

**Statement before the House Armed Services Committee**

***RESOURCING THE NATIONAL DEFENSE  
STRATEGY: IMPLICATIONS OF LONG TERM  
DEFENSE BUDGET TRENDS***

A Statement by

**David J. Berteau**

Senior Adviser and

Director, Defense Industrial Initiatives Group

Center for Strategic and International Studies (CSIS)

**November 18, 2009**

**House Visitor Center**

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Chairman Skelton, Congressman McKeon, and Members of the Committee: I appreciate the opportunity to appear before you this morning as part of this distinguished panel to offer my views on what may well be the most important national security issue faced by this Committee and by the Congress. I refer of course to the long term challenges and issues of the national defense budget.

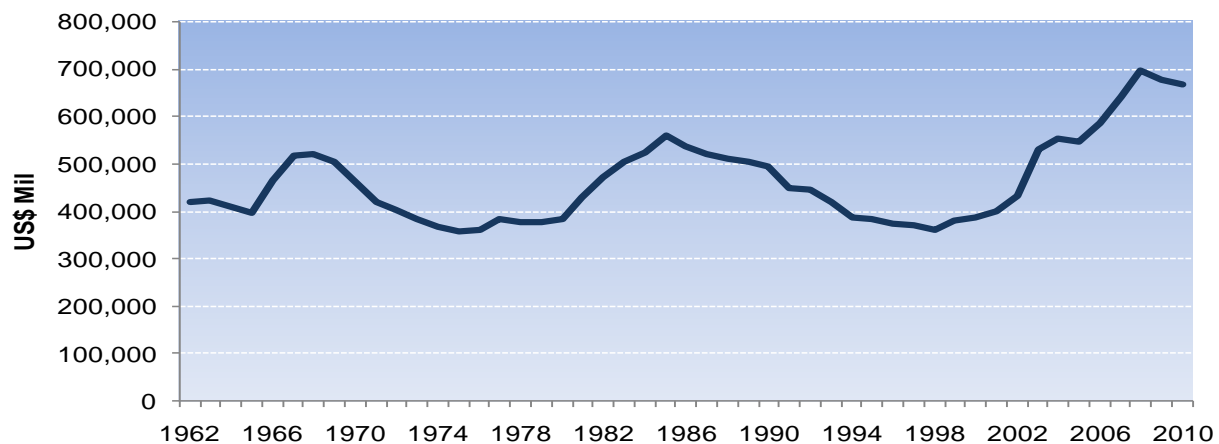
Mr. Chairman, since I arrived at the Pentagon in 1981, I have been involved in building, executing, studying, and teaching defense budgets and programs. My goal today is to try to help shed some light on what this Committee and the Congress can do to deal with DoD budget challenges that are coming. My statement today draws from research at the Center for Strategic and International Studies. I want to begin by noting that my comments here today are entirely my own and do not necessarily reflect the views of either CSIS or any other entity with which I am affiliated.

Mr. Chairman, I would like to recognize the valuable contributions to today's hearing that is made by the testimony from the distinguished staff from the Congressional Budget Office and the Congressional Research Service. At CSIS, we use data and analyses from both CBO and CRS in our research, and I use their work as assignments in my graduate classes. It is top-notch material. Today, I will not repeat the facts in their statements but will instead base some of my key points on those same facts.

## The Defense Budget Will Come Down

Defense budgets run in cycles, with periods of increase followed by periods of decline. For years, defense analysts have been predicting that the defense budget is coming down, but it has been on an historic run. The FY 2009 DoD Authorization Act was 65 per cent higher than in FY 2001 in real dollars. This exceeds even the "Reagan Buildup" from FY 1980-1985. Figure 1 shows the annual trends in the DoD budget since 1962, Robert McNamara's first budget under the Planning, Programming, and Budgeting System or PPBS.

Figure 1: DoD Budget Authority, Total DoD (Constant FY2010 Dollars)



Source: DoD Comptroller

We all know that this run of increases will end and that defense budgets will come down. I don't think it will be in FY 2011, but it will occur soon thereafter. Whether defense budgets start coming down next year or the year after is not what's important. What's important is that neither Congress nor the Defense Department is ready to deal with declining defense budgets. Let's look at the reasons why this is so and on what the solutions might be.

#### Inadequate Defense Planning and Programming

In his 1971 book on defense budgets How Much Is Enough?, Alain Enthoven stated that the worst thing one can do to the Military Services is to take away their shortfalls, because they won't then know how to manage. What has been interesting to me for the past few years is that even the time of riches in the defense budget has not eliminated the shortfalls or even reduced them. What has instead happened is that we have quit calculating how big our shortfalls are, and we have ceased to make conscious trade-off decision about these shortfalls. So, while technically we did not "take away" the Services shortfalls, we instead lost sight of them, and the net effect is the same.

Let me explain a bit.

In the regular order of Pentagon budget business, the budget year is actually just the first year of the FYDP, the Future Years Defense Program. This FYDP is a key element of the PPBS, a remarkable management tool created in the early 1960s that projects defense programs and spending for the budget year and 5 additional years. It is also essential for DoD to manage for the long term, because the cycles in defense spending are so long and because building defense capability takes a long time and careful advance planning. This is true whether we are talking about weapon systems that take years to design and build and field or soldiers and sailors and airmen and Marines that take years to train and develop.

It's easy to overlook how long it takes to build the force of military personnel. In war games during my time in the Pentagon, we were surprised to discover that it takes longer to develop a

new crew for a tank than it takes to build a new tank. That's why it is so important for DoD to build and use a FYDP that is fiscally disciplined.

People are the most expensive part of the defense budget. The size of the budget is fixed by the size of the force, the military and civilians and contractors that get up every morning and train and prepare for and execute and support the missions. The CBO testimony today most eloquently makes the case that military pay and benefits and pay for civilian employees will continue to rise faster than inflation.

Military health care, of course, we all know is the fastest growing part of the defense budget, and projections show no sign of it abating.

Similarly, funds for Operation and Maintenance (O&M) are also projected to increase on a per-person basis for active duty military. I note that O&M budgets have historically been 1.5% below actual costs. All of these trends point to unrecognized shortfalls in the budget as projected today.

There is a final area of the shortfall that merits our attention, and that is the shortfall in equipment. The Navy cannot lay out an affordable shipbuilding plan that even maintains the size of today's fleet, much less reaches its reported target. The Air Force cannot sustain funding for needed aircraft. The Marines have stated publicly that their FYDP projections will not support their planned equipment modernization programs. The Army faces perhaps the largest set of unrecognized shortfalls, with the projected costs of replacement vehicles, armor, and helicopters exceeding the budget by billions each year.

It is difficult to quantify equipment shortfalls to which the Services themselves will not yet admit, but CSIS estimates that today's shortfalls in the Army alone may exceed the size of the entire Army budget pre-9/11. Small wonder that DoD does not want to calculate or admit the size of its shortfalls. Small wonder that there is no fiscally-disciplined FYDP to make this clear.

### Shortfall Fixes Are Inadequate

There have been at least three ways DoD has tried to address these shortfalls. One has been to use emergency supplemental appropriations to fund equipment. We think of these emergency supplementals as being used to pay for the costs of the wars in Iraq and Afghanistan, but they have also been used to fund equipment. By FY 2007, for example, fully two thirds of Army procurement funding came from supplemental appropriations.

The influx of cash into DoD by way of the emergency supplemental appropriations has masked the fact that DoD has not maintained its fiscally disciplined FYDP process. This situation was exacerbated by the changes to the PPBS undertaken by Secretary Rumsfeld, a second way that DoD tackled shortfalls. By combining the program review and the budget review, his changes in theory made the PPBS take less time and stay more current. In implementation, though, the program issues have tended to get less attention and have therefore become less relevant. At CSIS, we conducted a critique of the Rumsfeld PPBS changes. We found that the result of less attention to program review issues withered the tools of the PPBS and the FYDP. As a result, it

has been easier for DoD to avoid making the hard choices about requirements, programs, and budgets. We recommended a return to the previous program and budget processes. Mr. Chairman, I would be happy to provide this short CSIS assessment for the record.

The absence of a disciplined FYDP also hurts your ability in the Congress to evaluate the shortfalls in DoD and to adjust the priorities in the defense budget, in accordance with the constitutional roles of the Congress. You need a clear straightforward projection of the Defense Program in order to judge the balance of requirements to programs and resources.

A third way DoD has addressed shortfalls is the adjustments made by Secretary of Defense Robert Gates in his FY 2010 budget, as announced last April and as reflected in the FY 2010 National Defense Authorization Act recently passed by this Congress. Secretary Gates' reductions and cancellations made headlines, but they did little to fix long term budget shortfalls. Nearly every one of his reductions was offset by an increase elsewhere, leaving little in the way of overall FYDP savings. We should not be surprised at this, because it is of course exactly what the Secretary said he was doing – changing the focus of defense spending from the old ways of conventional warfare to the new demands of what he called “irregular warfare.”

### The Solutions

Absent a new or expanded engagement of forces, defense budgets will begin to decline next year or the year after that, and when budgets decline, shortfalls become worse. The FYDP and the PPBS are the tools DoD has used throughout its history to identify shortfalls and prioritize scarce resources, and they have been neglected. It might seem then that the solution is easy: fix the tools. Of course, it's not that simple.

The forces that drive those shortfalls are powerful, and the choices they present us are stark. The prime driver behind defense spending is the size of the force. Today's defense budget, despite its historically high level, is not enough to pay for the people, their benefits and support, and the equipment needed. CBO's projections make that clear.

The challenge is not spending more money. The challenge is identifying the requirements, based on the threats we face and the forces we need to respond to those threats, and then figuring out how best to fund those requirements, with what priorities. Shortfalls have always existed, and they will continue to exist. The question has always been, “how much is enough?” The issue has always been how much risk can we accept and how we allocate that risk to different threats.

Will the Quadrennial Defense Review lay this out for us? That's what we expect it to do. The process inside DoD has not been transparent enough for us to say that the QDR will answer the question for us of how much Defense do we need. My own suspicion is that the QDR will leave too many questions unanswered. I recently asked one of the Service Chiefs whether he had sufficient guidance from Secretary Gates to build his FYDP along the rebalancing lines that Mr. Gates has emphasized. His reply was that he hoped to get that guidance from the QDR. I fear he will be disappointed.

Ultimately, there is only one path to a solution. DoD must define and articulate its force requirements, pay for what it can to meet those requirements, lay out the shortfalls and the long-term program in the FYDP, and propose that to Congress in the FY 2011 budget and the associated outyears. There is no shortcut to this process, and there is no easy fix. We either have to provide the resources needed to meet force structure and requirements, adjust the overall size of the force, constrain the requirements for their use, or live with more risk than we want. Regardless of which path we choose, we need to revitalize the tools of a fiscally disciplined Defense Program, program review, and FYDP. There is no other real solution.

### The Four Per Cent “Solution” Won’t Work

Some have suggested that we can skip the hard work of defining requirements and making the priority tradeoff decisions to fit them into a budget. They suggest that we can make this work easy by tying the level of the defense budget to a percentage of the Gross Domestic Product. There is an obvious and seductive appeal to this solution, but here is why it won’t work from my perspective.

1. Fixing the defense budget as a percentage of GDP is an arbitrary, variable figure that neither relates to force size or threats. It does not reflect DoD requirements or what DoD should spend.
2. The percentage-of-GDP approach masks real changes in DoD spending. In times of fast-rising GDP, the percentage may decline even as real spending increases. The reverse could happen when GDP shrinks.
3. The effect of supplementals on defense spending over the last decade has blurred the baseline. Including supplementals, defense spending today is at 4.7% of GDP – yet we still have shortfalls, and we are not dealing with them. In fact, the percentage-of-GDP approach could reduce our flexibility to respond to shortfalls. All too often, congressional floors become ceilings.
4. One of the lessons of Iraq and Afghanistan is the gap between DoD capacity and the capabilities of the rest of the federal government. By focusing solely on DoD rather than on national security capability as a whole-of-government issue, the percentage-of-GDP approach undermines the need to get more capability into the Departments of State, Commerce, Treasury, Justice, Agriculture, USAID, etc. The inability of those agencies to perform their missions in support of expeditionary operations has put additional burdens on DoD. Those burdens will be made worse, not better, under the percentage-of-GDP approach.
5. Another lesson of Iraq and Afghanistan is the need for alliances and partners in our global missions. Fixing defense spending without leaving room for encouraging more integration with our allies and coalition partners could undermine our efforts at burden-sharing.

6. The debate on federal spending is more than just defense. The constitutional role of the Congress is to assess and determine, on behalf of the people, the “opportunity cost” of defense spending. That is the real message of President Eisenhower’s focus on the size and nature of the defense budget and of the national tradeoffs that budget represents, from the perspective of what makes America truly strong.

### Conclusion

My bottom line is that there is only one way to budget for defense in a way that makes sense, and that is for the Administration to illuminate the threats and set the requirements, to define the Defense Program that meets those threats and addresses those requirements, to make the priority tradeoffs that produce a defense budget and FYDP, to articulate the inherent risks to mission and to costs and schedules, and to turn it over to Congress to make the final decisions. This is hard work, and there is no shortcut to this process. Failing to engage in a disciplined process will make today’s shortfalls worse, but there is hope here. Both Congress and the Executive Branch recognize the depth of the issues, and Congress and this Committee have clearly indicated their willingness to work with the Administration to meet these challenges.

Mr. Chairman, Congressman McKeon, and Members of the Committee, that concludes my remarks, and I look forward to your questions and our discussion.