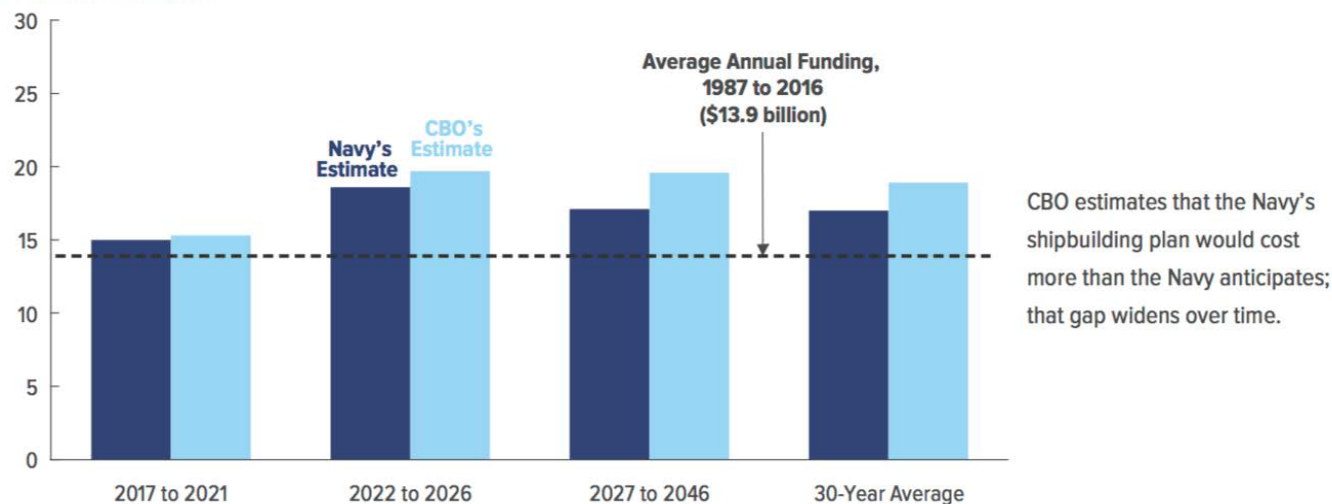
These internal pressures in DoD's budget create mismatches between the FYDP and cost of DoD's plans

Example #1 of Budgetary Momentum: The Navy's Shipbuilding Program

- CBO estimates that the 2017 shipbuilding plan will cost more than the Navy estimates
- The plan would fall short of meeting the service's inventory goal for some types of ships
- Historical average funding would be insufficient to cover the shipbuilding contained in the plan

Average Annual Costs of New-Ship Construction Under the Navy's 2017 Plan

Billions of 2016 Dollars



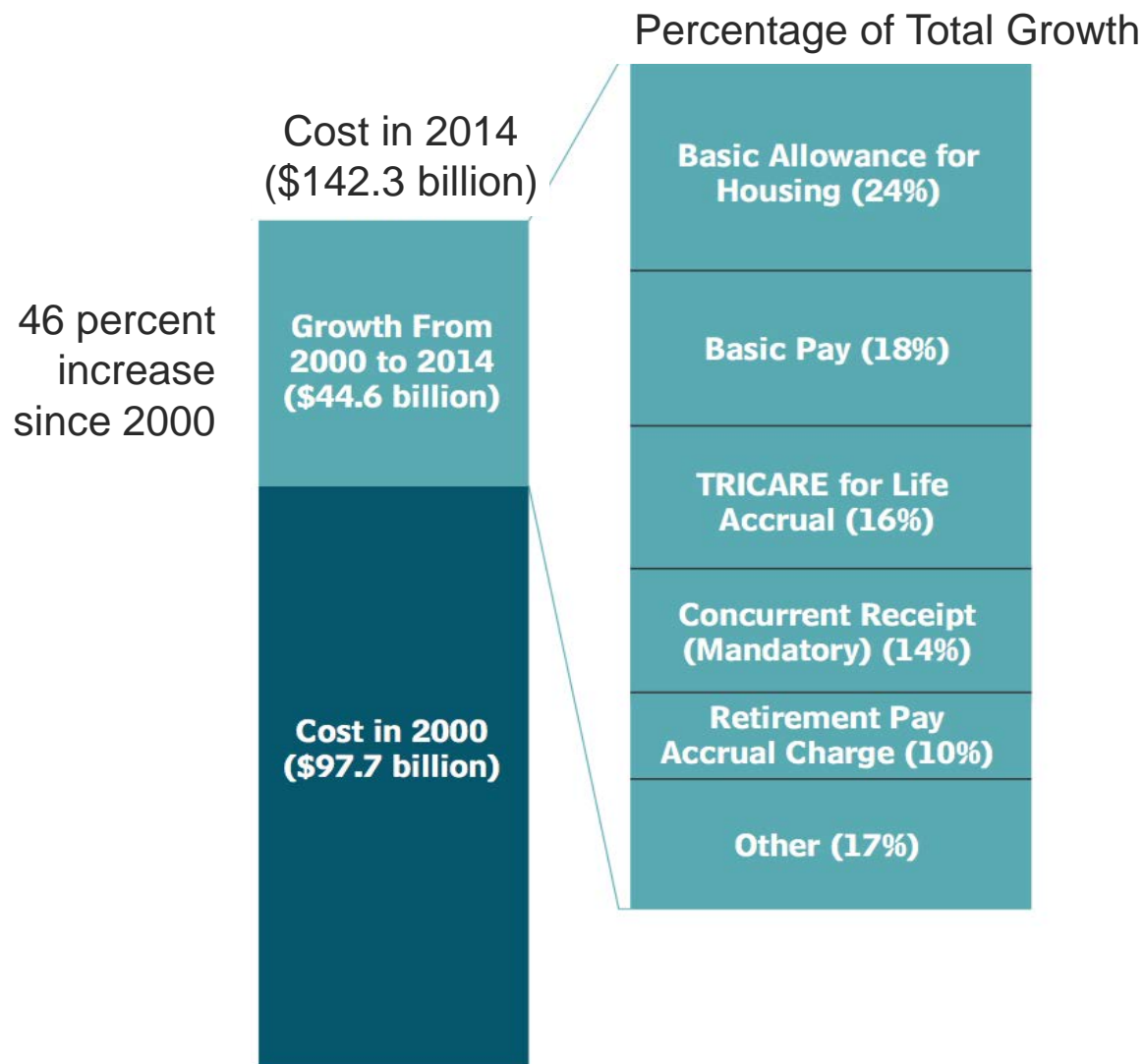
CBO estimates that the Navy's shipbuilding plan would cost more than the Navy anticipates; that gap widens over time.

Source: Congressional Budget Office, using data from the Department of the Navy.

Example #2 of Budgetary Momentum: Pay and Benefits of Military Personnel

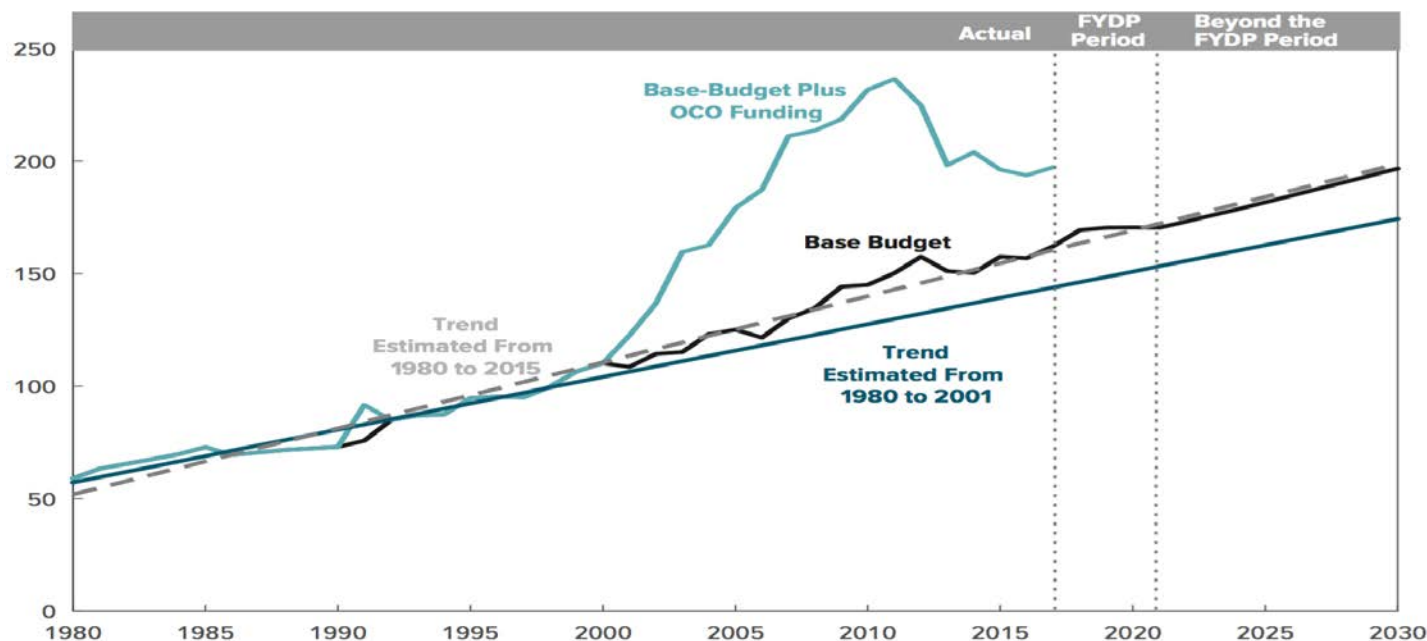
- Annual increases in military basic pay exceeded the percentage increase in the Employment Cost Index (ECI) by at least 0.5 percent for each of the years between 2001 and 2010
 - Basic pay raises then equaled the ECI from 2011 through 2013
 - From 2014 through 2016, the capped basic pay raise was below the ECI
- DoD estimates that cash compensation for enlisted military personnel exceeds that for 90 percent of workers with similar education and years of experience
 - Noncash compensation (health care and others) amplifies that gap

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



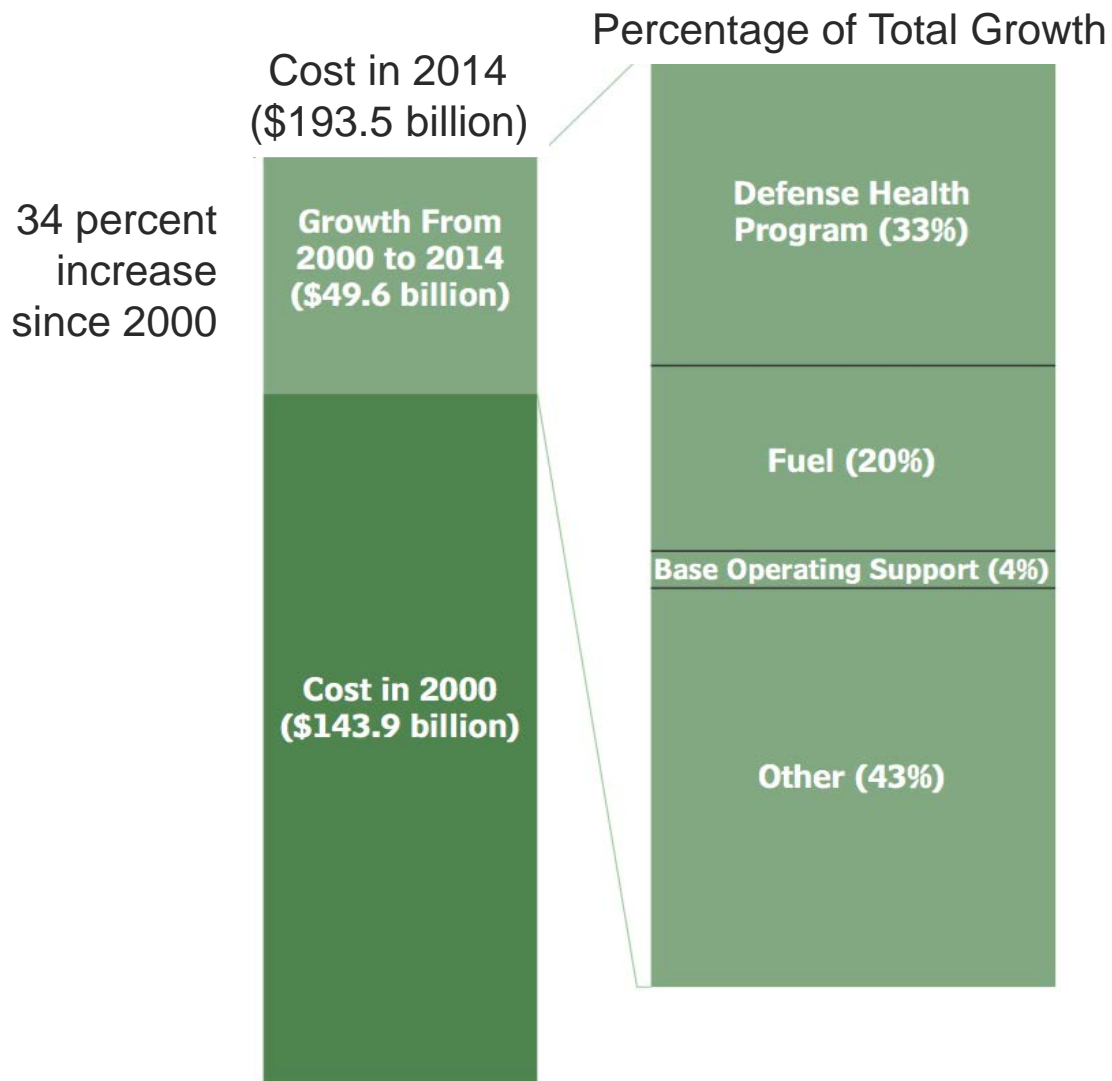
Rising O&M Costs per Active-Duty Service Member

- O&M pays for most DoD civilians' salaries; goods and services (below procurement thresholds); fuel; maintenance; contractor services; etc.
- Compared with the prewar (1980–2001) trend, DoD's 2017 FYDP:
 - Rises at \$2,600 per year (compared with a historical rise of \$2,300 per year)
 - Becomes \$20,000 per person (about 15 percent) higher in 2020 than extrapolated prewar trend



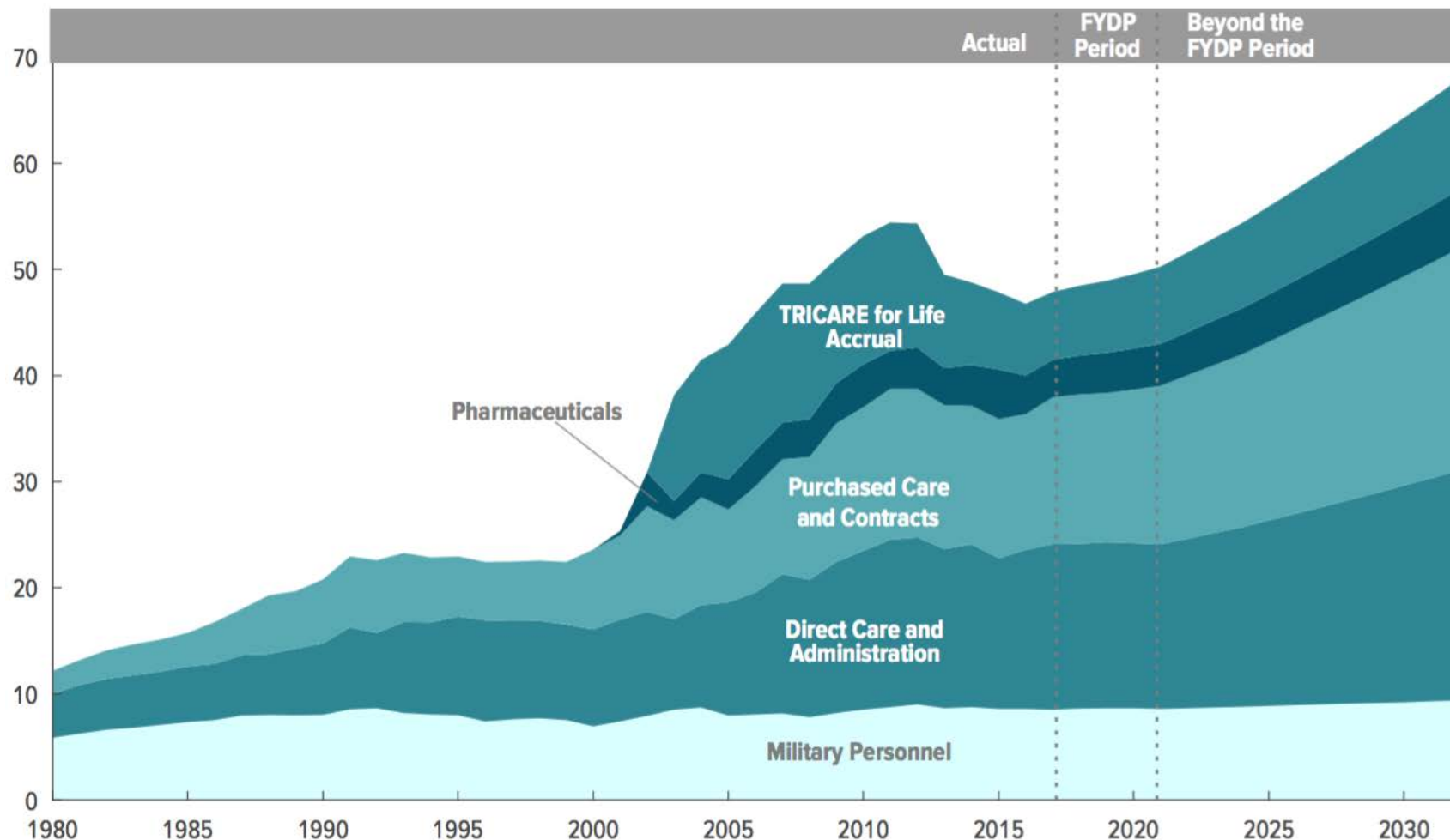
Source: Congressional Budget Office, *An Analysis of the Obama Administration's Final Future Years Defense Program* (April 2017), www.cbo.gov/publication/52450.

Sources of Growth in Operation and Maintenance Costs, Fiscal Years 2000 to 2014



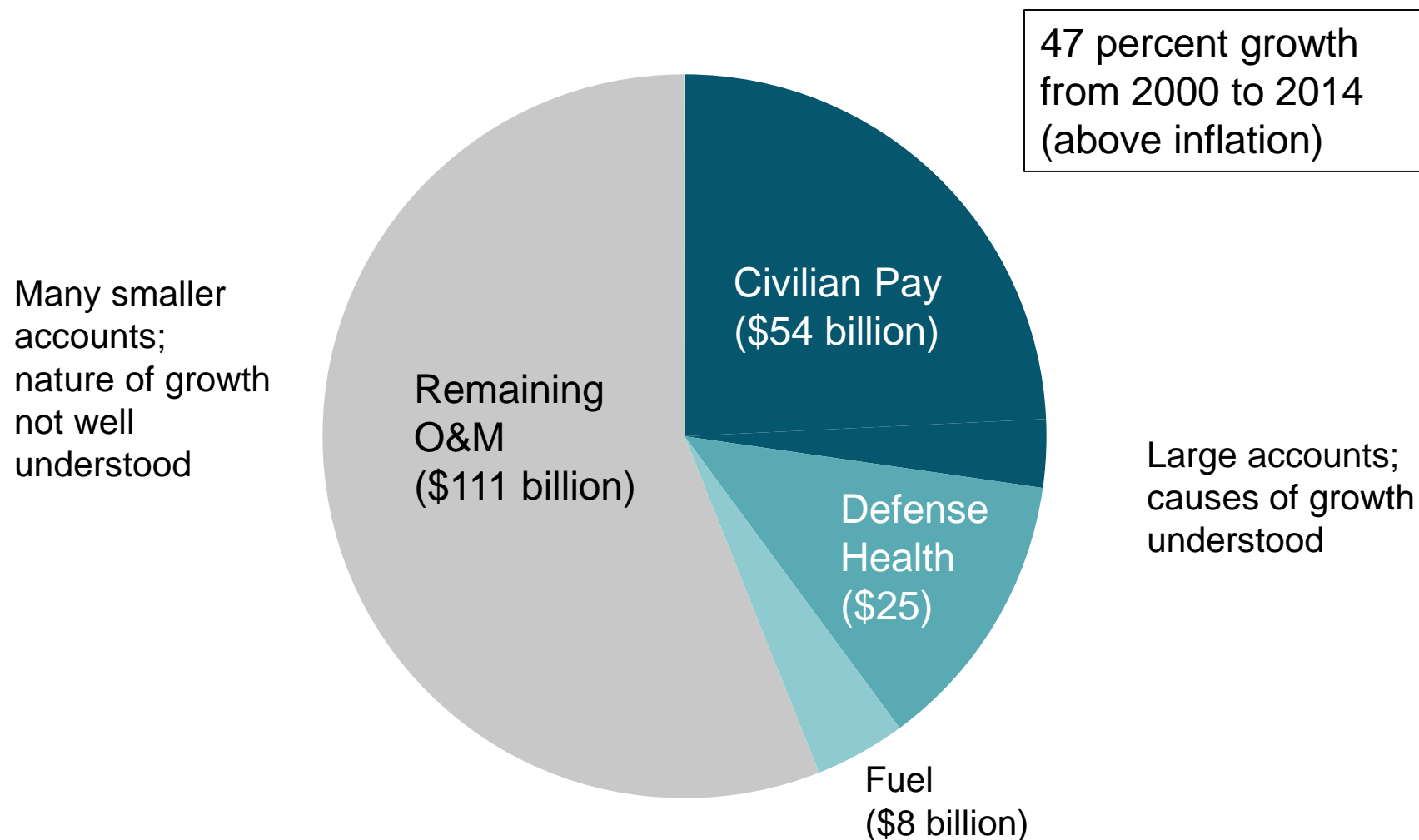
Projected Costs for the Military Health System

Billions of FY 2017 Dollars



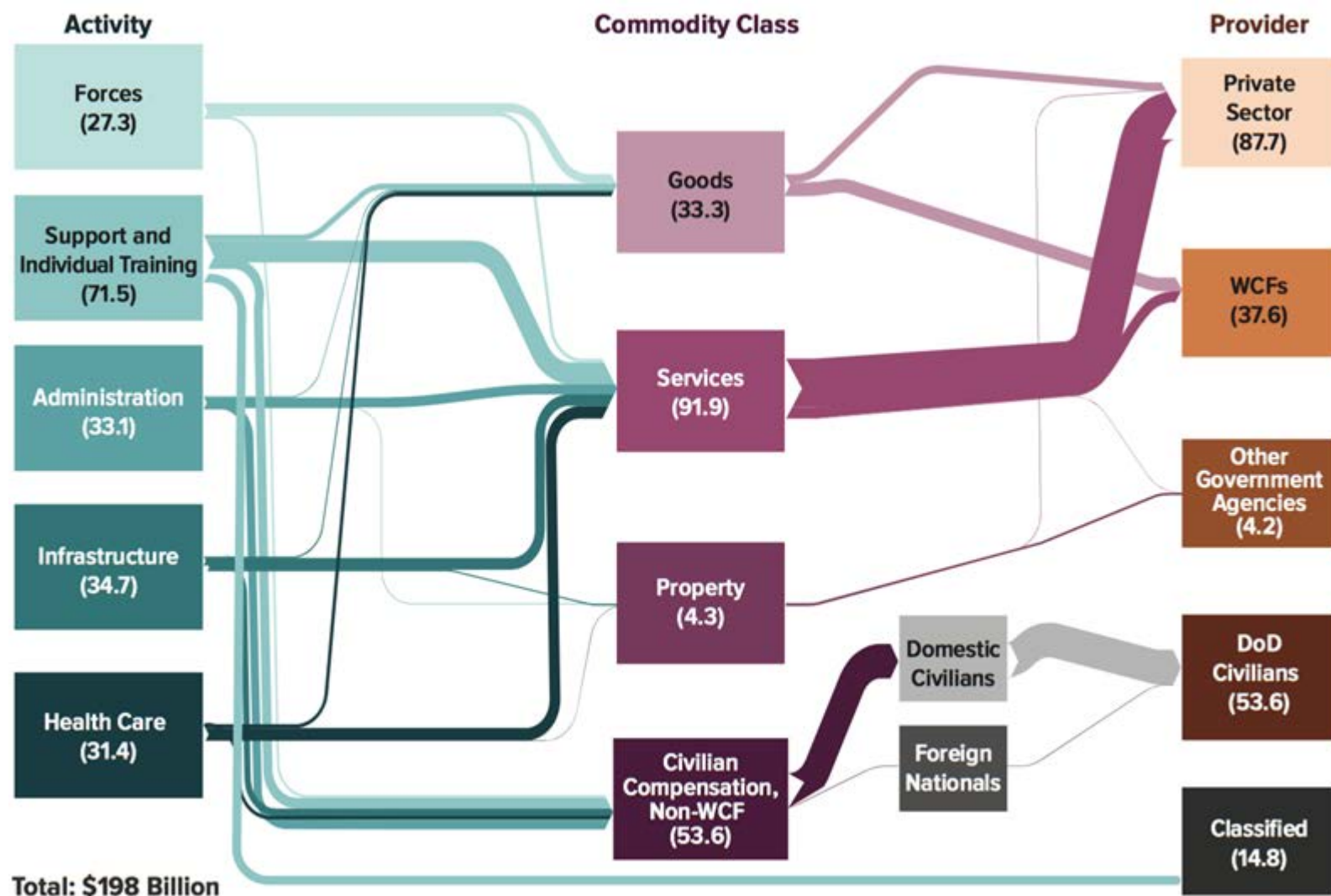
Source: Congressional Budget Office, *An Analysis of the Obama Administration's Final Future Years Defense Program* (April 2017), www.cbo.gov/publication/52450.

The Elements of Operation and Maintenance Costs, 2012



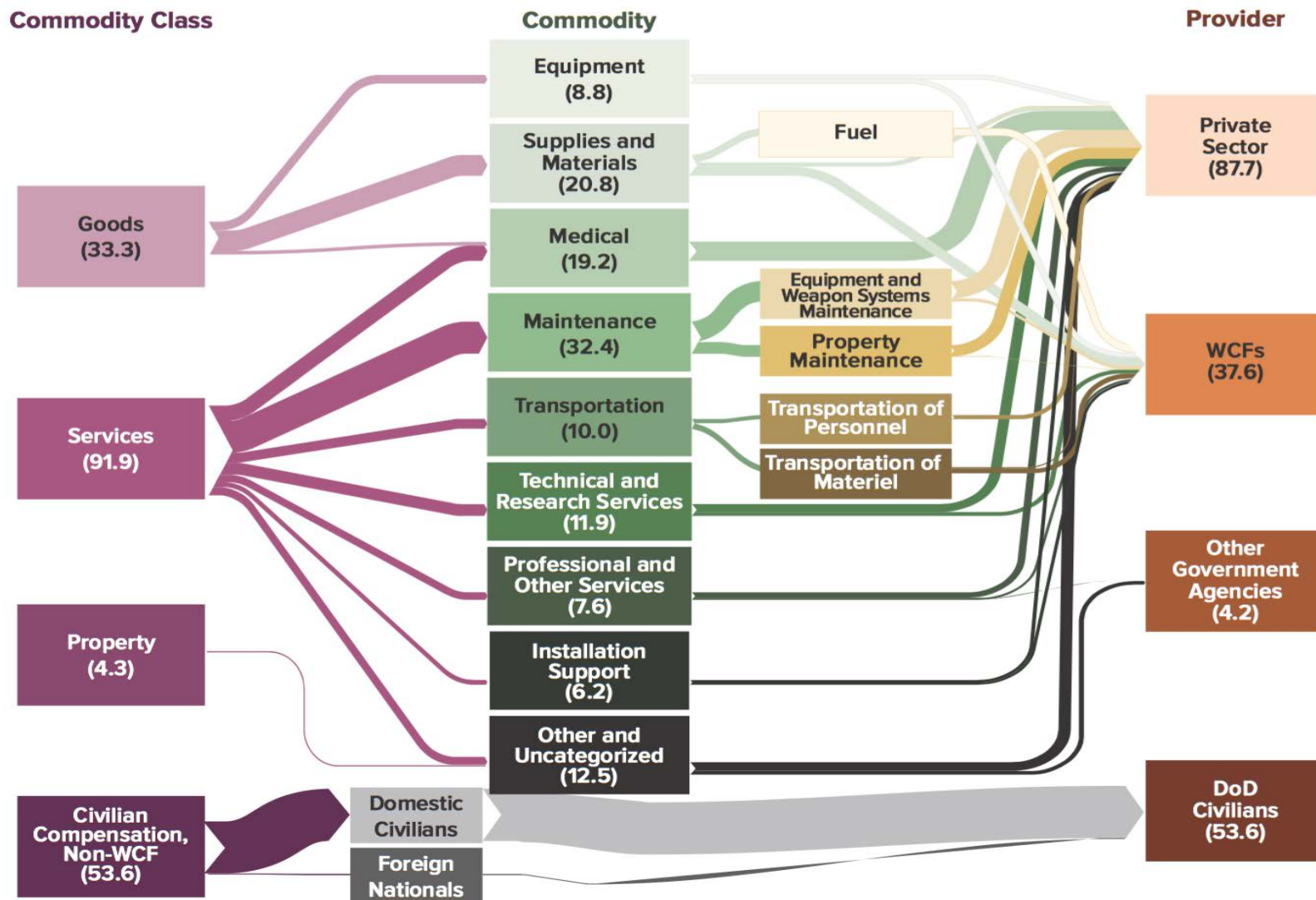
Base-Budget O&M Purchases, 2012

Billions of 2012 Dollars



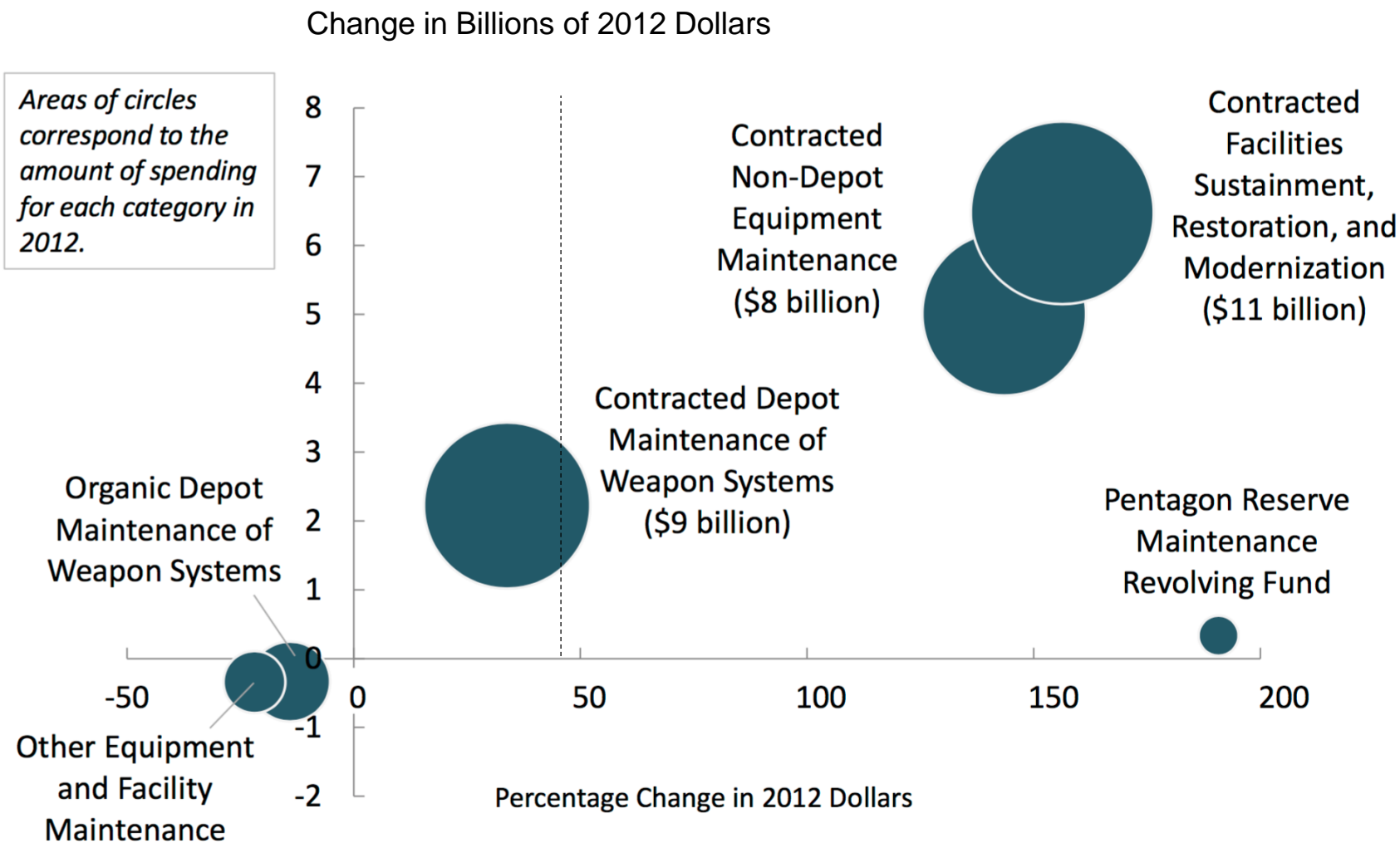
Source: Congressional Budget Office, *Trends in Spending by the Department of Defense for Operation and Maintenance* (January 2017), www.cbo.gov/publication/52156.

Base-Budget O&M Purchases, Including Commodities, 2012



Source: Congressional Budget Office, *Trends in Spending by the Department of Defense for Operation and Maintenance* (January 2017), www.cbo.gov/publication/52156.

Growth in Base-Budget O&M for Equipment Maintenance and Property Maintenance, 2000 to 2012



DoD May Face Continuing Budget Pressure in the Future

- The U.S. fiscal picture gets steadily worse over the next decade and even worse after that
- The end of the Budget Control Act may not reduce pressure on defense spending
- Internal pressures on DoD's budget from rising O&M and military personnel costs will:
 - Reduce the buying power of defense dollars by a few percentage points every year (after removing the effects of inflation)
 - Reduce the amount of procurement and R&D that can be done