THE CHALLENGES FACING DOD: THE EVER SHRINKING FIGHTING FORCE

A Presentation for the Center for Strategic and International Studies

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The Sequester Backdrop

• The decreased spending DOD now faces is less than the post-Vietnam, post-Cold War periods but dramatically different
  – The Department’s internal cost drivers have fundamentally changed with personnel, health care, deferred compensation, and acquisition cost-growth consuming an ever increasing percentage of all spending.
  – The ratio between the fighting force and DoD’s infrastructure is much worse = “more tail, less tooth”
  – The external political balance of power not as unfavorable to defense, despite increased threats and instability

• This course, unchanged, will result in a dramatically reduced US fighting force that is less ready, less capable and too small for our national security.
Summary of Sequester’s Impacts On National Security
*“From Stupid to Dangerous”*

- **Force readiness deteriorating**: Military is approaching post-Vietnam hollow force—most non-deploying units are not combat ready.

- **Modernization stalled**: Research and procurement of weapons systems critical for future missions has been significantly cut will lead to unit cost increases, schedule delays and fewer units.

- **Decision process broken**: The proven method of linking vital interests, threats, military strategy, requirements, and resources has been broken by sequester’s automatic cuts.

- **Structural problems exacerbated**: The combination of sequester and unaddressed structural problems in the defense budget—including costs of personnel and growing defense-wide overhead, and inefficient acquisition—will reduce the fighting forces by up to 50% by 2021.

Note: See Bipartisan Policy Center report co-authored by:
Arnold Punaro, Former Staff Director, SASC
Steve Bell, Former Staff Director, Senate Budget Committee
Declining Bang For Buck

- The combination of sequester cuts and unaddressed cost increases will erode force readiness, stall modernization, and reduce the fighting forces by at least 50% by 2021.

End of Reagan

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<td>Army</td>
<td>20</td>
<td>10</td>
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Ground Divisions
-14 divisions

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<th>1988</th>
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End of Sequester

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<td>2789</td>
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| AF Fighter/Attack
-1,632 aircraft

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<td>Ships</td>
<td>558</td>
<td>331</td>
<td>275</td>
<td>228</td>
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</table>
| Naval Combatants
-330 ships; 15 Carriers to 7 Carriers

Sources: FY 2014 Greenbook, Shipbuilding History, DoD Service Budget docs, TPG & Consensus of Think-Tank analysts; BPC report
FY2012

By 2021, the personnel, health care, and defense wide costs will consume 100% of the budget without reform to current cost trend

O&M costs per active-duty:
- 1980 = $55K
- 2001 = $105K
- 2010 = $211K

FY2021

Fully-Burdened costs of active duty:
- FY2013 = $384K

Sources: CSIS analysis; DoD Greenbook; TPG analysis; BPC report
DoD BA in constant FY14 dollars obtained from Table 6-10
FY13 baseline estimated based on post sequester value of $496.8B adjusted to FY14 constant dollars
FY19 and beyond from table 1-11 and projects constant dollars using extrapolation of deflators contained in Table 5-6
OCO data in orange bars adjusted to constant dollars
Black line represents projected sequester level based on $52B (051) taken from BCA Cap

The Sequester reduces funding in ‘13/’14 then “flattens” out at levels higher than the “bottom” of previous drawdowns
The Real Numbers In “Spending Authority”

- **FY13**
  - Pre-sequester enacted: $527.8B DoD Base, $87.2B OCO
  - Post-sequester level: $496.6B DoD Base, $87.2B OCO

- **FY14**
  - CR level (annual run rate of funding level): $496.6B for DoD base @ FY13 post-sequester level
  - FY14 sequester level: $481B DoD Base

- Caution necessary evaluating various sources of budget information since there has been mixing of appropriation figures with agency figures, which are different

- Two ways of looking at topline levels:

  **Compared to CR**

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<td>FY13</td>
<td>527.8</td>
<td>-31.2</td>
<td>496.6</td>
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<tr>
<td>FY14</td>
<td>527.7</td>
<td>496.6*</td>
<td>-15</td>
<td>481.6</td>
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  *Based on rates in current CR, already at FY13 post sequester levels

  **Compared to Request**

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<th>Sequester Cut</th>
<th>Post Sequester Base</th>
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<tr>
<td>FY13</td>
<td>525.4</td>
<td>-28.8*</td>
<td>496.6</td>
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<tr>
<td>FY14</td>
<td>533.6</td>
<td>-52</td>
<td>481.6</td>
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  *Modified based on ATRA and CR from original $52B required

$6B in prior year obligations were cut by sequester to reach $37B total cut for FY13 sequester
“Double, Double Toil & Trouble
Witches Brew & Conference Muddle”
Possible Outcomes of the Budget Conference -- “Mixing the Witches Brew”

1) **Impasse Remains.** No change to current caps and sequester in the Budget Control Act, Conference ends with partisan bickering & FY14 yearlong CR. (If past is prologue, conventional wisdom suggests more of the same)

2) **No Relief, But Flexibility.** Agreement to pass appropriations measures for FY14 at sequestration levels, but with flexibility to administratively manage cuts under the caps.

3) **Short Delay & Partial Offset.** One or two year delay of some fraction of sequestration, fully offset (neutral to deficit) with flexibility to manage the remainder of the cuts.*

4) **Short Delay & Full Offset.** One or two year delay of sequestration cuts, fully offset (Challenge is agreeing on $200B in offsets).

5) **Eliminate Sequester.** Permanent end to sequester, fully offset (As much chance as the Cubs winning the series).

6) **“Grand” or “Baby” Bargain.** With revenues, entitlements, spending in a package (When hell freezes over).

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*Option 3 could include some new negotiated balance of cuts between defense and non-defense; it’s unlikely that Republicans will agree to keep only defense sequester and equally unlikely that Democrats will agree to end only defense sequester.
Current Alarming Trends
- Are Made Worse by Sequester -

• Budgets have increased but fighting force structure has decreased
• ‘Tooth to Tail’ -- bad at the outset -- has worsened
• Unchecked growth in fully-burdened costs of Military Personnel
• General declines in active, guard and reserve end strengths
• Dramatically increased Per-Capita costs of military and civilian personnel
• Significant growth in Defense Wide Spending / DoD “overhead”
• Continued inefficiencies and cost growth in DoD acquisition programs and processes
Projected BA Impact on Select Procurement Programs in FY13/14

- Some procurement programs have a large balance of prior year funds – reducing the total impact of the FY13 cuts (FY13 and prior year procurement cut: -$10B).
- FY14 cuts will be felt sooner (projected FY14 procurement cut: -$11B).
Projected BA Impact on Select RDT&E Programs in FY13/14

- Most RDT&E programs are funded year to year with limited balances of prior year funds (FY13 and prior year R&D cut: -$6B)
- Contractors in the RDT&E space will feel the effects of reductions more quickly and will experience larger reductions in FY14 (FY14 projected R&D cut: -$8B)
Projected Spending Reductions From Defense Sequester Through FY2017

Note: Analysis includes sequestration cuts to budget authority of FY13-17 appropriated accounts and unobligated balances, assuming cuts to unobligated balances have the same effect on outlays.
Sources: Department of Defense; Bipartisan Policy Center calculations
Defense Strategy & Budgeting Process
Broken By Sequester

THE RIGHT WAY

- DoD excels at long-term planning, programming, budgeting, and execution processes.
- This is a multi-year approach that proceeds from threats to strategy to resources resulting in a budget recommendation to Congress.
- Congress undertakes authorization and appropriation process with extensive hearings and oversight resulting in approval or disapproval of DoD recommendations at all levels.

THE WRONG WAY

- Sequester breaks these links and replaces thoughtful prioritization and decision-making with mindless cuts.