Defense Outlook 2016: What to Know, What to Expect

Kathleen Hicks
Mark Cancian
Andrew Hunter
Todd Harrison

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*

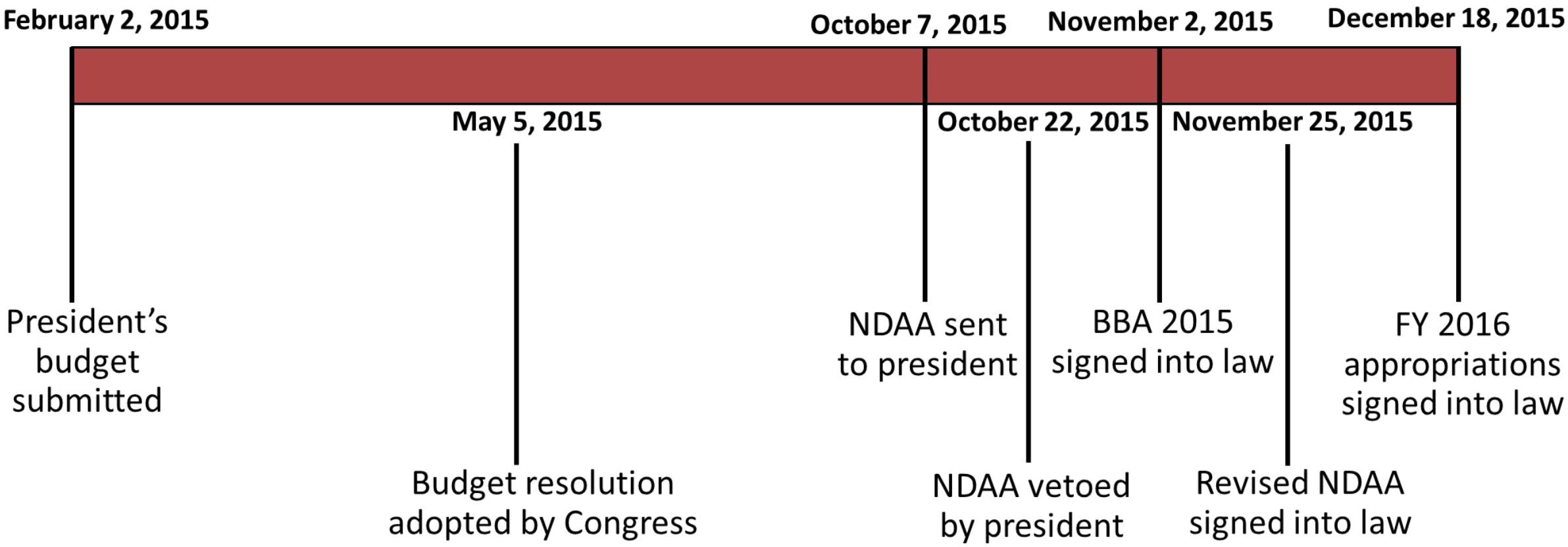
Strategy and the Security Environment in 2015

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

Strategy and the Security Environment in 2016

- 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



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

FY 2016 End Strength		
	Proposed	**Authorized/Funded**
Army Active	475,000	475,000
Army National Guard	342,000	342,000
Army Reserve	198,000	198,000
Navy Active	329,200	329,200
Navy Reserve	57,400	57,400
Air Force Active	317,000	**320,715**
Air Force National Guard	105,500	105,500
Air Force Reserve	69,200	69,200
Marine Corps Active	184,000	184,000
Marine Corps Reserve	38,900	38,900
Total	2,116,200	2,119,915

Little change to president's proposed end strengths

- 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)

Looking Ahead: Congressional Action on FY 2017

Service Endstrength			
	FY 2016 Funded	FY 2017 Planned	Change
Army	475,000	450,000	-25,000
Army Nat Guard	342,000	335,000	-7,000
Army Reserve	198,000	195,000	-3,000
Navy	329,200	326,500	-2,700
Navy Reserve	57,400	~58,000	+600
Air Force	320,715	312,900	-7,815
Air Nat Guard	105,500	102,800	-2,700
Air Force Res	69,200	67,300	-1,900
Marine Corps	184,000	182,000	-2,000
Marine Corps Res	38,900	38,000	-900
Total	2,119,915	2,067,500	-52,415

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"?

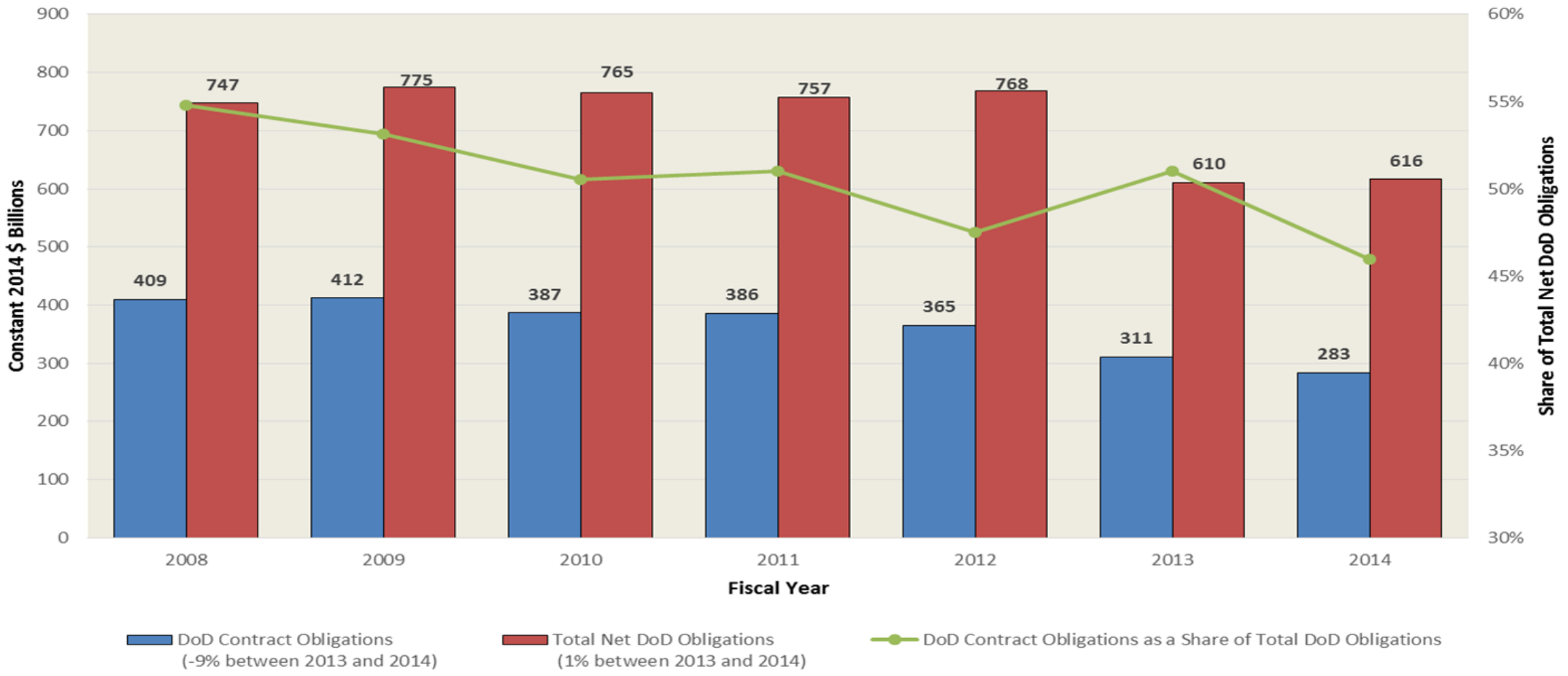
What Happened With Acquisition in 2015?

- 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

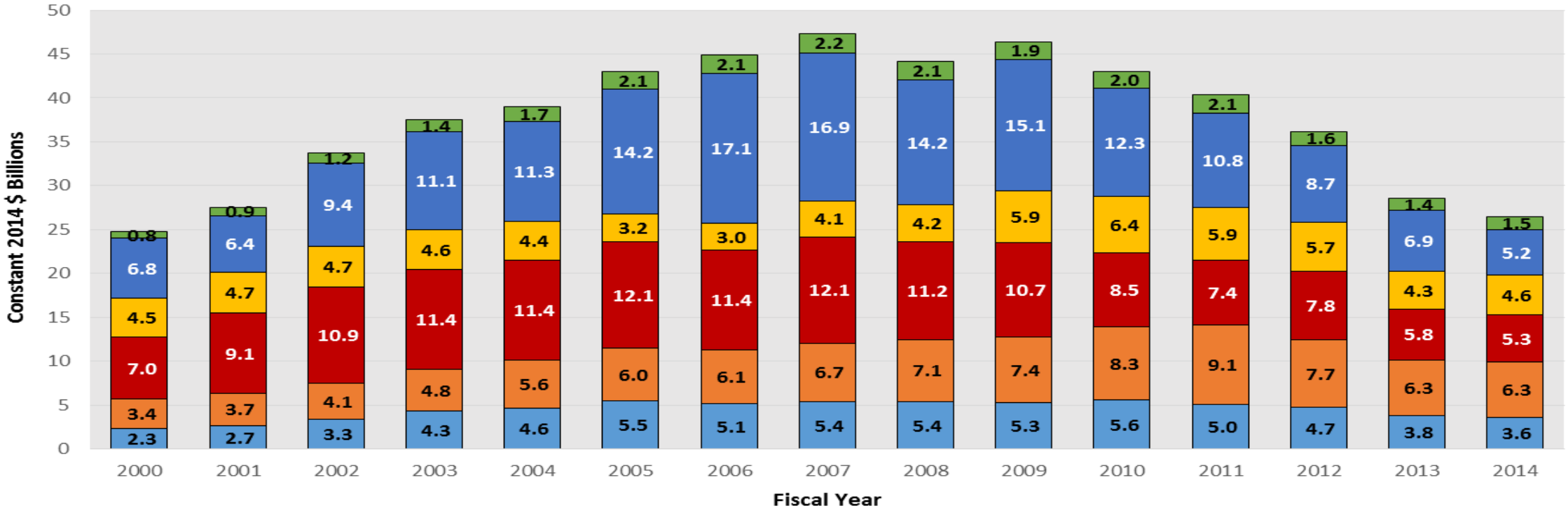
What Happened With Acquisition in 2015?

- 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



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)

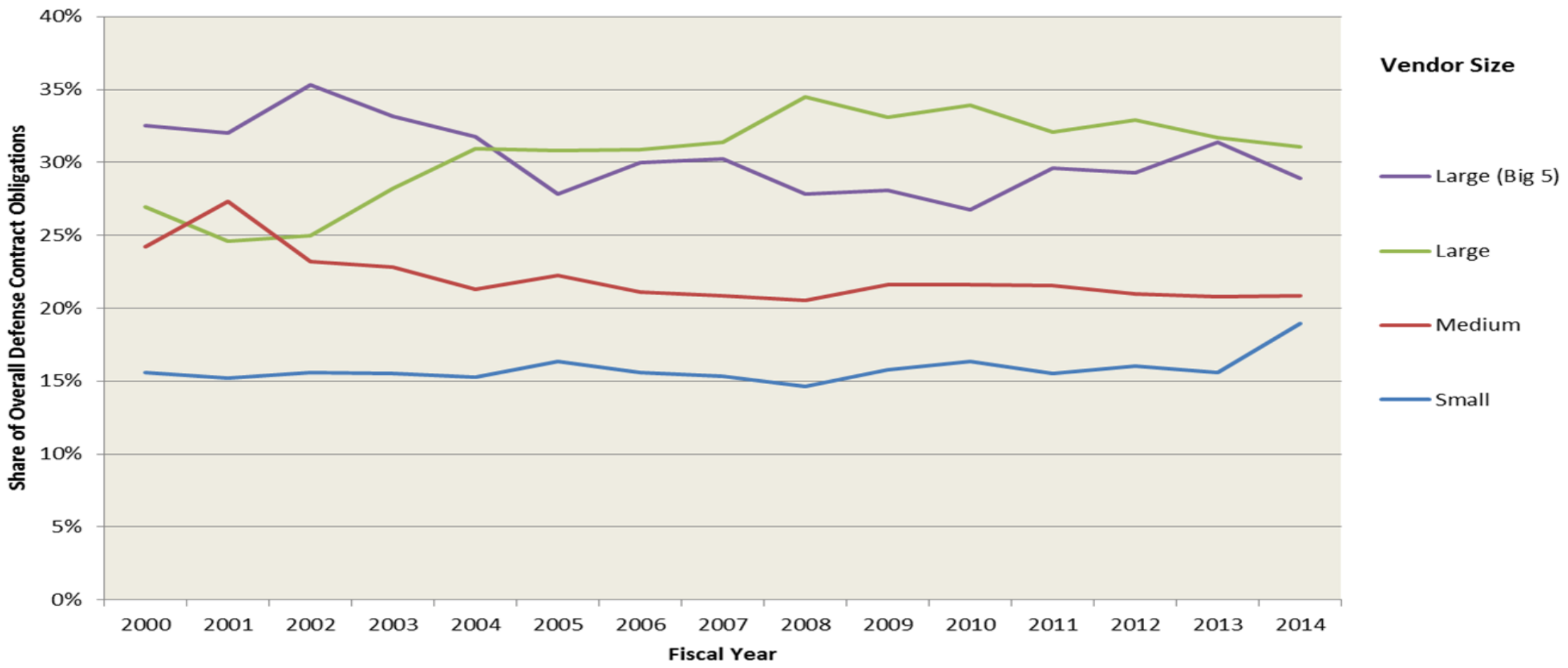
Stage of R&D (BAC)
(Overall DoD R&D: -27% 2012-2014, -43% 2009-2014)

Applied Research (6.2)
(-18% 2012-2014, -15% 2009-2014)

Advanced Component Development & Prototypes (6.4)
(-19% 2012-2014, -23% 2009-2014)

Operational Systems Development (6.7)
(-6% 2012-2014, -25% 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

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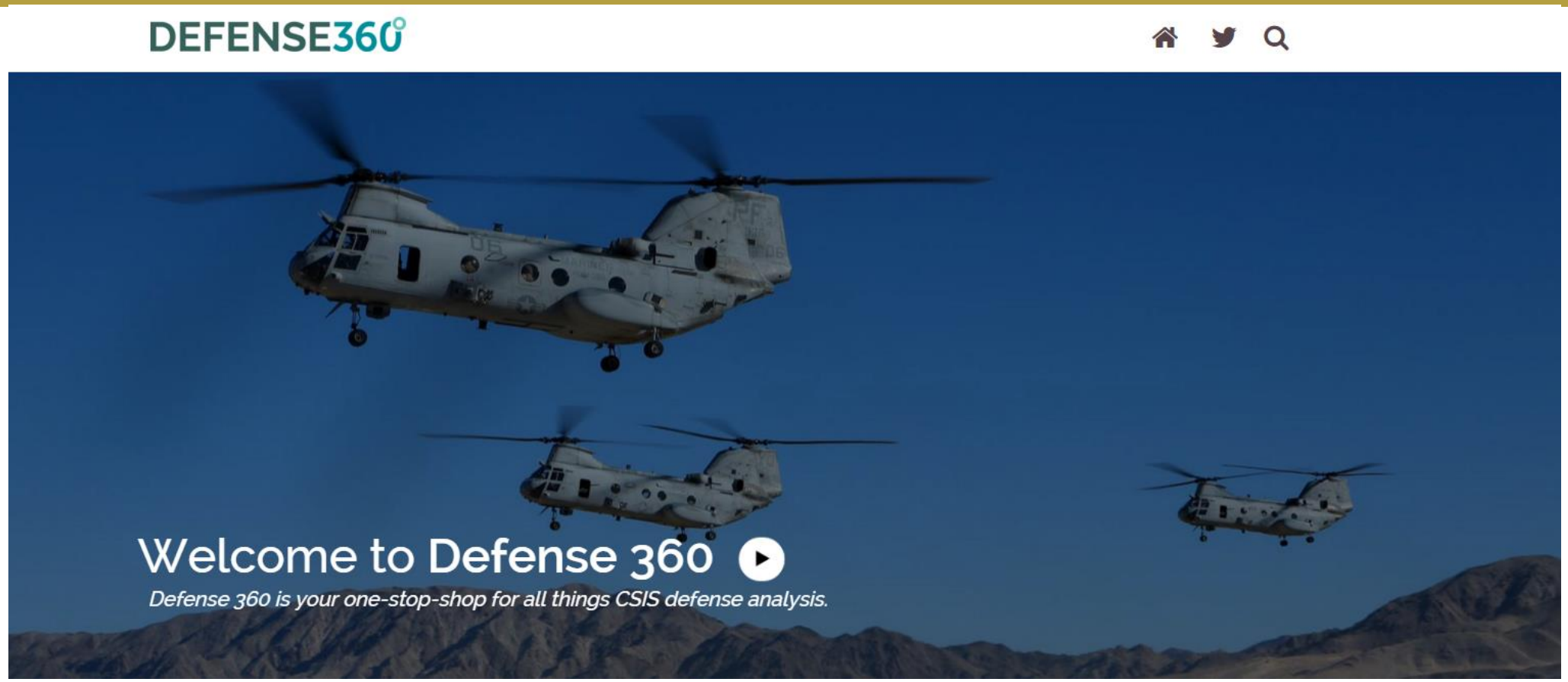

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