Defense Outlook 2016:
What to Know, What to Expect

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CSIS CENTER FOR STRATEGIC & INTERNATIONAL STUDIES
International Security Program
What is the Defense Outlook Series?

• A CSIS Series on the intersection of strategy, budget, forces, and acquisition

• Will include four annual publications:
  • *The Defense Outlook*
  • *Analysis of the Defense Budget Request*
  • *Force Structure Implications of the Defense Budget Request*
  • *Defense Acquisition Trends*
Strategy and the Security Environment in 2015

• ISIS
  • Syria-Iraq
  • Around the world
• Iran nuclear deal
• CT operations in Afghanistan
• Russia
  • Ukraine
  • Syria
• China
• OPM data breach

• Global challenges
  • Syria-Iraq theater
  • Global ISIS
  • Iran
  • Russia
  • China
  • Mission in Afghanistan

• Advancing strategic priorities in the defense budget

• US defense reform
The Defense Budget in FY 2016

February 2, 2015
President’s budget submitted

May 5, 2015
Budget resolution adopted by Congress

October 7, 2015
NDAA sent to president

October 22, 2015
NDAA vetoed by president

November 2, 2015
BBA signed into law

November 25, 2015
Revised NDAA signed into law

December 18, 2015
FY 2016 appropriations signed into law
What to Expect for the Defense Budget in FY 2017

• Topline unlikely to change significantly from budget deal

• Issues to watch:
  • *Economic and efficiency assumptions*
  • *Capability vs. capacity and the competition for resources*
  • *Use of OCO funding in the request*
Forces in FY 2016 – Tracking Along Administration Plan

- **Army:**
  - Continues drawdown and brigade reorganization
  - Location of unit deactivations announced
  - ARI/AH-64 restrictions continue

- **Navy:**
  - Cruiser inactivation plan (“2/4/6”)
  - +2 1/2 ships in FY 2016
  - Optimized-Fleet Readiness Plan – implementation continues
  - National Sea Based Deterrence Fund – still in nebulous status

- **Air Force:**
  - Restrictions on deactivation of legacy aircraft: A-10, total TacAir, bombers, EC-130/JSTARS/AWACS
  - Enhancement of nuclear enterprise

- **Marine Corps:** Reaffirmation of mission

- **Civilians:** Efforts to make more like private sector and more deployable; Pay raise, 1.3%, same as military

- **Contractors:** Cuts in HQ support

- **DOD-Wide:**
  - 25% cut to HQ
  - Guard and Reserve Equipment (NGREA)

## FY 2016 End Strength

<table>
<thead>
<tr>
<th></th>
<th>Proposed</th>
<th>Authorized/Funded</th>
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<tbody>
<tr>
<td>Army Active</td>
<td>475,000</td>
<td>475,000</td>
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<tr>
<td>Army National Guard</td>
<td>342,000</td>
<td>342,000</td>
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<tr>
<td>Army Reserve</td>
<td>198,000</td>
<td>198,000</td>
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<tr>
<td>Navy Active</td>
<td>329,200</td>
<td>329,200</td>
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<tr>
<td>Navy Reserve</td>
<td>57,400</td>
<td>57,400</td>
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<tr>
<td>Air Force Active</td>
<td>317,000</td>
<td>320,715</td>
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<tr>
<td>Air Force Reserve</td>
<td>69,200</td>
<td>69,200</td>
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<tr>
<td>Marine Corps Active</td>
<td>184,000</td>
<td>184,000</td>
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<tr>
<td>Marine Corps Reserve</td>
<td>38,900</td>
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<tr>
<td>Total</td>
<td>2,116,200</td>
<td>2,119,915</td>
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</table>
Looking Ahead: Congressional Action on FY 2017

Service Endstrength

<table>
<thead>
<tr>
<th>Service</th>
<th>FY 2016 Funded</th>
<th>FY 2017 Planned</th>
<th>Change</th>
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<tr>
<td>Army</td>
<td>475,000</td>
<td>450,000</td>
<td>-25,000</td>
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<tr>
<td>Army Nat Guard</td>
<td>342,000</td>
<td>335,000</td>
<td>-7,000</td>
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<td>198,000</td>
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<td>Navy</td>
<td>329,200</td>
<td>326,500</td>
<td>-2,700</td>
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<tr>
<td>Navy Reserve</td>
<td>57,400</td>
<td>~58,000</td>
<td>+600</td>
</tr>
<tr>
<td>Air Force</td>
<td>320,715</td>
<td>312,900</td>
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<tr>
<td>Air Nat Guard</td>
<td>105,500</td>
<td>102,800</td>
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<td>Air Force Res</td>
<td>69,200</td>
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<tr>
<td>Marine Corps</td>
<td>184,000</td>
<td>182,000</td>
<td>-2,000</td>
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<tr>
<td>Marine Corps Res</td>
<td>38,900</td>
<td>38,000</td>
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<tr>
<td>Total</td>
<td>2,119,915</td>
<td>2,067,500</td>
<td>-52,415</td>
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Significant drawdown, trading capacity for capability

- Overall: Implementation of existing plans, but expect Congressional concerns about force size
- Army:
  - Drawdown to goal of 450,000. Is that too low?
  - Commission on Future of the Army
- Navy:
  - Curtailment of LCS buy: “Posture” v. “presence”
  - Re-propose cruiser inactivation plan?
  - 10 ships planned; 9 now w/ reduced LCS buy?
- Air Force:
  - Retain A-10s for now
  - Close air support demonstration?
- Marine Corps: Female integration
- Civilians: Pay raise, 1.3% or something else? Same as military?
- Contractors: Administration initiatives complete
  - A-76?
- Force of the Future: “Tranche 2”? 
What Happened With Acquisition in 2015?

• 2015 served as a major inflection point for defense acquisition
• Three closely related trends emerged in 2015:
  • Contract spending likely bottomed out
  • Acquisition reform shifted focus from efficiency and increased productivity toward a focus on innovation
  • Industry began to reorient itself towards new ways of capturing potential growth
What Happened With Acquisition in 2015?

• Decline in Contract Spending Coming to an End
• Five-Year Trough in the Pipeline for Major Weapon Systems
• The Pursuit of Innovation and the Emergence of the Third Offset Strategy
• Major Program Developments
• Services Contracts Surprisingly Resilient
• Acquisition Reform Focus Shifted
• Industry Structure Responded to Spending Shifts
Sequestration Accelerates the Decline in Both Total DoD Obligations and DoD Contract Obligations
“Seed Corn” R&D Preserved During Downturn; Five-Year Trough in MDAP Development Pipeline

![Graph showing the change in R&D funding from 2000 to 2014.](chart.png)

- **Basic Research (6.1)**
  - (-24% 2012-2014, -32% 2009-2014)
- **Advanced Technology Development (6.3)**
  - (-32% 2012-2014, -50% 2009-2014)
- **System Development & Demonstration (6.5)**
  - (-41% 2012-2014, -66% 2009-2014)

**Stage of R&D (BAC)**

- **Overall DoD R&D:**
  - (-27% 2012-2014, -43% 2009-2014)
Small Vendors (Particularly in Electronics & Communications) Preserve Market Share as Overall Market Declines
What To Look For with Acquisition in 2016?

• The three key issues to watch for in defense acquisition are:
  • How does the pace of recovery for contract obligations compare to the growth in the Defense Budget?
  • How successful are DoD’s efforts to increase access to innovation from traditional and non-traditional defense suppliers in 2016?
  • How does the structure of the defense industry evolve in response to a growing market after five years of decline?
Conclusions

Three overarching themes emerged from this analysis:

1. 2016 is unlikely to bring about major change in the administration’s defense strategy and policies
2. The world will not stand down while the United States waits to elect a new president
3. The recent budget agreement likely signals a turnaround for the defense budget
JOHN HAMRE

Reflections from CSIS’s President & CEO

REFLECTIONS: LOOKING BACK AT THE NEED FOR GOLDFATER-NICHOLS
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