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A Poisoned Chalice? The Crisis in National Security Planning, Programming, and Budgeting

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Introduction

The crisis in US national security planning, programming, and budgeting is not the fault of any one Administration, and has often been shaped by the mistakes of the US congress and key military commanders. It has accelerated sharply over the last eight years, however, and will be a major burden for the next President. The real cost of national security spending is likely to be 20-30% higher than is estimated in current baseline budget requests. There is no clear or coherent plan, program, or budget that reflects the fact the nation is at war and no credible mix of force plans, modernization plans, and procurement plans for the future.

A Poisoned Chalice?

Whether or not it is fair to call this crisis a “poisoned chalice” depends on one’s choice in rhetoric. What is clear is that there are a wide range of critical areas where cost escalation poses a critical problem, where no hard choices have been made, where key programs are not fully defined or cannot be implemented, and where trade-offs will have to be made between major increases in the defense budget and current force plans. The combined cost of war, steadily rising military manpower costs, the underfunding of operations and maintenance, and a procurement crisis in every service will force the next Administration to reshape almost every aspect of current defense plans, programs, and budgets.

The Burke Chair in Strategy has prepared a new briefing on these problems. It provides an overview of the major issues and trends involved, drawing on data developed by the Department of Defense, Department of State, OMB, the Congressional Budget Office, Congressional Research Office, and General Accountability Office. It deliberately avoids using independent estimates to make it clear that the data represent official estimates.

The Challenges the Next Administration Will Face

This brief is necessarily complex. The crisis in crisis in US national security planning, programming, and budgeting has been shaped by a wide range of factors, and the briefing must explain and quantify the challenges the next Administration will face in:

- **Estimating and paying for the real cost of the national security program.**
- **Determining whether the burden on federal spending and the GDP is acceptable.**
- **Balancing the interaction between national security spending and the overall fiscal squeeze driven by rising mandatory spending and entitlement costs.**
- **Creating and funding a proper approach to the Iraq War, Afghan War, and GWOT.**
- **Creating a meaningful approach to a national strategy that is directly coupled to a well defined plan, program, and long-term budget.**
- **Bringing the overall pattern of operations and support into a well-managed and affordable path.**
- **Dealing with a crisis in defense manpower.**
- **Managing the problem of escalating military medical costs.**
- **Properly funding O&M and reset costs.**

- **Dealing with a major crisis in defense procurement and the failure to manage military modernization.**

The briefing shows that the Department of Defense’s budget baseline request, as presented in the President’s FY2009 baseline budget and the Department’s current Future Year Defense Program, does not include the cost of the wars the US is currently fighting, and there is no clear plan for even a credible supplement for FY2009. It also shows that CBO projection indicate that the real cost of the national security budget could well be some 20% higher from FY 2010 onwards than the Department of Defense currently programs and budgets. (pp. 10-20)

An Acceptable Burden on Federal Spending and the GDP By Historical Standards, But... (pp. 21-41)

The “good news” is that this does not mean that even if such cost rises are fully funded, they will place an unacceptable burden national security on the nation’s economy and federal/public spending. The current burden remains lower than during all of the Cold War, and even if a “worst case” assumption is made about future cost escalation, the burden on the GDP is likely to remain under 5%.

There will, however, be sharply growing pressure on the federal budget from rising mandatory spending and entitlements costs, and national security spending – like all discretionary spending – will come under growing pressure if this nation continues to let its medical expenditure increase as both a portion of the federal budget and GDP.

An Uncosted, Unplanned Set of Wars (pp. 42-65)

It is important to note that the problems the next Administration will face in planning, programming, and budgeting will not be driven primarily by the cost of the Iraq War, although that has been almost the sole focus of Congressional and media attention, and the debates between the Presidential candidates.

At the same time, the planning, programming, and budgeting, for the combination of the Afghan War, Iraq War, and Global War on terrorism have been badly mismanage since FY2002, and there is no credible plan for the future. The Department of Defense does not make a public estimate and its current budget requests are hollow place holders for costs that will require a major supplemental in FY2009, and much higher spending in the outyears than is provided in the FYDP.

Much will depend, however, on how soon the level of US effort can be reduced, how much host countries can and do take over the burden of combat and financing their own military operations and development, and on whether the next President decides to sustain a major US combat involvement in the Iraq War. While real-world defense costs are almost certain to be much higher throughout the life of the next Administration than the Department currently budgets, CBO estimates indicate that it may be possible to make major reductions in the cost of the Iraq War.

The problem is, however, that the Afghan War has long been underfunded, and continues to escalate. The rising cost of the Afghan conflict might offset any savings from added Iraqi government spending, US force cuts, and a shift in the US mission in Iraq to strategic overwatch.

The QDR and Strategy “Implosion:” No Real Force Plans, Budgets, and Path for Modernization (pp. 66-81)

The broader problems in planning, programming, and budgeting have been shaped by many factors, but one is the decoupling of efforts to define US strategy and goals from the creation of specific force, modernization, and readiness plans to implement them. The most recent QDR, and a failure to take hard planning and programming decisions to support it, is sometimes a useful conceptual document but even many of the concepts have no clear definition. These problems are even more severe in the various “strategies” presented by the military services and joint staff. Furthermore, this decoupling of strategy from any attempt to define workable plans is made worse by a failure to cost the future, and create credible long-term spending plans.

These failures now can only be corrected by the next Administration. Tying strategy, plans, programs, and budgets together will have to be a nearly “zero-based” exercise. It is also one that must go far beyond the Department of Defense. As many studies have shown, the US needs a new partnership between the Department of Defense, Department of State, and other civilian departments and agencies. Such a partnership can ultimately only be effective if the new form of “jointness” involved is supported by a truly national plan, program, and budget for all aspects of national security.

Rising Operating Costs: Reality versus the Baseline (pp. 82-87)

It is not possible to separate sharp and continuing rises in operations and support costs from the impact of war, and major delays and cutbacks resulting from a failed procurement and modernization program in each of the four services. CBO estimates do, however, warn that there is a serious “cost-containment” crisis that will have to be addressed early in the next Administration.

The Defense Manpower Affordability Issue (pp. 86-99)

Rising military manpower costs are a critical part of the problem in rising operating costs, but the problems go far deeper. Many of what are supposed to be wartime costs are almost certain to become de facto military entitlement costs that will continue indefinitely into the future.

The US has also made cutbacks in force size and military manpower, as well as career civilians, that current efforts to increase Army and Marine Corp end-strength only begin to address. The strains of over-deployment on a relatively small total volunteer force already threaten the ability to recruit and retain the proper mix of force quality and quantity.

It is also clear that, at a minimum, the US will have to “rebalance” the size and relative role of its active and reserve forces, and that it should comprehensively reexamine the real-world trade-offs between military personnel, career civilians, and a growing dependence on contract personnel.

Rising Military and Veterans Medical Costs (pp. 100-104)

Rising military and veterans medical costs lead much of the rise in manpower costs even under assumptions that may understate the true cost of dealing with the lingering effect of wartime injuries. This is an area the next Administration will need to address almost immediately after taking office.

The Operations, Maintenance, and “Reset” Crisis (pp. 105-109)

The Department’s current baseline budget projections for operations and maintenance costs make no allowance for ongoing wars and are little more than absurd. There also is no clear plan,

The Modernization and Procurement Crisis (pp. 110-135)

The briefing can only provide a brief overview of the full scale of the crisis the nation faces in military procurement. These problems are so permeating in every service, and affect so many critical programs, that it is brutally apparent that the Department has no real world spending plans, and is indulging in a “liar’s contest” in terms of costs, the timelines for major programs, their probable effectiveness, the numbers it can actually procure, and the force trade-offs between modernization and force cuts.

Even if one ignores key issues in effectiveness and availability, work by the GAO shows that the cost of the defense major acquisition portfolio rose from \$790 billion in FY2000 to \$1.6 trillion in FY2007, and outstanding commitments rose from \$390 to \$858 billion. The average cost escalation in RDT&E costs over the first cost estimate rose to 40% over the eight-year period, and total acquisition costs rose 26%. The share of programs with more than 25% cost escalation rose from 37% to 44% and the average delay in delivering initial capability rose from 16 months to 21 months.

Work by both the GAO and CBO indicate these problems are likely to escalate steadily in the near-term unless the next Administration acts quickly to control them, and reshaping an affordable and effective procurement program may well take at least the full term of the next President. This may well involve major program cancellations, and further hardship for defense industry. It certainly means a need to establish far more realistic standards for estimating program costs, schedules and deployment times, and effectiveness; far tighter standards of program management; and far tighter control over the kind of changes in specifications and design that do so much to raise cost and increase program delays.

The Challenges the Next Administration Will Have to Face

- **Estimating and paying for the real cost of the national security program**
- **Determining whether the burden on federal spending and the GDP is acceptable.**
- **Balancing the interaction between national security spending and the overall fiscal squeeze driven by rising mandatory spending and entitlement costs.**
- **Creating and funding a proper approach to the Iraq War, Afghan War, and GWOT**
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Estimating the Real Cost of the Defense Program

Baseline Budget Requests versus Real Defense Needs

- **The current future year defense budget does not fund the Afghan War, Iraq War, and GWOT in the outyears and continues to rely on unestimated supplementals.**
- **All other aspects of future year costs are based on unrealistic cost and program estimates designed to minimize apparent cost.**
- **The program does not fund the expansion or real-world cost of military and civilian manpower, and separates veterans costs from defense costs.**
- **Military medical costs present a key problem -- but then so do civilian medical costs.**
- **Future procurement costs are badly underestimated and every service faces a crisis in affordability and cost constraint.**
- **No service has a credible program for shaping and maintaining its present forces and or/force goals.**
- **There is no clear way to model true future year costs, given the lack of credible analysis by the Department of Defense, but the Congressional Budget Office has developed illustrative estimates.**

Some “Punchline” Trends

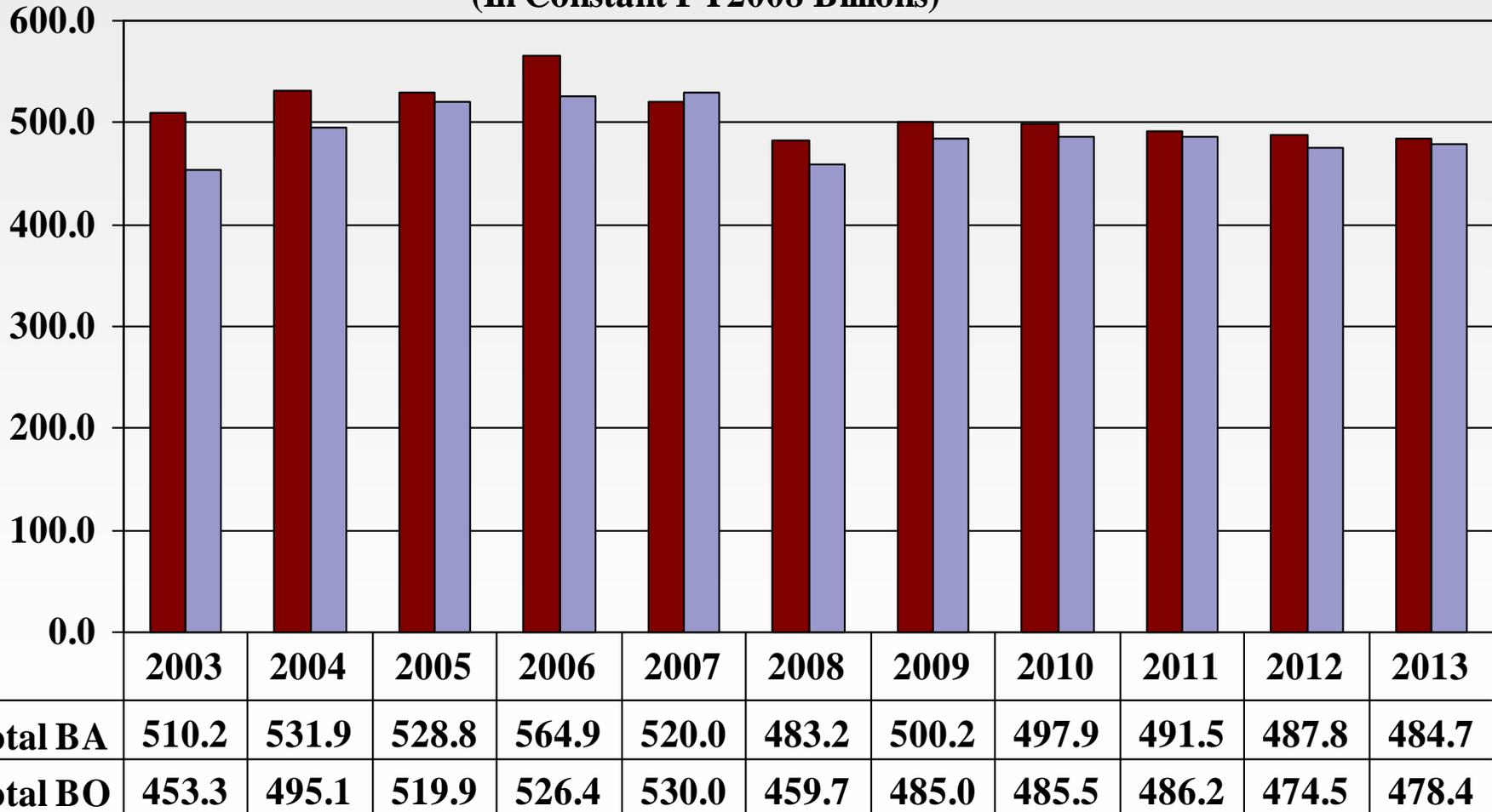
- Federal debt to rise from \$8.5 trillion in FY2007 to \$11.3 trillion in FY2011.
- \$347 billion deficit in FY2007, and projected at \$2.25 trillion FY07 to FY11.
- DOD projects decline in real spending; CBO projects 5.8% annual rise in entitlements with rise from around 8% of GDP in 2006 to 11% in 2016.
 - Aging squeeze really hits hard after 2020.
- Projected Changes in baseline DOD Budget request in Billions of Constant FY2008 Dollars:

	<u>FY2001</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY 2009</u>	<u>FY2013</u>
□ Total BA	394.7	634.8	581.7	518.3	501.4
■ Military Manpower	101.3	140.0	124.0	128.9	140.0
■ Procurement	74.4	139.1	128.7	104.2	115.6
□ Total B0	369.4	558.1	558.3	551.1	497.3
■ Military Manpower	97.9	136.9	121.9	128.6	130.7
■ Procurement	64.6	103.6	117.7	112.9	109.9

Source: Undersecretary of Defense (Comptroller), *National Defense Budget Estimate for the FY 2009 Budget (Greenbook, March 2008,* pp. 113-115; 131-133.

The Baseline Without Realism: Proposed DoD FYDP:2003-2013

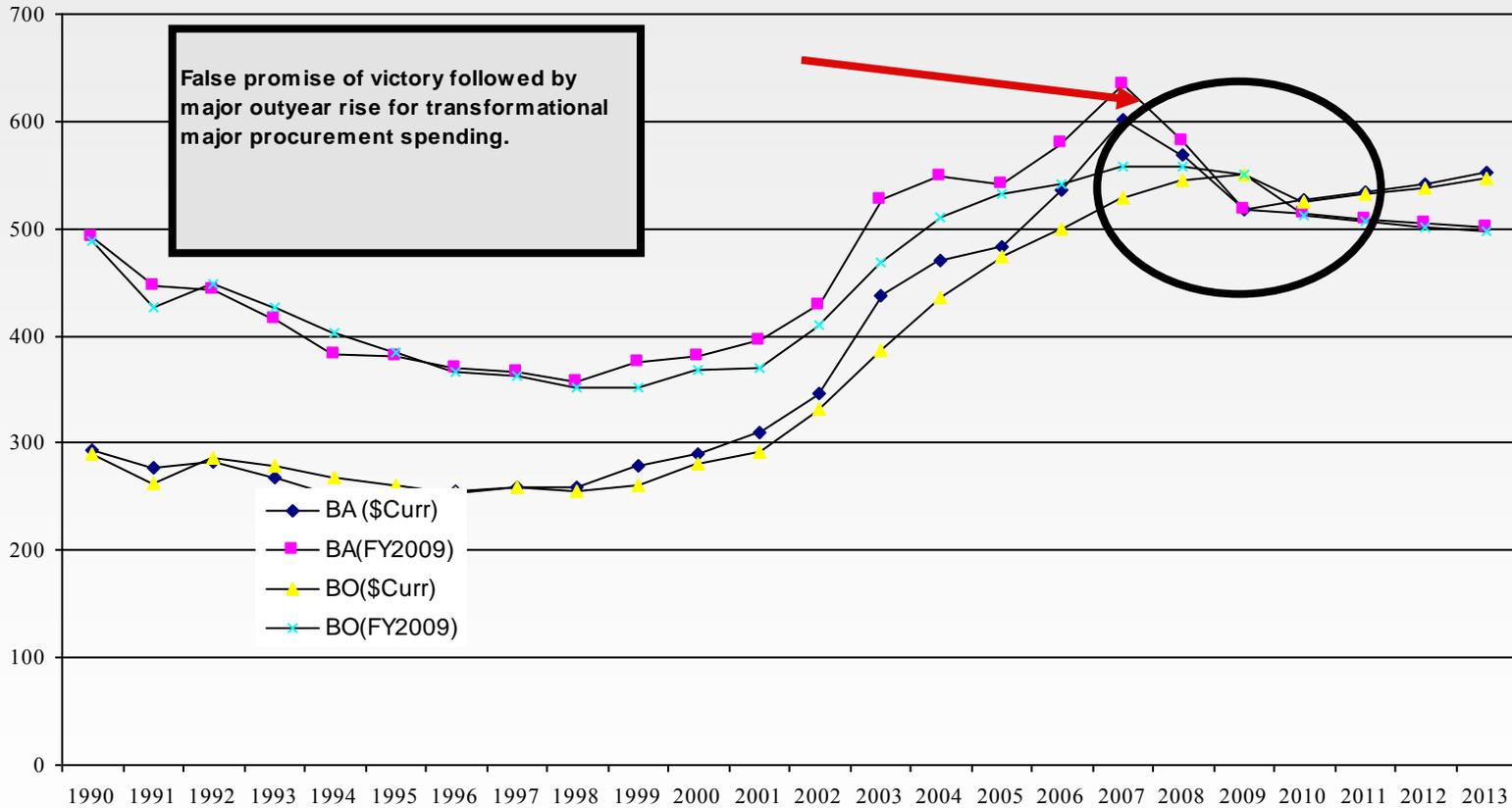
(In Constant FY2008 Billions)



Source: *FY2008 Green Book*, p. 115 and 133.

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Requested Trend 1990-2011: (051)

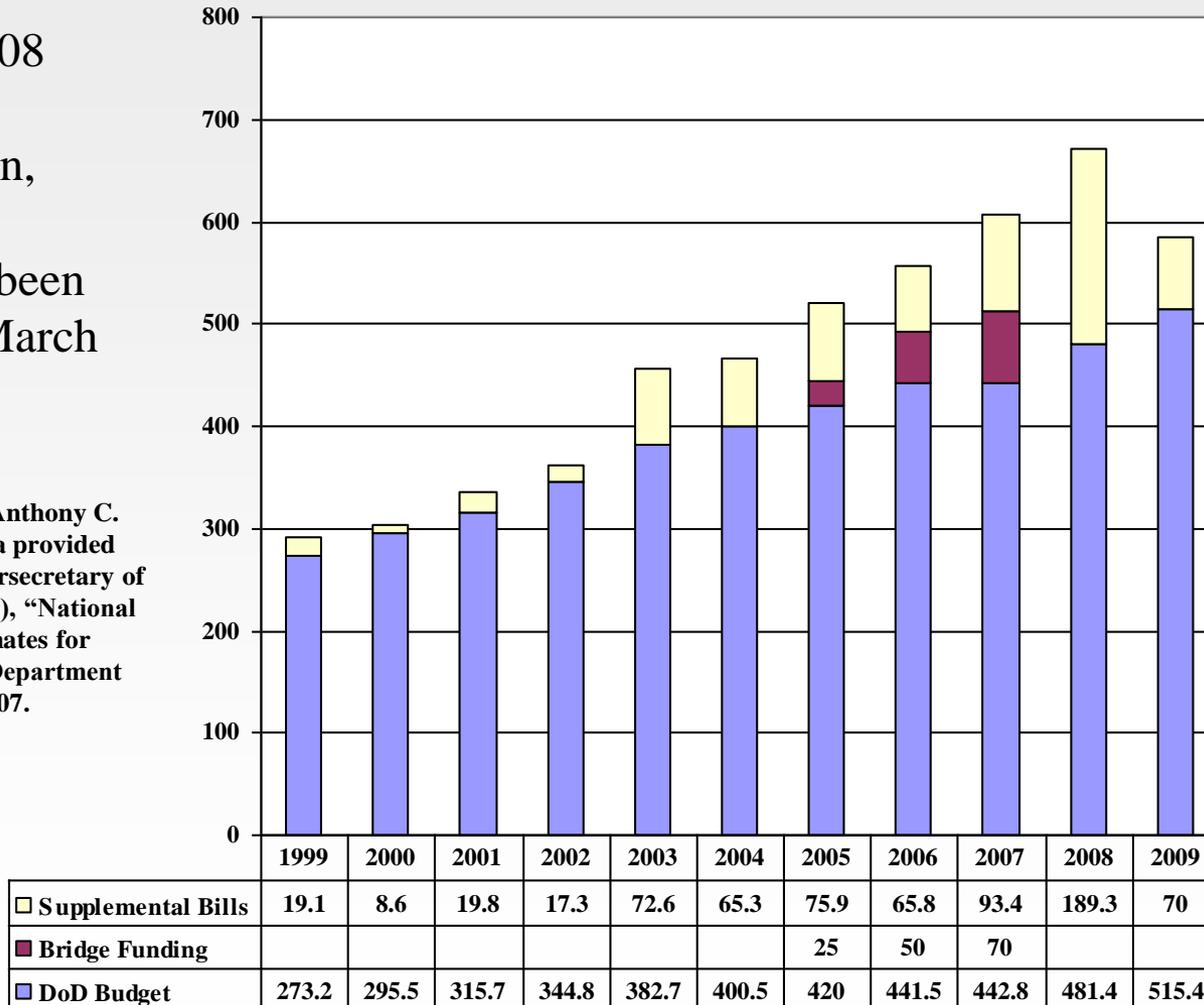


Source: Undersecretary of Defense (Comptroller), *National Defense Budget Estimate for the FY 2009 Budget (Greenbook, March 2008, pp. 113-115; 131-133.*

When You Truly and Sincerely Can't or Won't Plan: The Growing Impact of Wartime Supplementals (in \$US billions)

Of the FY2008 request over \$189.3 billion, only \$102.5 billion have been enacted by March 2008.

Source: Adapted by Anthony C. Cordesman from data provided by Office of the Undersecretary of Defense (Comptroller), "National Defense Budget Estimates for 2008", Washington, Department of Defense, March 2007.



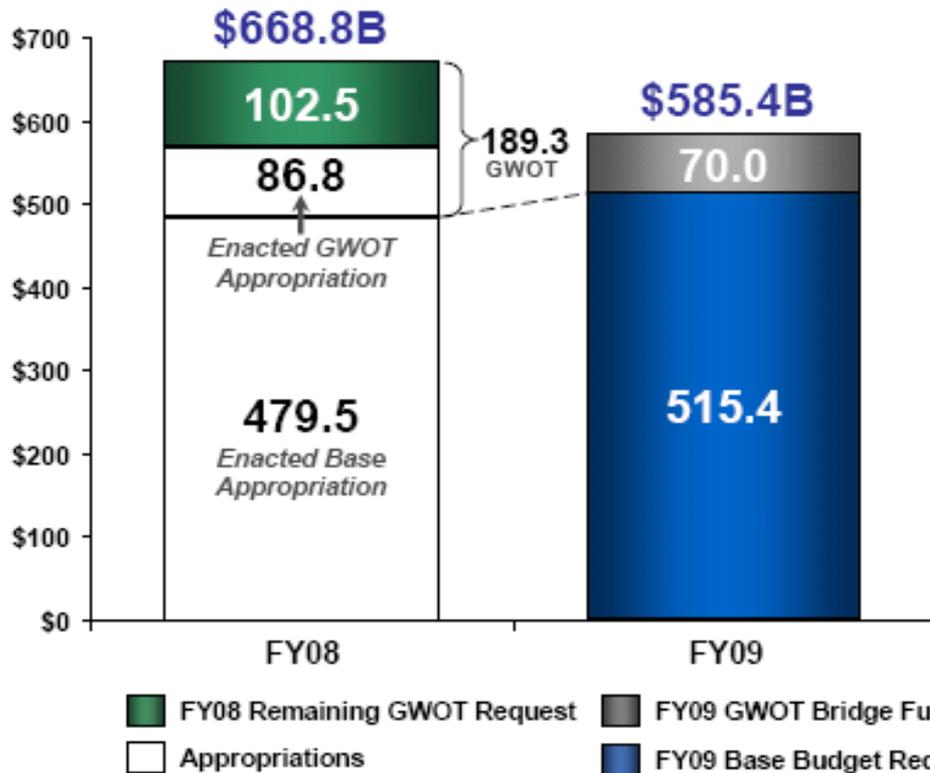
The Wartime Funding of the FY2008 and FY2009 Budget Requests Is a Hopeless Mess

- **The total cost for FY2008 is in limbo, awaiting the final outcome of decisions on the supplemental;**
- **It is impossible to track real world FY2008 program costs because of the gap over supplemental funding, and -- in any case -- the cost of Iraq cannot be distinguished from Afghanistan or GWOT, and there is no meaningful cost break out;**
- **FY2009 budget request is essentially a phony number, since the \$70 billion quoted for the supplemental request is far too low to be real. Gates has said in testimony that the real number could be \$170 billion-plus:**

“A straight line projection, ... of our current expenditures would probably put the full- year cost in a strictly arithmetic approach at about \$170 billion,” (Secretary Gates before the Senate Armed Services Committee on 6 February 2008).

- **There is no clear way to cost all civilian agency expenditures and add them to the Department of Defense request;**
- **The problem will be much worse if the Congress or Administration delay in deciding on the FY2009 request while leaving the full FY2008 budget levels open. The end result will be that there will be no clear plan, program, or budget for the Iraq War for two years; and,**
- **The problem is made worse by a growing number of Congressional and Administration restrictions on how the country team can spend the money. For example, deciding that State Department aid funds cannot be spent on the Sons of Iraq.**

President's Partly Funded Budget Request for FY2008 and Non-Request FY2009



Department Priorities

- Prevail in the War on Terror

- Increase Ground Capabilities
- Improve Force Readiness
- Develop Future Combat Capabilities
- Improve Quality of Life

Base budget increases by \$35.9B (7.5%) from FY 2008 to FY 2009

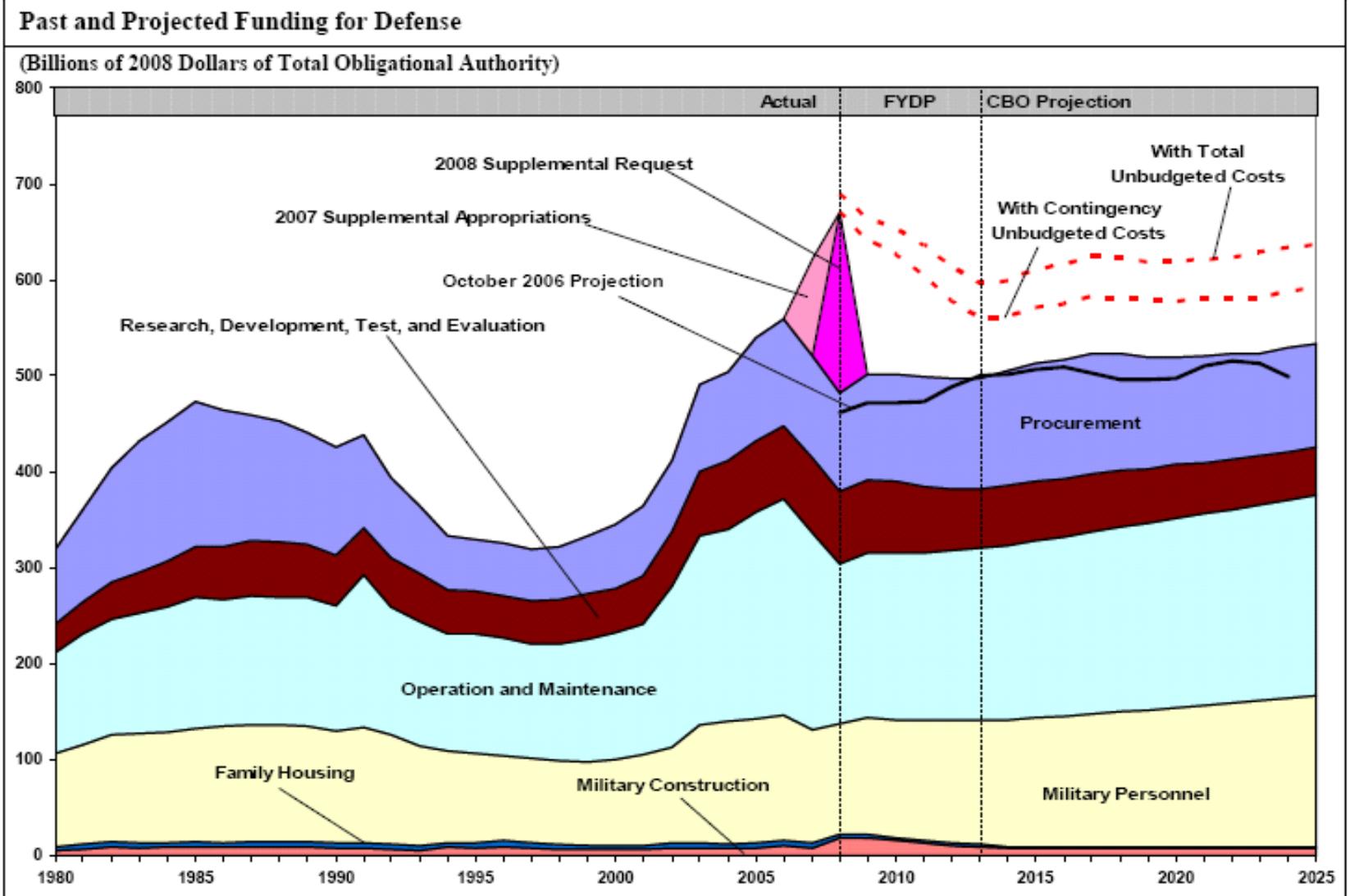
Source: FY 2009 DoD Budget Request; FY 2008 DoD Appropriations and GWOT Request

The Gaps Between the Projected Baseline Budgets and Real World Probable Costs: The CBO Explanation

- This chart shows total obligational authority (TOA) for the Department of Defense for the 1980-2025 period. TOA for defense grew rapidly between the early and mid-1980s, reaching a peak of \$473 billion in 1985 (all funds are in 2008 dollars). TOA then generally declined during the late 1980s and into the 1990s, reaching a low point of about \$319 billion in 1997. DoD's TOA began to rise thereafter, reaching \$364 billion by 2001. It has grown even more rapidly in recent years as U.S. forces have become engaged in operations in Afghanistan and Iraq. DoD's TOA reached \$622 billion, including \$170 billion to fund those operations.
- The President requested \$482 billion for DoD in 2008. The President's budget anticipated \$188 billion in additional emergency and supplemental funding, of which \$87 billion has been provided by the Congress. The 2008 FYDP included none of that anticipated emergency and supplemental funding.
- The 2008 FYFP – on which CBO based the projections shown in this briefing – anticipated that defense resources (excluding supplemental appropriations) would rise from \$482 billion for 2008 to \$497 billion for 2013.
- If the program in the 2008 FYDP was carried out as currently envisioned, the demand for defense resources excluding funding for contingencies, would average \$521 billion a year between 2014 and 2025, CBO projects – or about 8 percent more than the 2008 request excluding emergency supplemental funding.
- CBO also made projection of potential unbudgeted costs (shown by the dashed red lines in the figure). CBO projects that resource demands including unbudgeted costs will average about \$146 billion a year through 2013 and about \$100 billion annually between 2014 and 2025. Those values are about 29 percent and 19 percent higher, respectively, than the amounts excluding those unbudgeted costs. Assumptions underlying the projections for unbudgeted costs include the following:
 - Costs for weapons programs grow as they have since the Vietnam War; and
 - The United States continues to conduct military operations overseas as part of the global war on terrorism (presented as “With Contingency Unbudgeted Costs” in the figure), albeit with levels of delayed personnel declining by 2014 to about 35 percent of current deployments.

Source: CBO. *The Long-Term Implications of Current Defense Plans: Detailed Update for Fiscal Year 2008*. March 2009, p. 2.

The Between the DoD Projected Budget and Real World Probable Costs: The CBO Estimate



Source: CBO. *The Long-Term Implications of Current Defense Plans: Detailed Update for Fiscal Year 2008*. March 2009, p. 2.

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Probable Real World Program Needs

- **Funding the Afghan War, Iraq War, and GWOT in the outyears would require supplementals ranging from 5-15%.**
- **The real world cost of the expansion of military and civilian manpower, and sustaining the all-volunteer force structure will be at least 5-8% higher than DoD estimates.**
- **Future procurement costs are badly underestimated, as are the cost of reset and modernization due to program delays, cutbacks and possible cancellations.**
- **Program delays, cutbacks, and cancellations may limit cost growth to 10% over the DoD procurement and RDT&E estimate, but no prediction is really possible.**
- **O&M will probably be 5-8% higher than DoD estimates if war continues to create a major burden on O&M.**
- **These factors will create turmoil and instability in the National Security planning, programming, and budgeting process through the life of the coming administration.**

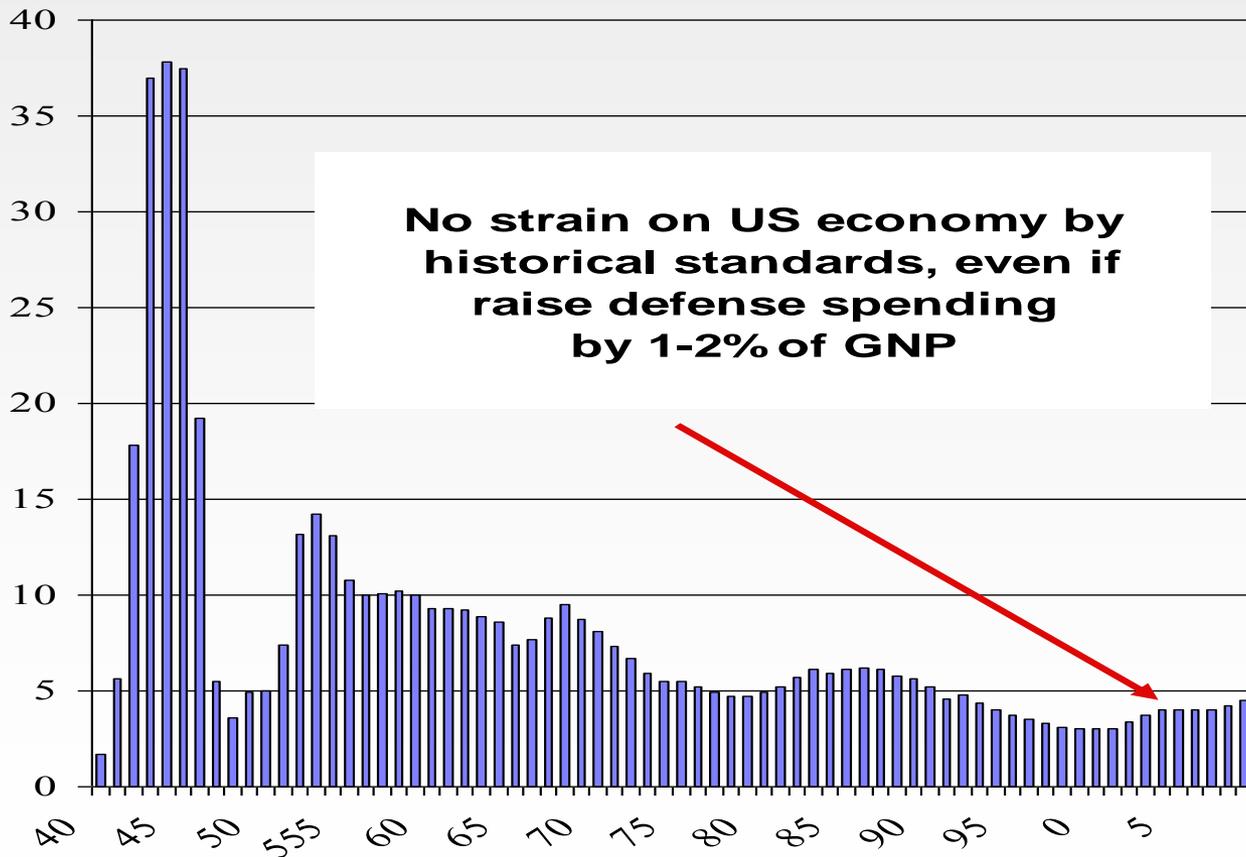
**These Problems Will Not,
However, Create a Critical
Burden on Federal Spending or
the Economy**

“Guesstimating” the Burden that Defense Would Place on National Economy and Federal Spending

- **The baseline DoD and Federal Budget requests ignore wartime costs, real world program and procurement cost escalation, and separate out veteran’s costs.**
- **Future war costs are uncertain, but unlikely to escalate sharply over FY2007 peaks.**
- **Program delays, cutbacks, and cancellations will limit the year-by-year impact of the failure of every service and agency to manage costs and programs effectively.**
- **Adequate funding for “civilian partners” like the State Department other civilian departments is not funded, but would have a limited impact on total federal spending and the GDP.**
- **Homeland defense (DHS) costs are not included in the national security budget.**

The US Has Long Dealt with Much Higher National Security Burdens: Defense Spending as a % of GDP Since WWII

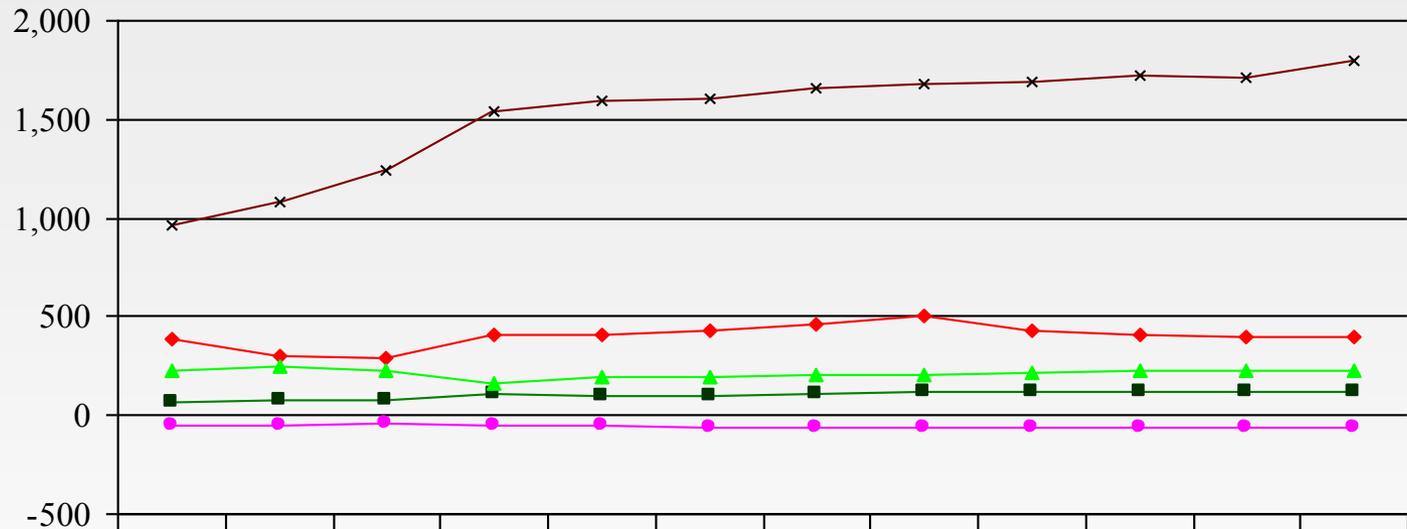
National Defense Spending as a Percent of GDP: 1940-2009
 (050 Total defense spending for DoD and all agencies as % of GDP)



Source: Undersecretary of Defense (Comptroller). *National Defense Budget Estimate for the FY 2009 Budget (Greenbook)*. March 2008, pp. 216-127.

Baseline Comparison of Defense to Other Federal Outlays

(Trend by Category in FY 2000 \$US Billions)



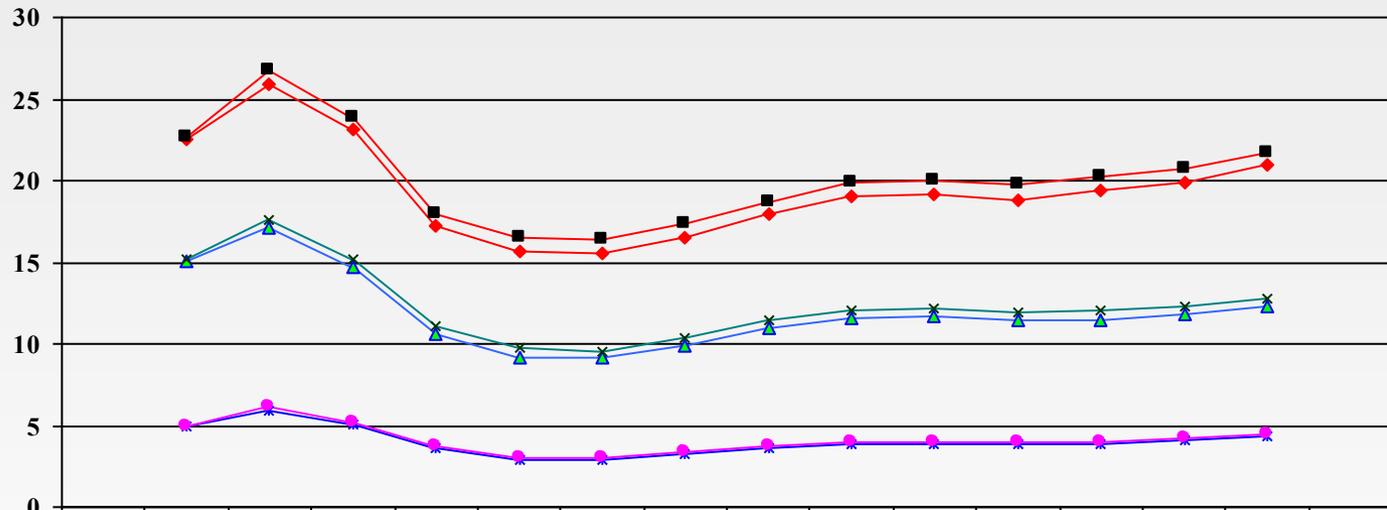
	1990	1995	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013
◆ National Defense	383	306	295	407	412	426	464	505	433	403	397	395
■ Veterans, Space, International	69	73	77	106	98	98	113	118	116	120	115	118
▲ Net Interest	227	252	223	163	195	198	200	209	221	227	227	225
× Social & Economic	965	1,084	1,238	1,541	1,597	1,602	1,654	1,678	1,687	1,717	1,716	1,798
* Agency Total	1644*	1715*	1832*	2218*	2302*	2325*	2431*	2510*	2457*	2467*	2455*	2536*
● Undistributed Offsetting Receipts	54-	53-	43-	53-	53-	62-	65-	59-	65-	62-	65-	67-
+ Grand Total*	1590*	1662*	1790*	2165*	2249*	2263*	2366*	2452*	2392*	2404*	2390*	2469*

Source: Office of the Undersecretary of Defense (Comptroller). *National Defense Budget Estimate for the FY 2009 Budget (Greenbook)*. March 2008, p. 207.

The Baseline Estimate Does Understate Defense

Shares of Federal Budget, Public Spending, and GDP

(Percentages of Indicated Totals Measured in Budget Outlays)

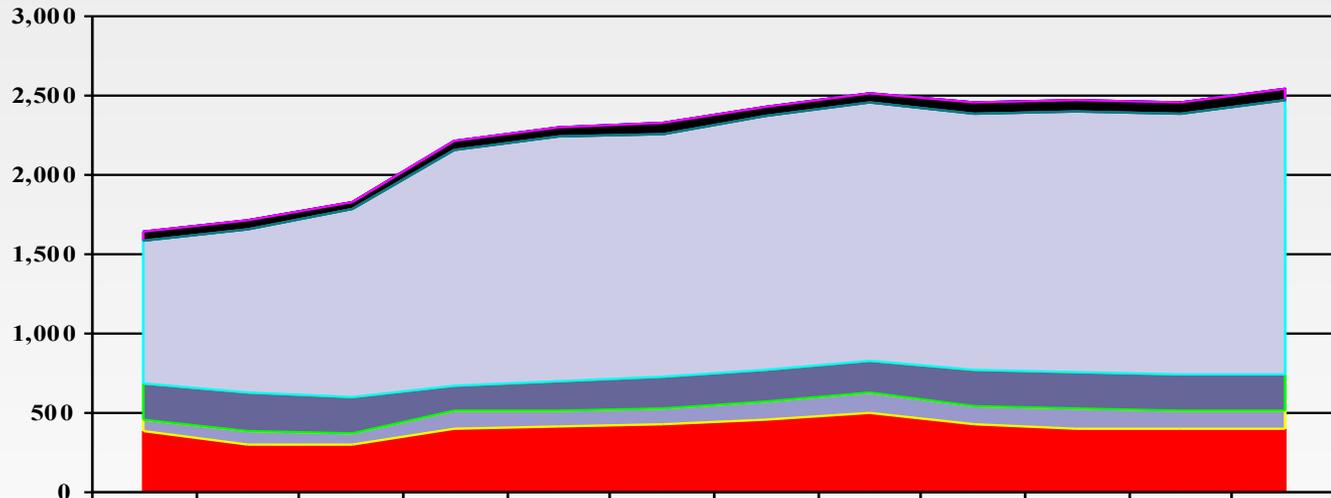


		1980	1985	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
◆ of Federal Budget %	DoD	22.5	25.9	23.1	17.2	15.7	15.6	16.5	17.9	19	19.2	18.8	19.4	19.9	21
■ of Federal Budget %	Nation	22.7	26.7	23.9	17.9	16.5	16.4	17.3	18.7	19.9	20	19.7	20.2	20.7	21.7
▲ of Public Spending %	DoD	15.1	17.1	14.7	10.6	9.2	9.1	9.9	11	11.6	11.7	11.4	11.5	11.8	12.3
✕ of Public Spending %	Nation	15.2	17.6	15.2	11.1	9.7	9.5	10.4	11.5	12.1	12.2	11.9	12	12.3	12.8
✱ of GDP %	DoD	4.9	5.9	5.1	3.6	2.9	2.9	3.2	3.6	3.8	3.9	3.8	3.9	4.1	4.3
● of GDP %	Nation	4.9	6.1	5.2	3.7	3	3	3.4	3.7	4	4	4	4	4.2	4.5

Source: Office of the Undersecretary of Defense (Comptroller).
National Defense Budget Estimate for the FY 2009 Budget
 (Greenbook). March 2008, p. 217.

The Defense Baseline May Understate Costs, But Growth in Federal Spending Will Still Be Driven by Civil Programs

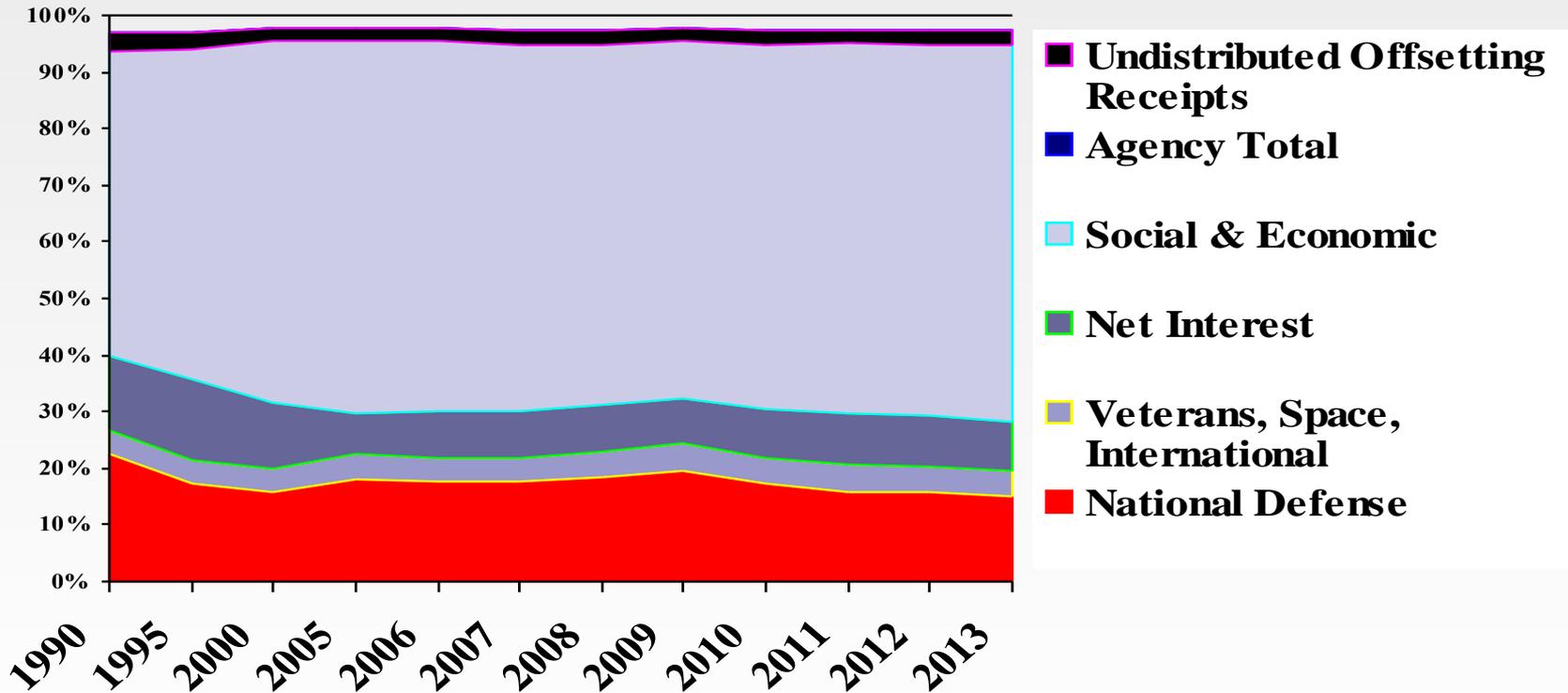
(Trend in Total Spending in FY 2000 \$US Billions)



	1990	1995	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013
*Grand Total	*1590	*1662	*1790	*2165	*2249	*2263	*2366	*2452	*2392	*2404	*2390	*2469
Undistributed Offsetting Receipts	-54	-53	-43	-53	-53	-62	-65	-59	-65	-62	-65	-67
Agency Total	*1644	*1715	*1832	*2218	*2302	*2325	*2431	*2510	*2457	*2467	*2455	*2536
Social & Economic	965	1,084	1,238	1,541	1,597	1,602	1,654	1,678	1,687	1,717	1,716	1,798
Net Interest	227	252	223	163	195	198	200	209	221	227	227	225
Veterans, Space, International	69	73	77	106	98	98	113	118	116	120	115	118
National Defense	383	306	295	407	412	426	464	505	433	403	397	395

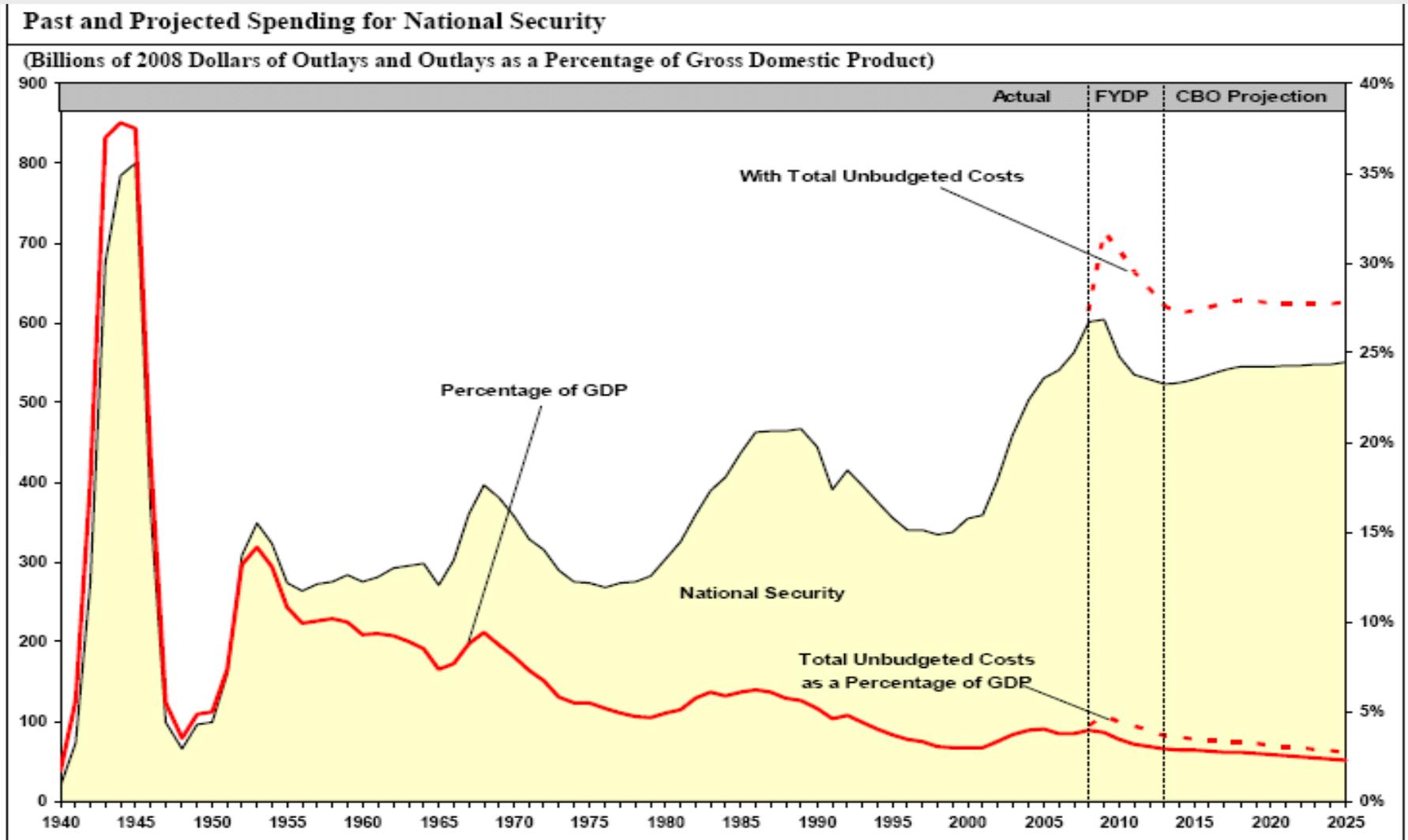
Source: Office of the Undersecretary of Defense (Comptroller).
National Defense Budget Estimate for the FY 2009 Budget
 (Greenbook). March 2008, p. 207.

Drop in Baseline Defense Budget as a Percent of Total Federal Outlays



Source: Office of the Undersecretary of Defense (Comptroller).
National Defense Budget Estimate for the FY 2009 Budget
 (Greenbook). March 2008, p. 207.

CBO Estimate Indicates that Probable Cost Escalation Would Still have Limited Impact on Federal Spending and GDP

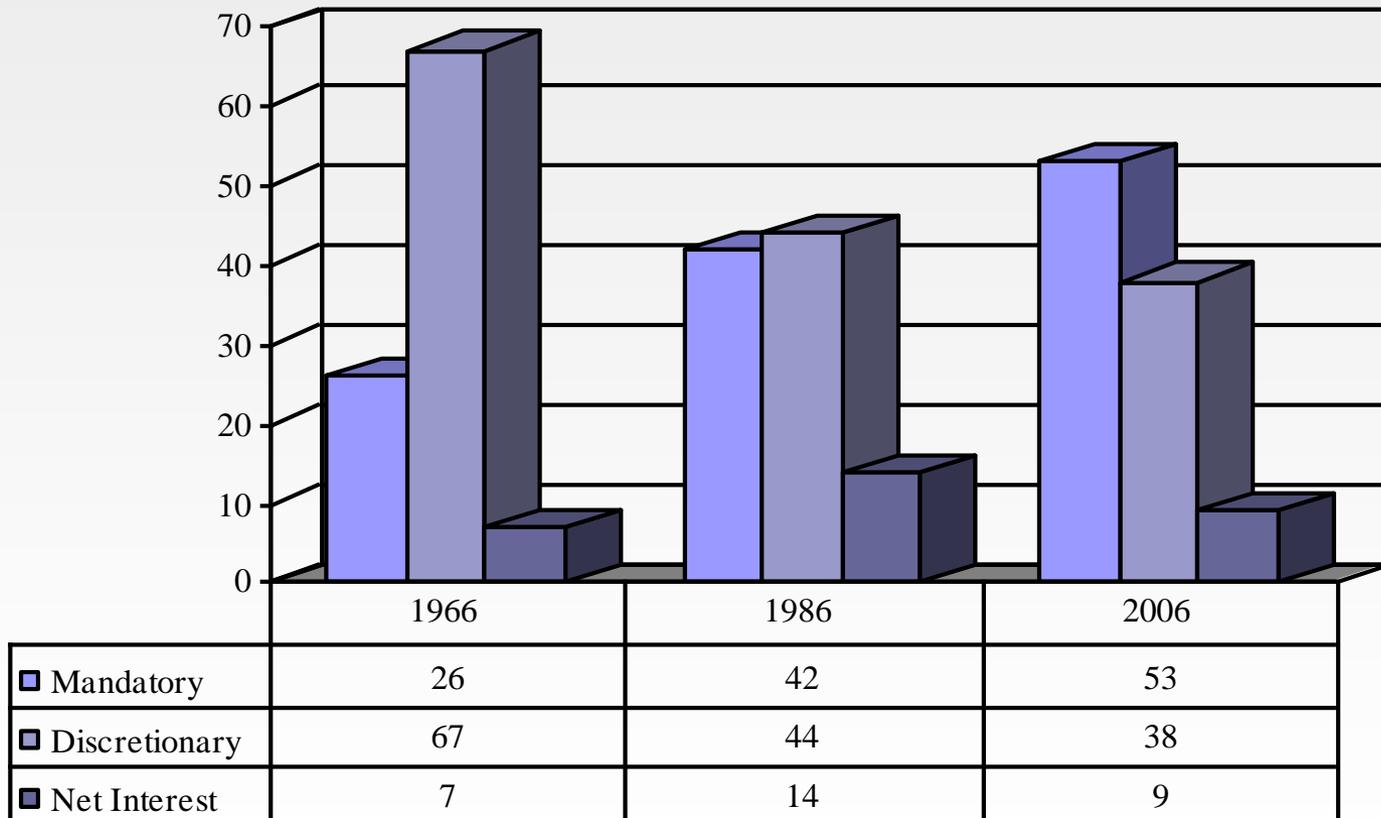


Probable Real World Impact on Federal Spending and GDP

- **No one can really estimate the future interaction of national security spending and trends in the GDP.**
- **Near-term trends will be less far less favorable than projected in the baseline budget, which ignores war costs and cost-escalation, but are unlikely to exceed 5% of GDP.**
- **The impact of ending the Iraq War during the next administration would ease the burden on the GDP and federal spending, but only by an average of well under \$100 billion a year.**
- **Adjustments in the US force posture in the Gulf and shifts of resources to the Afghan War would offset probable savings.**
- **Major shifts in spending from national security to civil spending would require major long-term reductions in US strategic commitments.**
- **The real world burden of the increases in federal spending on the GDP will continue to be driven by the rising cost of civil and not military programs.**

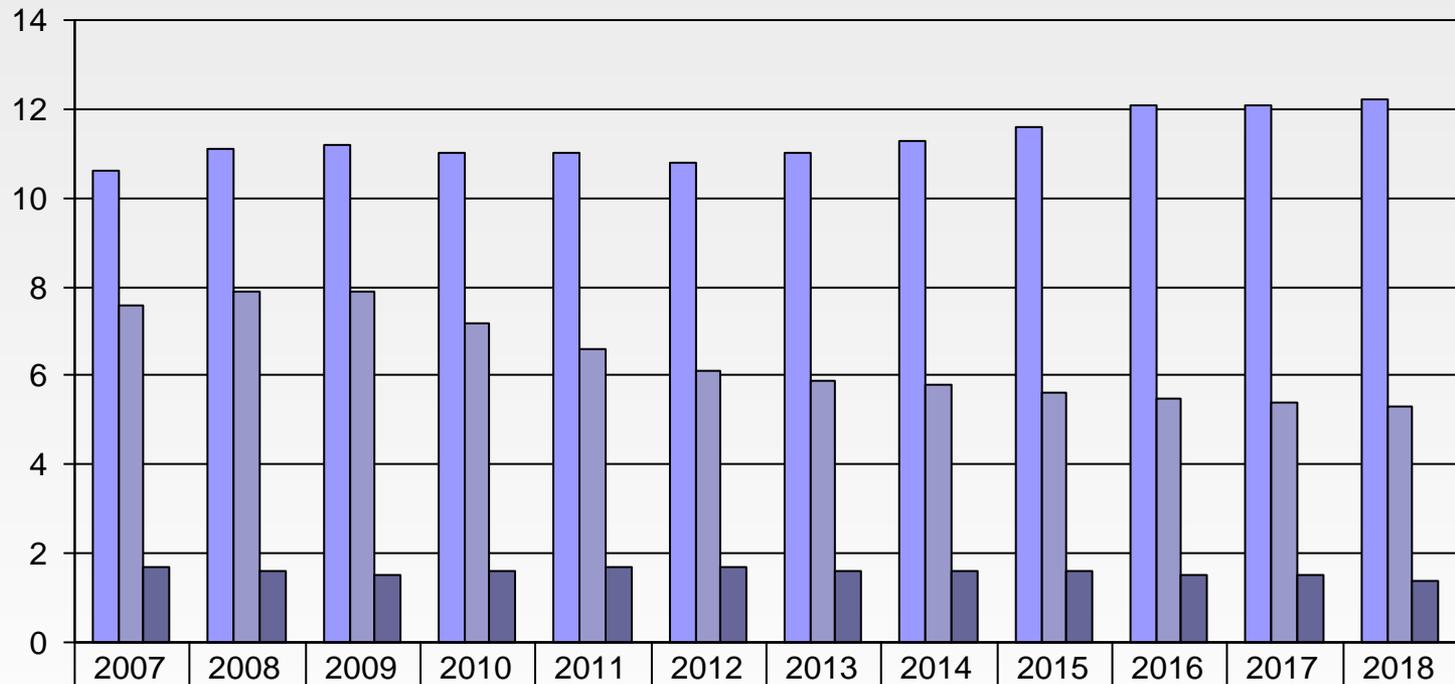
**There Will, However Be Growing
Pressure on Defense and Other
Discretionary Programs from
Mandatory Entitlements
Programs**

Historical Trend in Discretionary vs. Mandatory Spending as Percent of Federal Budget (IP)



Source: GAO-07-500CG, *DOD Transformation: Challenges and Opportunities*.

Discretionary vs. Mandatory Spending as Percentage of GDP

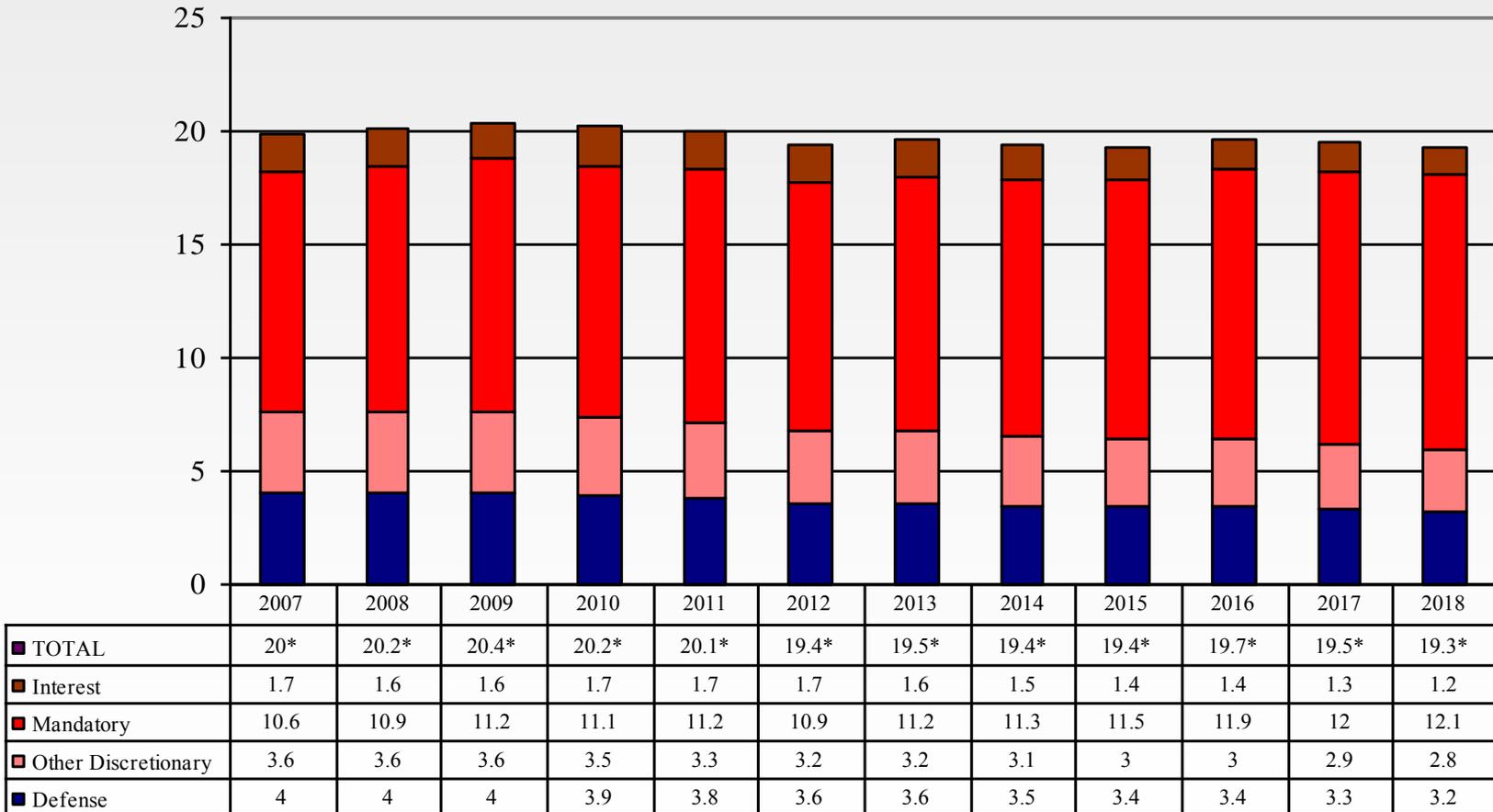


	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
■ Mandatory BO	10.6	11.1	11.2	11	11	10.8	11	11.3	11.6	12.1	12.1	12.2
■ Discretionary BO	7.6	7.9	7.9	7.2	6.6	6.1	5.9	5.8	5.6	5.5	5.4	5.3
■ Net Interest	1.7	1.6	1.5	1.6	1.7	1.7	1.6	1.6	1.6	1.5	1.5	1.4

Source: CBO, An Analysis of the President's Budgetary Proposals for Fiscal Year 2009, March 2008, Table 1-2, p. 4.

The Baseline Defense Budget Reduces the Burden on the GDP

(Outlays as a % of GDP)

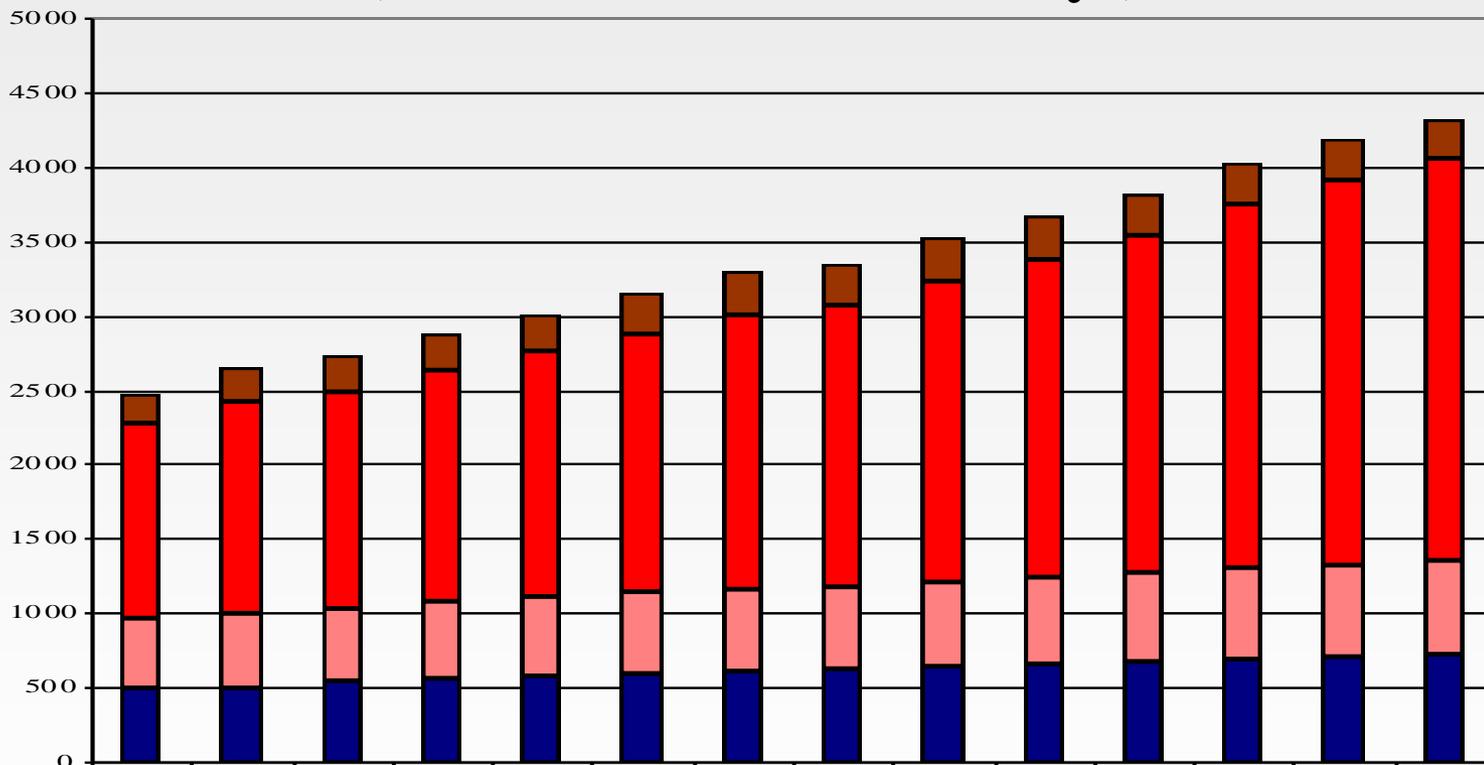


Source: CBO, *The Budget and Economic Outlook: Fiscal Years 2009 to 2018*, January 2008, p. 52

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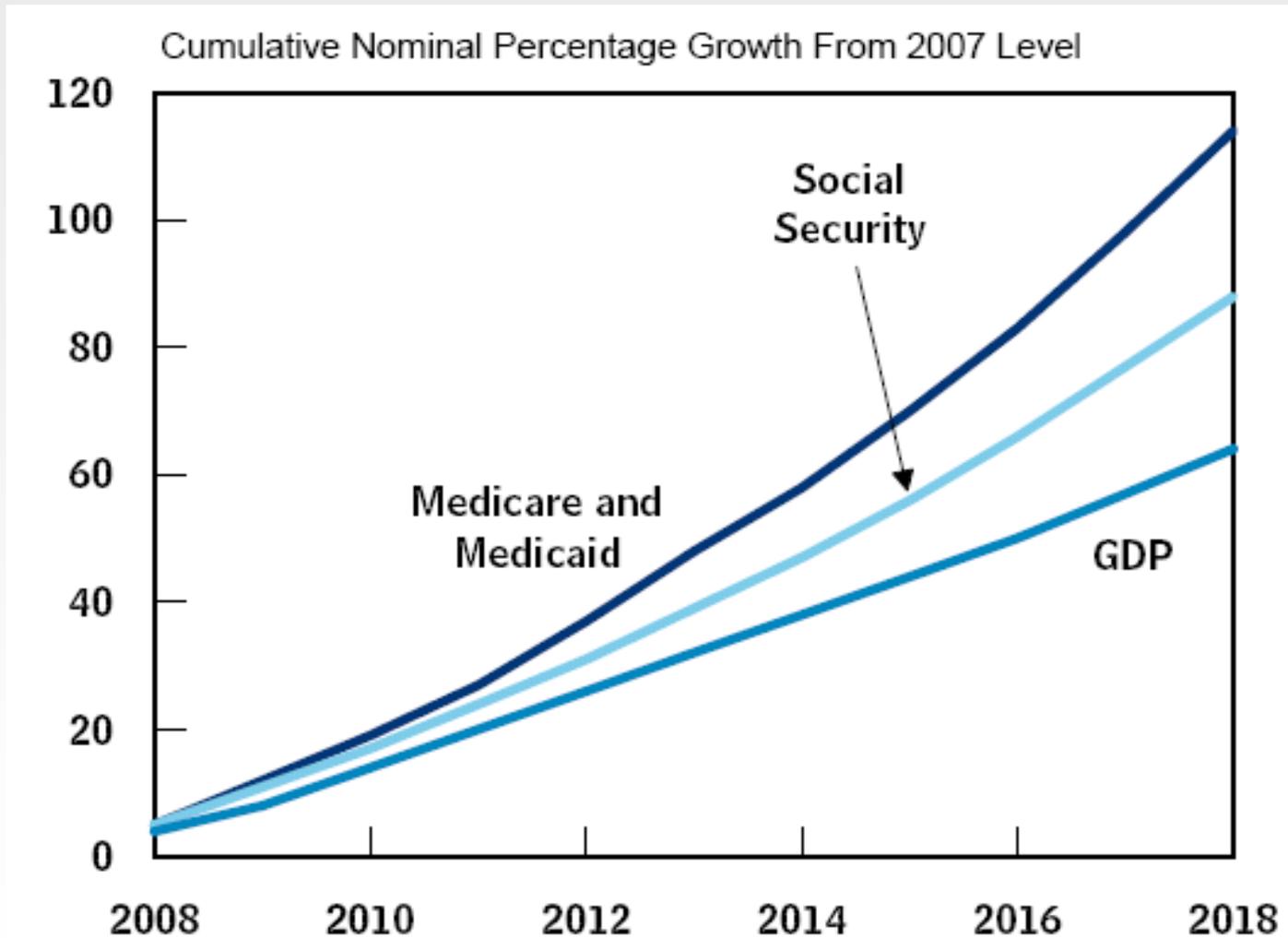
Increases in Mandatory Civil Programs Drive the Increase in the Near Term Burden of Federal Spending

(\$US Billions in FY Outlays)



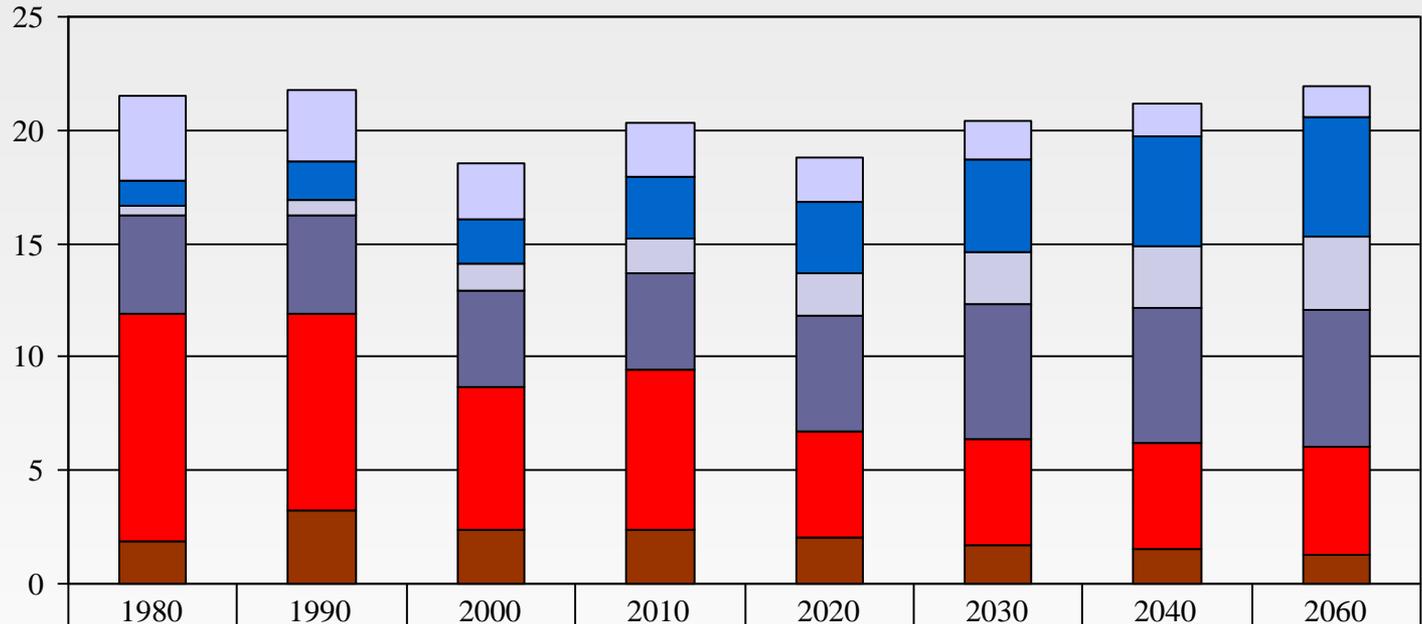
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
■ TO TAL	*2 472	*2 649	*2 731	*2 873	*3 015	*3 148	*3 299	*3 355	*3 524	*3 666	*3 824	*4 037	*4 183	*4 325
■ Interest	184	217	238	234	241	266	283	286	285	285	282	278	271	259
■ Mandatory	13 20	14 32	14 50	15 50	16 54	17 37	18 46	18 84	20 22	21 38	22 70	24 51	25 78	27 06
■ Other Discretionary	474	499	493	517	531	542	550	560	571	583	596	610	624	637
■ Defense	494	500	549	572	590	603	620	626	645	660	677	698	710	723

CBO Estimate of Percentage Rise in the Cost of Mandatory Programs



Entitlements “Squeeze:” OMB Guess

Federal Budget Outlays As a Percent of GDP

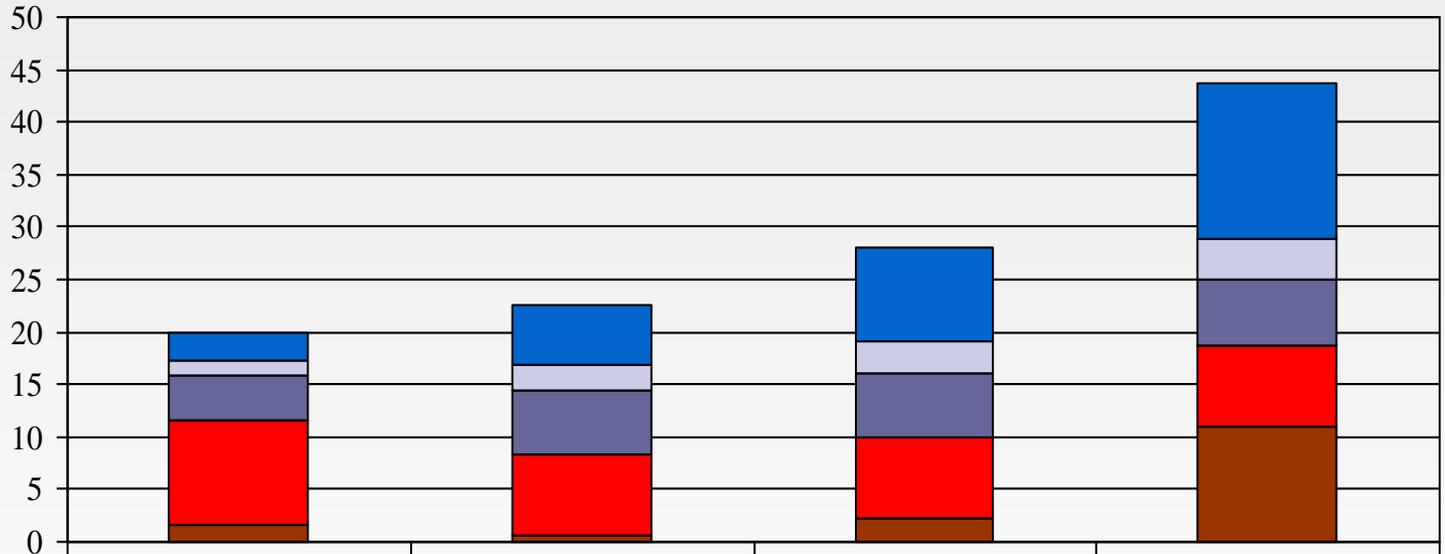


Other Mandatory	3.7	3.2	2.4	2.4	2	1.7	1.5	1.3
Medicare	1.1	1.7	2	2.7	3.1	4.1	4.8	5.3
Medicaid	0.5	0.7	1.2	1.5	1.9	2.3	2.7	3.2
Social Security	4.3	4.3	4.2	4.3	5.1	5.9	6	6.1
Defense & All Discretionary	10	8.7	6.3	7	4.7	4.7	4.7	4.7
Interest	1.9	3.2	2.4	2.4	2	1.7	1.5	1.3

Source: OMB, *FY2009 Budget, Analytical Perspectives*, p. 188

Entitlements “Hell:” CBO Guess

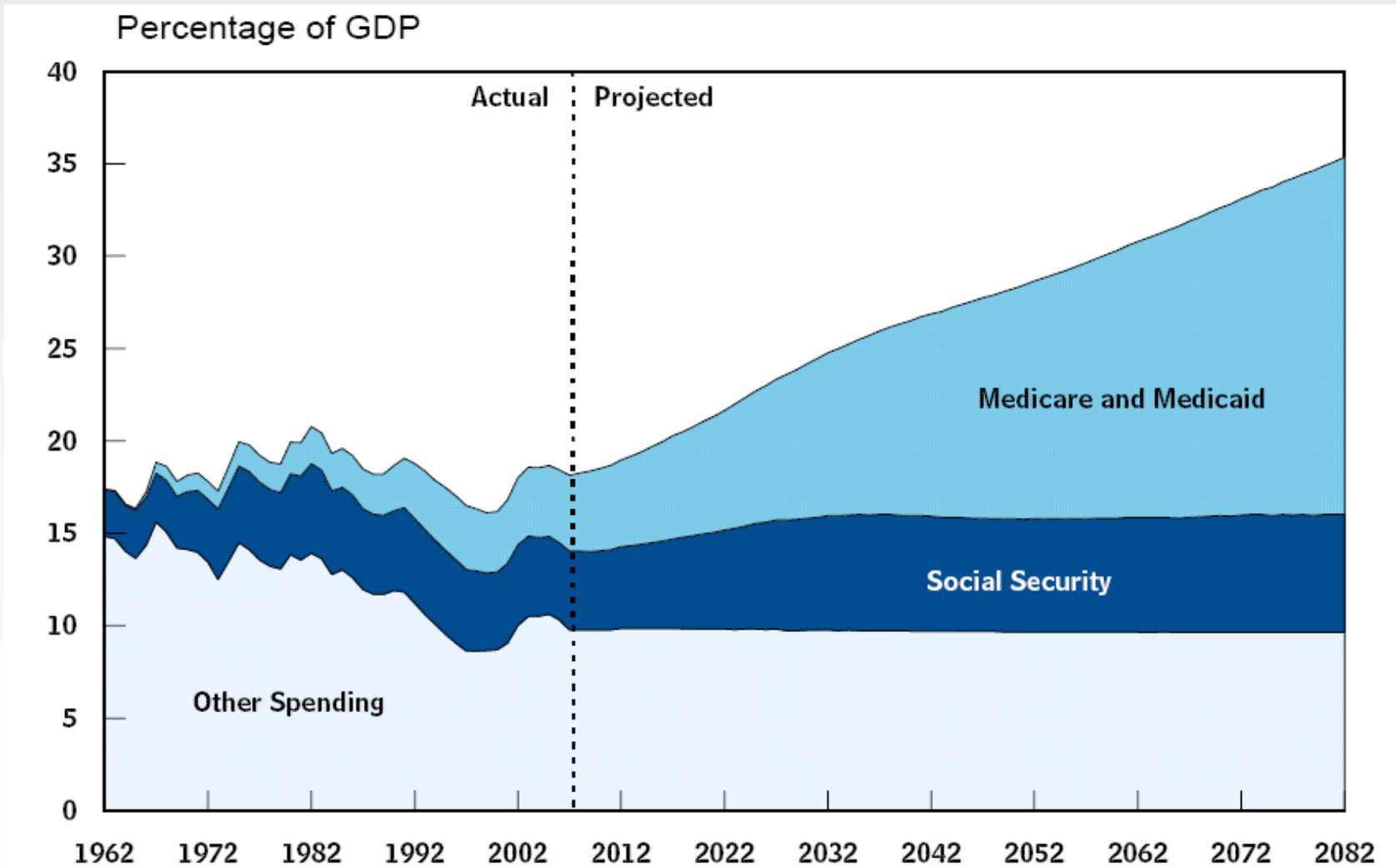
Extended Baseline Federal Budget As a Percent of GDP



	2007	2030	2050	2082
■ Medicare	2.7	5.6	8.9	14.8
■ Medicaid	1.4	2.5	3.1	3.8
■ Social Security	4.3	6.1	6.1	6.4
■ Defense & All Discretionary	9.9	7.7	7.6	7.6
■ Interest	1.7	0.6	2.3	11
■ Total	20.0*	22.4*	28.1*	43.6*

Source: CBO, *The Long Term Budget Outlook*, December 2007, p.5

CBO Estimate of the Impact of Mandatory Programs on GDP versus Defense and Other Spending



Source: CBO: The Budget and Economic Outlook: FY2008-2018, January, 2008, pp. 18-19

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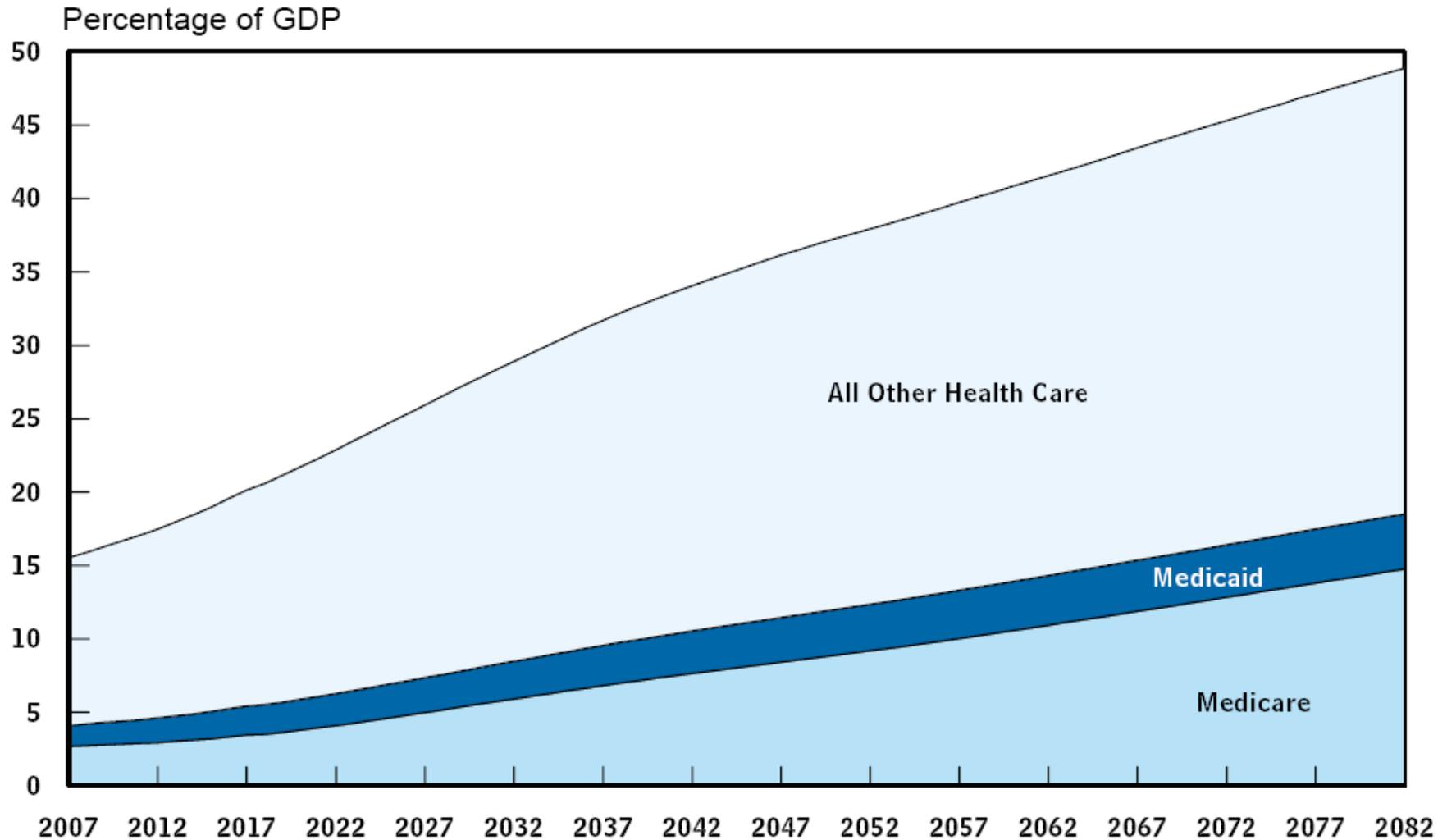
The CBO Estimate of the Health Care Threat to the US

Rising health care costs and their consequences for Medicare and Medicaid constitute the nation's central fiscal challenge. Without changes in federal law, the government's spending on those two programs is on a path that cannot be sustained.

Over the past 30 years, total national spending on health care has more than doubled as a share of gross domestic product (GDP). **According to CBO's latest projections in its Long-Term Outlook for Health Care Spending, that share will double again by 2035, claiming more than 30 percent of GDP. Thereafter, health care costs continue to account for a steadily growing share of GDP, reaching more than 40 percent by 2060 and almost 50 percent by 2082. Federal spending on Medicare and Medicaid, which accounts for 4 percent of GDP today, is projected to rise to 9 percent by 2035 and 19 percent by 2082 under current law.**

Although the aging of the population is frequently cited as the major factor contributing to the large projected increase in federal spending on Medicare and Medicaid, it accounts for only a modest fraction of the growth that CBO projects. The main factor is excess cost growth-or the extent to which the increase in health care spending exceeds the growth of the economy. The gains from higher spending are not clear, however: Substantial evidence exists that more expensive care does not always mean higher-quality care. Consequently, embedded in the country's fiscal challenge are opportunities to reduce costs without impairing health outcomes overall.

CBO Estimate of the Impact of All Health Care Costs as Percent of GDP



CBO: The Long-Term Outlook for Health Care Spending, November 2007, p. 2

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National Security versus Other Discretionary Spending and Entitlements

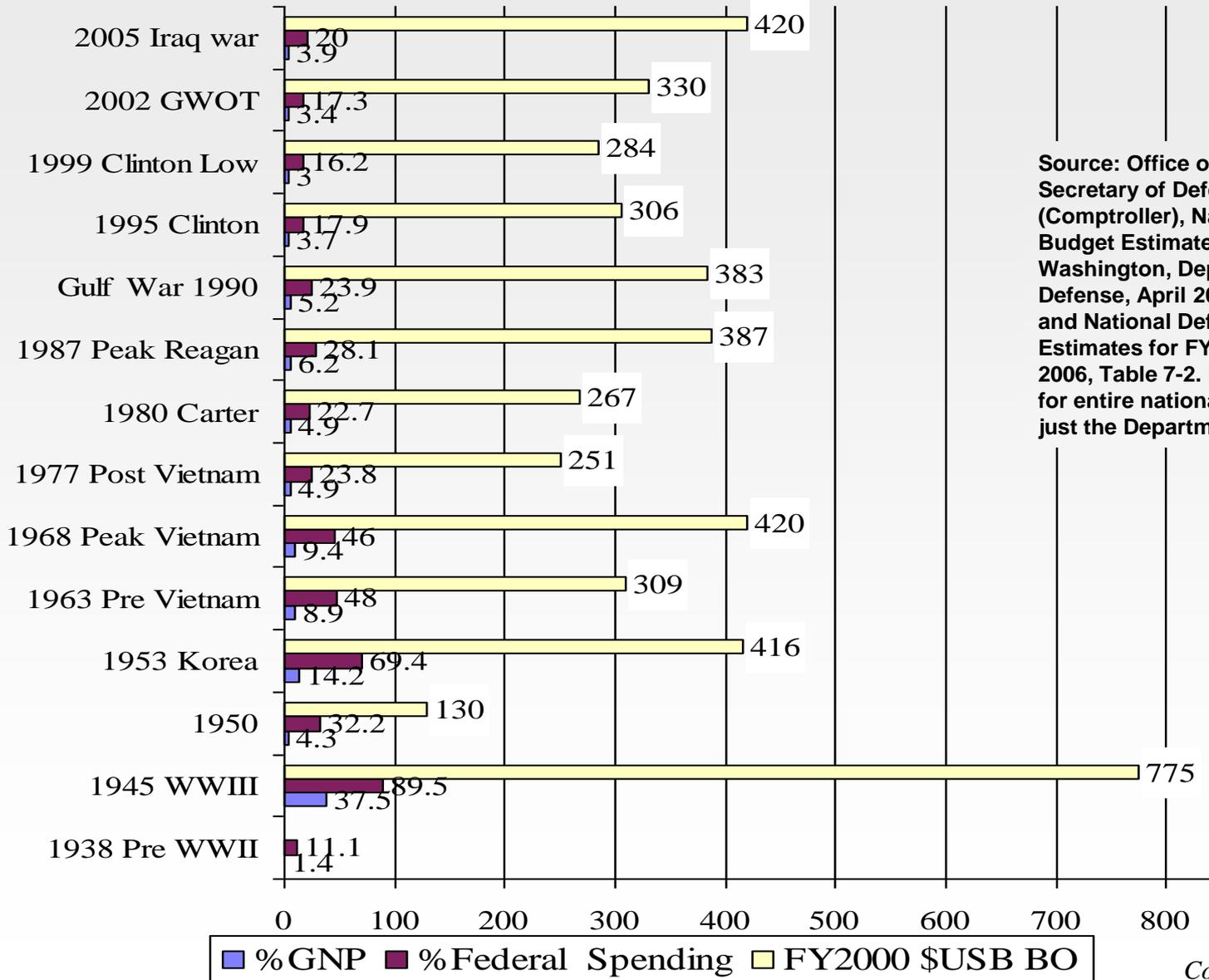
- **The key pressures on the budget and GDP come after FY2018; there is time to create affordable federal spending and no immediate “crunch” between discretionary and mandatory spending.**
- **Cost containment is vital to effective defense planning, programming, and budgeting but neither the baseline nor the baseline plus wartime costs is the a major burden on federal spending and the GDP by historical standards.**
- **Entitlements and mandatory programs are growing at an unacceptable rate, and will create an unacceptable burden.**
- **Health costs and an aging population (Social Security) drive the problem, but the key issue is health costs.**
- **The previous graphs show that no practical level of reduction in defense and other discretionary spending can fund currently projected entitlements.**

The War Cost Crisis: Failing to Plan or Budget for Ongoing Wars

“Guesstimating” the Future Cost of the Afghan War, Iraq War, and GWOT

- **Past costs will be “sunk” costs for the next Administration. The issue is future costs and what can be done about them.**
- **The baseline budget does not include most war costs.**
- **Supplementals are not measures of the cost of the war.**
- **There are no reliable DoD cost estimates, and the CRS, CBO, and GAO have produced different estimates.**
- **The full nature of deferred costs is unclear.**
- **The Iraq War is driven by externals like Iran, Iraqi accommodation, Iraqi force development and willingness to take over the financial burden.**
- **The Afghan War is driven by externals like Pakistan, the role of our allies, and progress in Afghan governance and force development**

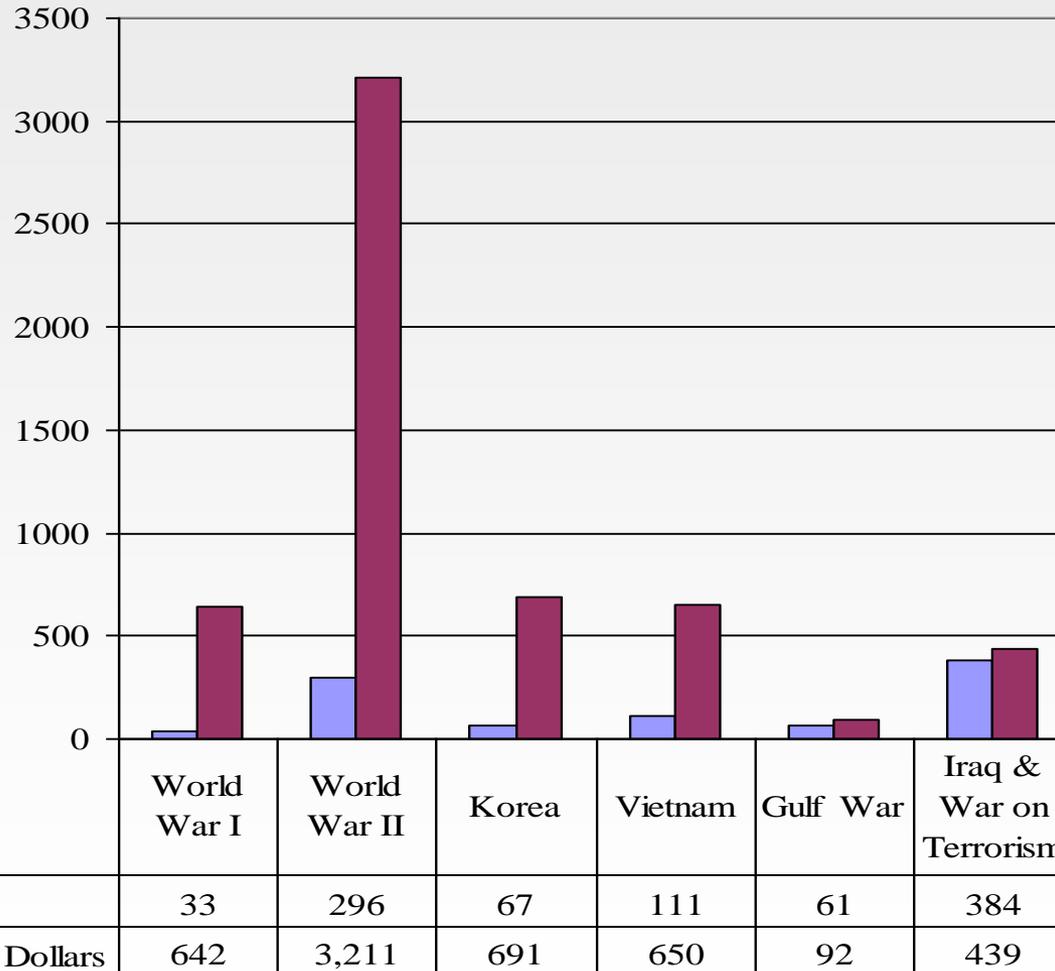
The Annual Cost and Burden of Previous Wars



Source: Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2006, Washington, Department of Defense, April 2005, Table 7-2, and National Defense Budget Estimates for FY2007, March 2006, Table 7-2. Budget total is for entire national defense, not just the Department of Defense.

The Total Cost of Previous Wars

(In Billions of \$US Dollars)

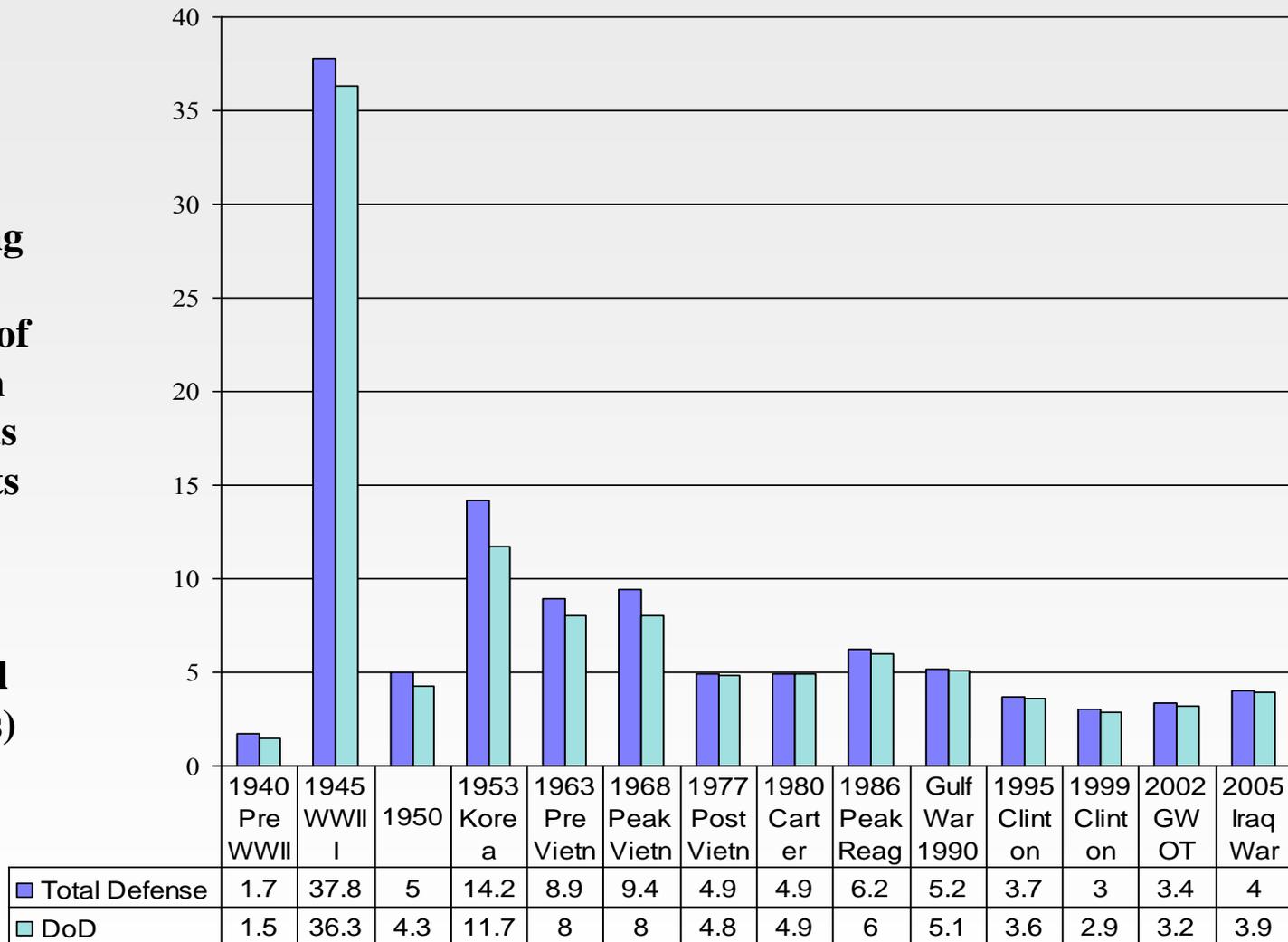


Source: Adapted by the author from data provided by the Congressional Research Service as quoted in *Defense News*, May 8, 2006, p. 3

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The Burden of Previous Wars

Spending as a Percent of GNP in Previous Conflicts and Crises (Total Federal Outlays)



Source: Office of the Under Secretary of Defense (Comptroller), *National Defense Budget Estimates for FY2007*, Washington, Department of Defense, March 2006, Table 7-7, pp. 216-217. Budget Total is for entire national defense, and not just Department of Defense.

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Current Cost Estimates for the Iraq War: Pick A Cost, Any Cost

- **Some of the best work to date has been by Amy Belasco of the CRS. It attempts to combine the budget authority cost of the war for both the Department of Defense and Department of State.**
 - **The Iraq War totals \$608.3 billion for FY2001-FY2008 in the February 2008 estimate.**
 - **The Iraq War has cost 3.7 times the cost of the Afghan War to date.**
 - **But, the FY2008 estimates do not include a guesstimate for the ultimate cost of the supplemental request, whether deferred or current.**
- **The GAO has provided estimates in terms of obligations. The costs are much lower because they do not include the authorized future costs in the CRS estimate and they do not include FY2008.**
 - **The total cost of the war to DoD through FY2007 is shown as \$378.1 billion.**

CRS Estimate of Total Cost of War To US Through FY2008

By Operation and Funding Source	FY 01 & FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	Cum. Enacted through FY 08 Consol. Appropriations	Pending FY 08 Req.	Cum. FY 01-FY 08 Req.
OPERATION IRAQI FREEDOM (OIF)										
Department of Defense	0	50.0	56.4	83.4	98.5	129.6	74.7	492.0	79.6	571.6
Foreign Aid and Diplomatic Ops	0	3.0	19.5	2.0	3.2	3.2	0.9	31.7	2.5	34.2
VA medical	0	0	0	0.2	0.4	0.9	0.7	2.2	0	2.2
Total Iraq	0	53.0	75.9	85.5	102.0	133.6	76.4	525.9	82.3	608.3
OPERATION ENDURING FREEDOM (OEF)/Afghanistan and GWOT										
Department of Defense	20.0	14.0	12.4	17.2	17.9	34.9	12.6	128.9	21.7	150.6
Foreign Aid and Diplomatic Ops	0.8	0.7	2.2	2.8	1.1	1.9	1.1	10.6	0.9	11.5
VA medical	0	0	0	0	0	0.1	0.2	0.3	0	0.3
Total OEF	20.8	14.7	14.5	20.0	19.0	36.9	14.0	139.8	22.8	162.7

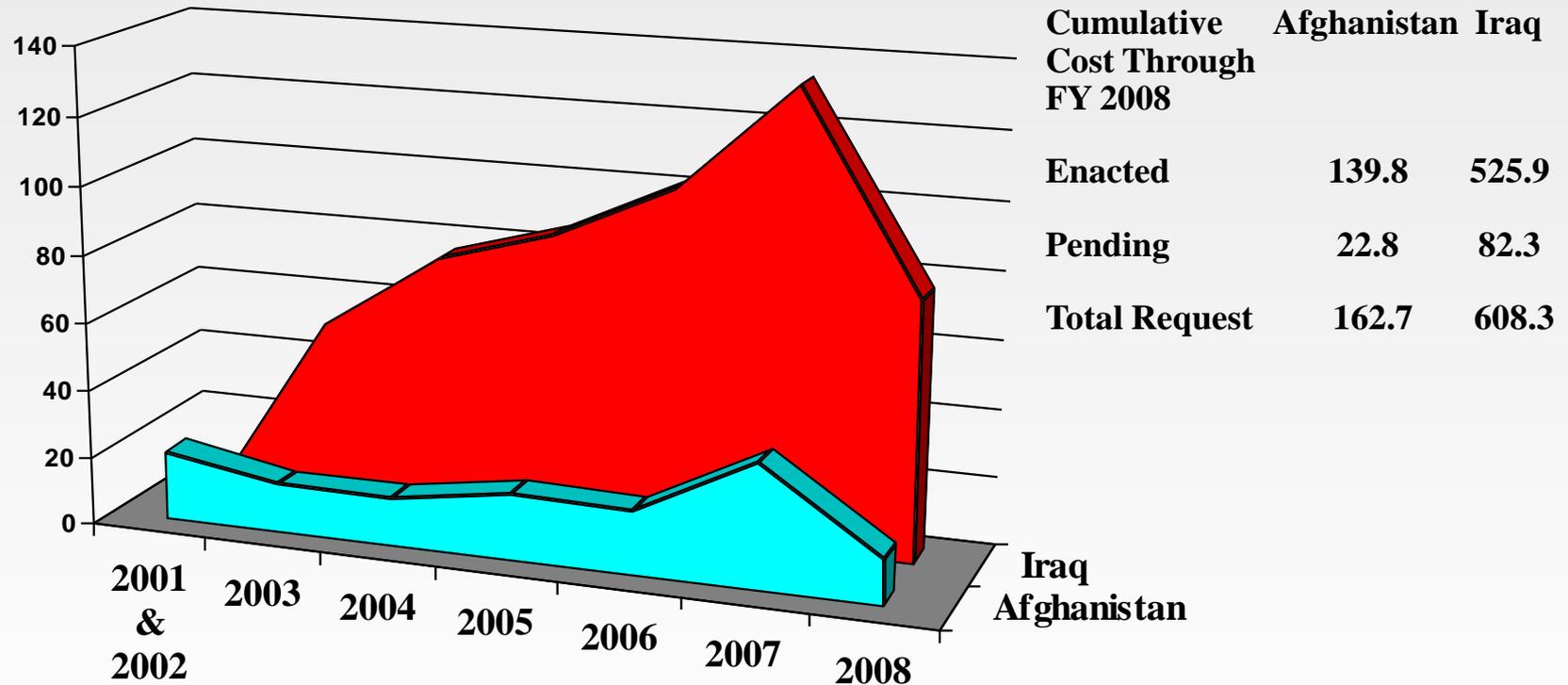
Does not include FY2009 supplementals or future costs. CRS report indicates that CBO Estimates that cost of next 10 years for both OIF and OEF would be \$570 billion more if troops fell to 30,000 by 2010, or \$1,055 billion if fell to 75,000 by 2013

Source: CRS, RL-33110, February 8, 2008, pp 11& 13

CRS Estimate of US Cost of Afghan and Iraq Wars

Including DoD, Foreign Aid and VA

(In \$US Current Billions in Budget Authority)

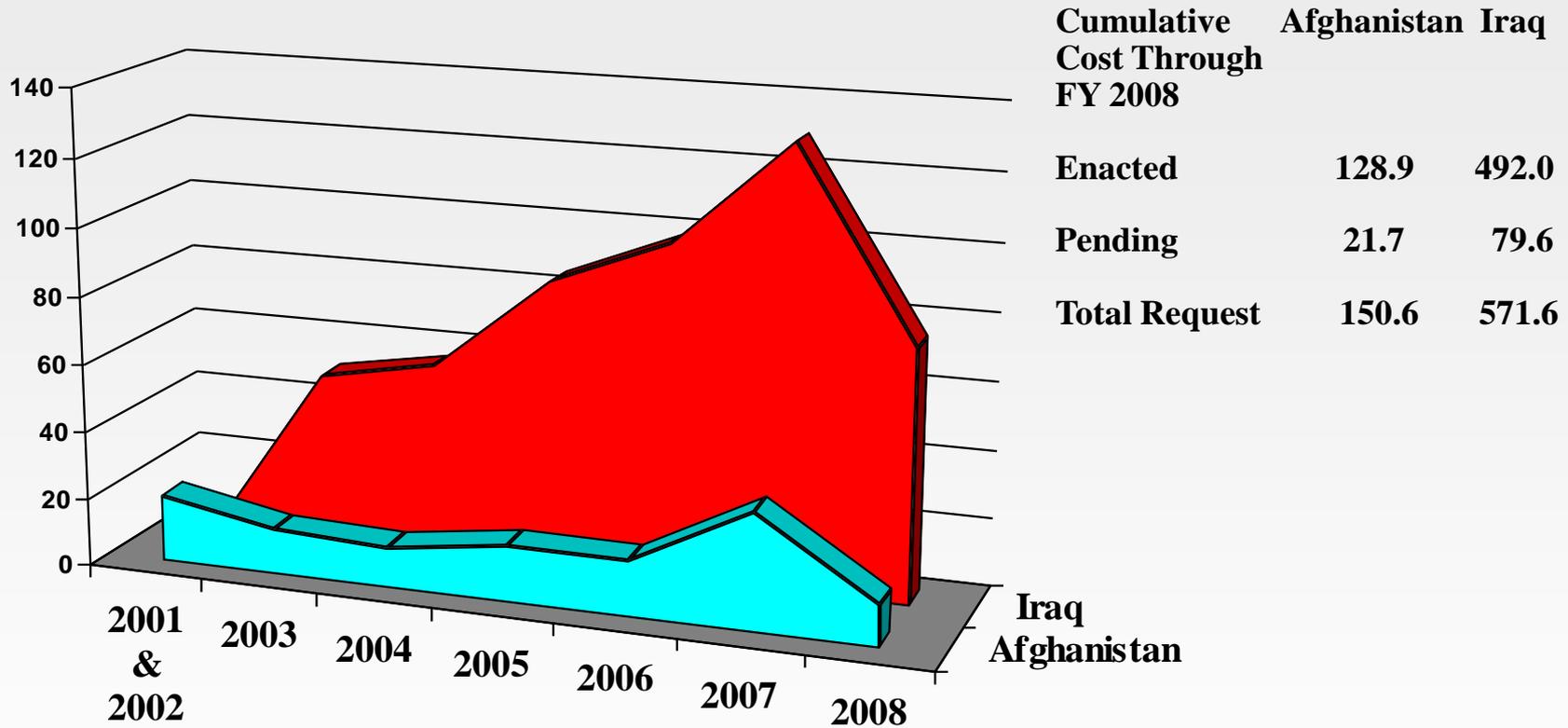


	2001 & 2002	2003	2004	2005	2006	2007	2008
■ Afghanistan	20.8	14.7	14.5	20	19	36.9	14
■ Iraq	0	53	75.9	85.8	102	133.6	76.4

Source: CRS RL-33110, February 8, 2008, pp. 11 & 13. Afghan costs include GWOT.

CRS Estimate of US DoD Cost of Afghan and Iraq Wars

(In \$US Current Billions in Budget Authority)



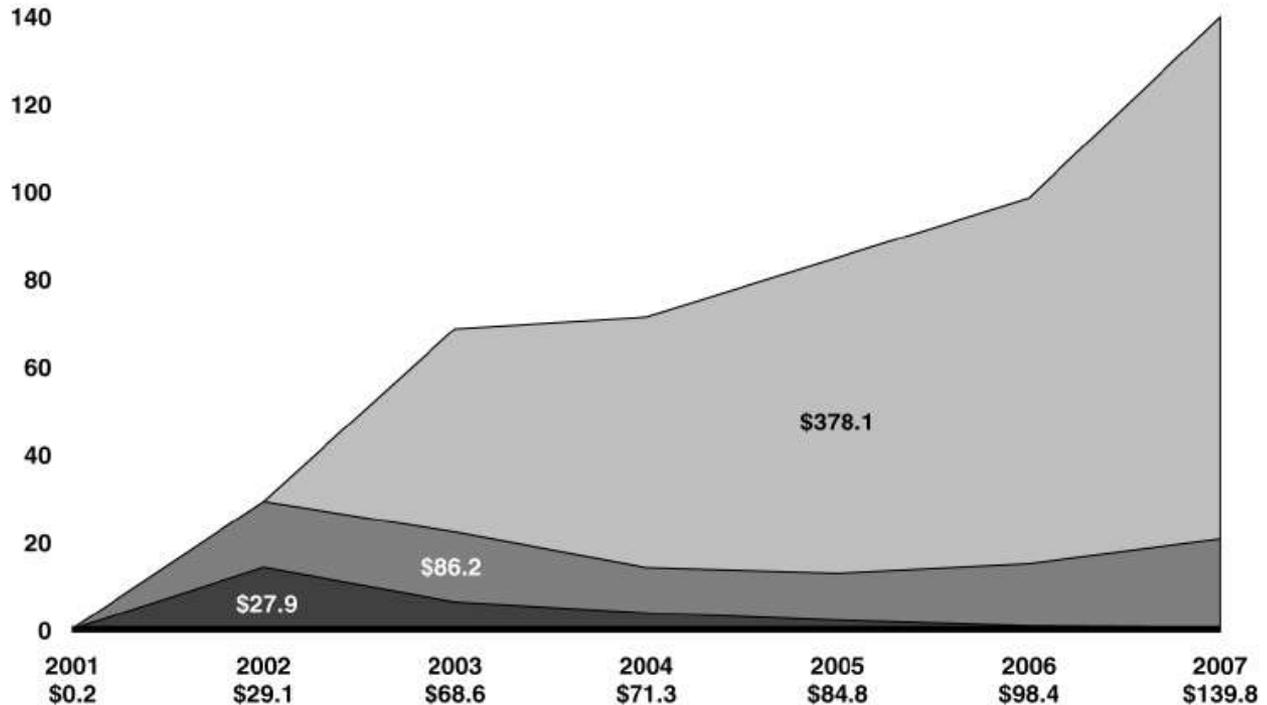
	2001 & 2002	2003	2004	2005	2006	2007	2008
Afghanistan	20	14	12.4	17.2	17	34.9	12.6
Iraq	0	50	56.4	84.3	98.5	129.6	74.7

Source: CRS RL-33110, February 8, 2008, pp. 11 & 13. Afghan costs include GWOT.

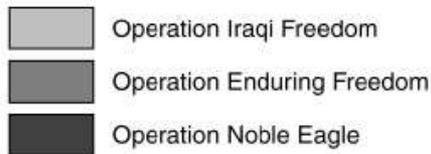
GAO Estimate of Cost of War To DoD Through FY2007

Figure 2: DOD's Reported GWOT Obligations for Fiscal Years 2001 through 2007 by Operation

Dollars (in billions)



GWOT obligations per fiscal year

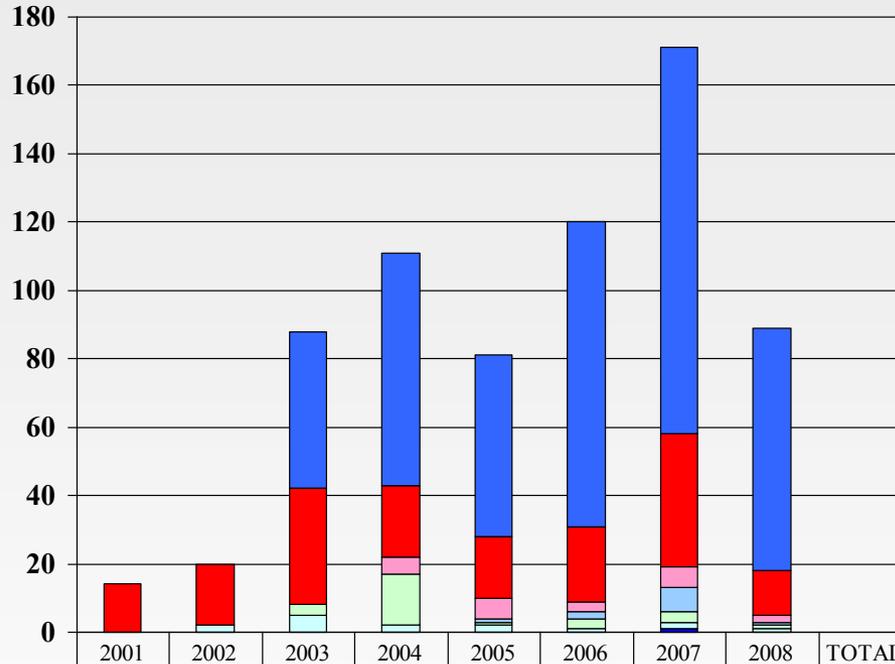


Source: GAO-08-423R, GWOT, January 30, 2008, p

Source: GAO analysis of DOD data.

CBO Estimate of Cost of All US Government Activity in Afghan and Iraq Wars, and GWOT, by Category (In Appropriations of \$US Current Billions by Fiscal year)

Source:
CBO, *Budget and Economic Outlook for Fiscal Years 2008 to 2018*, January, 2008, p. 52

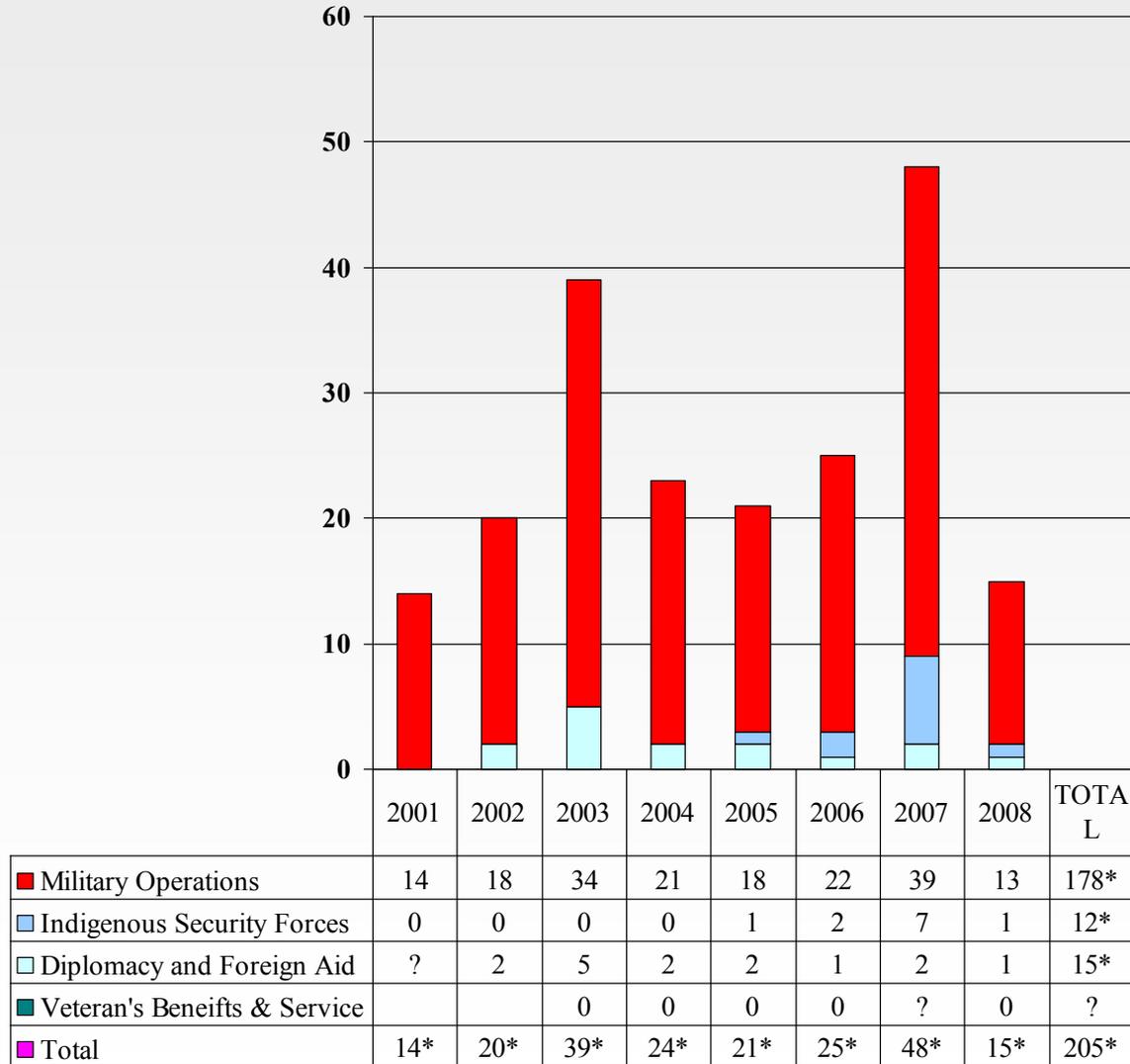


Category	2001	2002	2003	2004	2005	2006	2007	2008	TOTAL
Military Operations									
Iraq	0	0	46	68	53	89	113	71	440*
Other	14	18	34	21	18	22	39	13	178*
Indigenous Security Forces									
Iraq	0	0	0	5	6	3	6	2	21*
Afghanistan	0	0	0	0	1	2	7	1	12*
Diplomacy and Foreign Aid									
Iraq	0	0	3	15	1	3	3	1	26*
Other	?	2	5	2	2	1	2	1	15*
Veteran's Benefits & Service									
Iraq	0	0	0	0	0	0	1	0	1*
Other	0	0	0	0	0	0	?	0	?
Total	14*	19*	88*	111*	81*	120*	171*	88*	691*

CBO Estimate of Cost of All US Government Activity in Afghan Wars and GWOT, by Category

(In Appropriations of \$US Current Billions by Fiscal year)

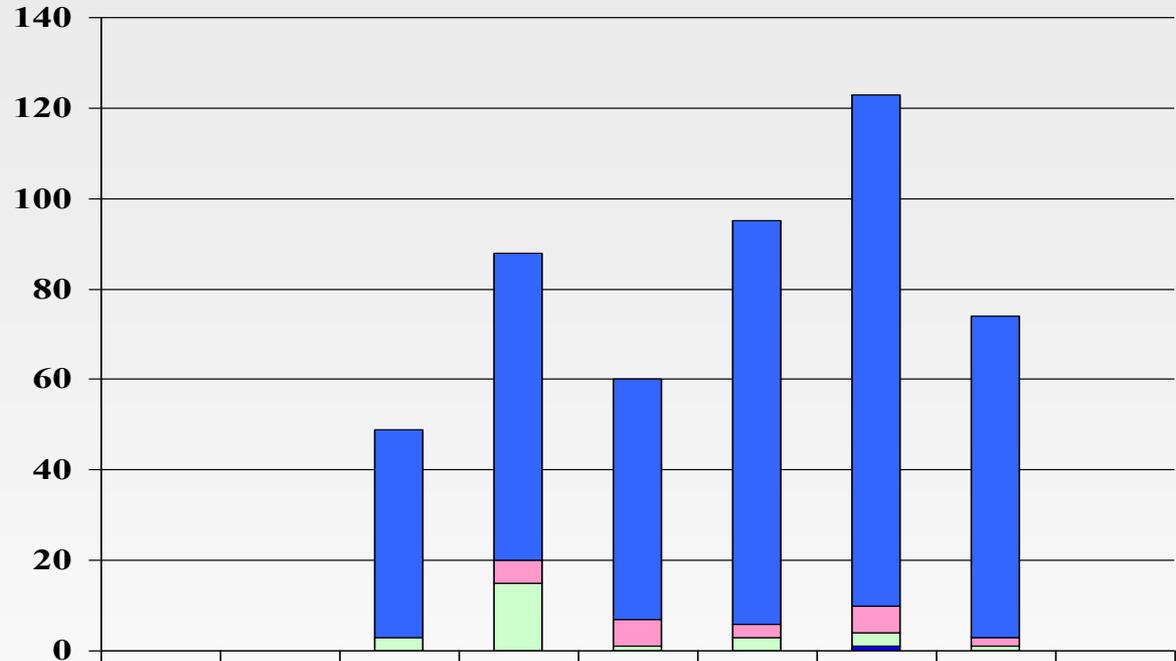
Source:
CBO, *Budget and Economic Outlook for Fiscal Years 2008 to 2018*, January, 2008, p. 52



CBO Estimate of Cost of All US Government Activity in the Iraq War by Category

(In Appropriations of \$US Current Billions by Fiscal year)

Source: CBO, *Budget and Economic Outlook for Fiscal Years 2008 to 2018*, January, 2008, p. 52

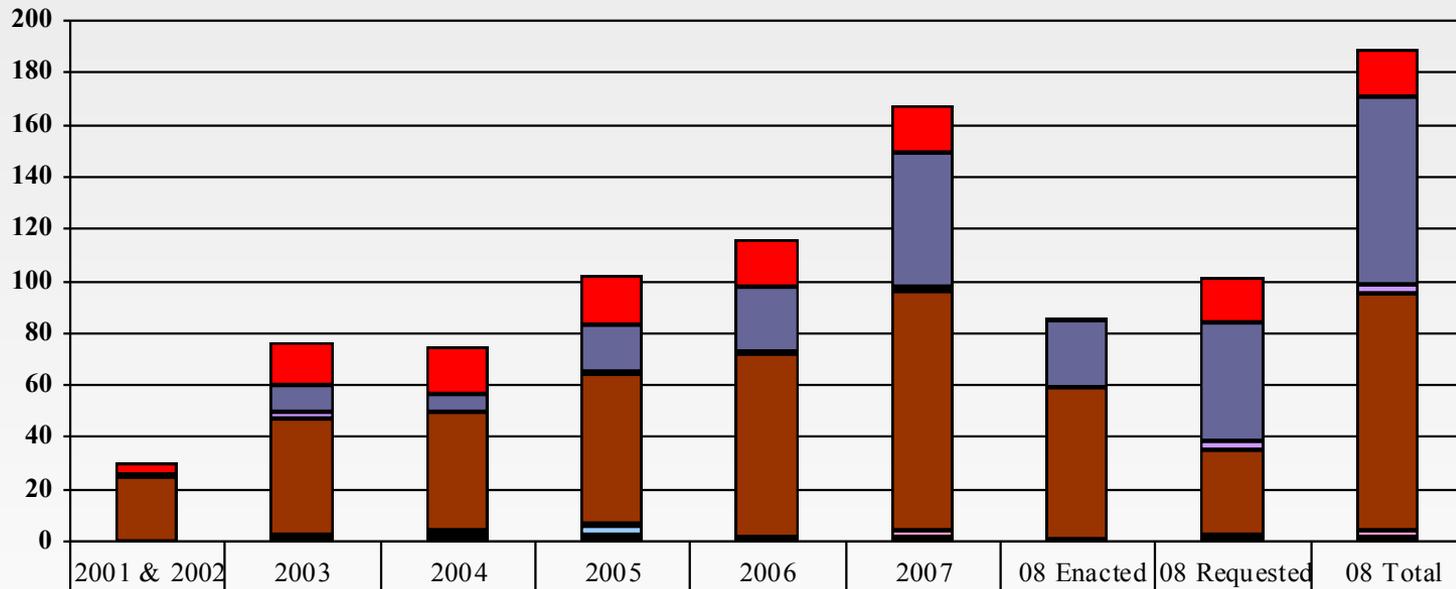


	2001	2002	2003	2004	2005	2006	2007	2008	TOTAL
■ Military Operations	0	0	46	68	53	89	113	71	440*
■ Indigenous Security Forces	0	0	0	5	6	3	6	2	21*
■ Diplomacy & Foreign Aid	0	0	3	15	1	3	3	1	26*
■ & Veteran's Benefits Service	0	0	0	0	0	0	1	0	1*
■ Total	0*	0*	49*	88*	60*	95*	123*	74*	488*

CBO Estimate of Cost of Defense Activity in Afghan and Iraq Wars, and GWOT, by Category

(In Appropriations of \$US Current Billions by Fiscal year)

Source: CBO, *Analysis of the Growth in Funding for Operations in Iraq, Afghanistan, and Elsewhere in the War on Terrorism*, February 11, 2008.



Category	2001 & 2002	2003	2004	2005	2006	2007	08 Enacted	08 Requested	08 Total
Cumulative	*32	*108	*182	*283	*399	*564	*651	*752	*752
Annual Total	*32	*76	*74	*101	*116	*165	*87	*101	*188
Personnel	4	16	18	19	18	18	1	17	18
Procurement	1	10	7	18	25	51	26	45	72
RDT&E		3		1	1	2		4	4
O&M	25	44	46	57	70	92	58	32	91
MilCon		1	1	1		2		2	2
Other		1	1	3	2	1	1	1	2
Transfers		1	2	2		1			
AE& Other				1					

CBO Estimate of Cost of All Activity in Afghan and Iraq Wars by Category

(In Appropriations of \$US Current Billions by Fiscal Year)

Source: CBO,
*Budget and
Economic Outlook
for Fiscal Years
2008 to 2018,,
January, 2008, p.
52*

	2001	2002	2003	2004	2005	2006	2007	2008	2001-2008
Military Operations and Other Defense Activities									
Iraq ^a	0	0	46	68	53	89	113	71	440
Other ^b	14	18	34	21	18	22	39	13	178
Subtotal	14	18	80	88	70	111	152	84	618
Indigenous Security Forces^c									
Iraq	0	0	0	5	6	3	6	2	21
Afghanistan	0	0	0	0	1	2	7	1	12
Subtotal	0	0	0	5	7	5	13	3	33
Diplomatic Operations and Foreign Aid									
Iraq	0	0	3	15	1	3	3	1	40
Other	*	2	5	2	2	1	2	1	15
Subtotal	*	2	8	17	3	4	5	1	40
Veterans' Benefits and Services^d									
Iraq	0	0	0	0	0	0	1	0	1
Other	0	0	0	0	0	0	*	0	*
Subtotal	0	0	0	0	0	0	1	0	1
Total^e	14	19	88	111	81	120	171	88	691

*= between 0 and \$500 million

- a. CBO estimated how much money has been provided for Operation Iraqi Freedom by allocating funds on the basis of obligations reported by the Department of Defense (DoD). For more information about funding for that operation, see Congressional Budget Office, Estimated Costs of U.S. Operations in Iraq Under Two Specified Scenarios (July 13, 2006).
- b. Includes Operation Enduring Freedom (in and around Afghanistan), Operation Noble Eagle (homeland security missions, such as combat air patrols, in the United States), the restructuring of Army and Marine Corps units, classified activities other than those funded by appropriations for the Iraq Freedom Fund, and other operations. (For 2005 through 2008, funding for Operations Noble Eagle has been intermingled with regular appropriations for the Department of Defense. That funding is not included in this table because it cannot be separately identified).
- c. Funding for indigenous security forces – which went to accounts for diplomatic operations and foreign aid (budget function 150) in 2004 and, since 2005, has gone to defense accounts (budget function 050) – is used to train and equip local military and police units in Iraq and Afghanistan.
- d. Excludes almost \$2 billion in spending for medical care, disability compensation, and survivors' benefits for veterans of operations in Iraq and Afghanistan and the war on terrorism. Those amounts are based on CBO's estimates of spending from regular appropriations for the Department of Veterans Affairs and were not explicitly appropriated for war-related expenses.
- e. At the current rate of military operations, the funding provided to date for 2008 will not be sufficient to pay for all the costs that will be incurred this year.

CBO Estimate of the Cost of War

Since September 2001, the Congress and the President have provided a total of \$691 billion in budget authority for military and diplomatic operations in Iraq, Afghanistan, and other regions in support of the war on terrorism and for related veterans' benefits and services (see table). Appropriations specifically designated for those activities, which averaged about \$93 billion in 2006 and \$171 billion in 2007. The Administration has requested \$193 billion for war-related purposes in 2008, of which \$88 billion has been appropriated thus far.

Funding to date for military operations and other defense activities related to the war totals \$618 billion, most of which has gone to the Department of Defense (DoD). Lawmakers also provided \$33 billion to train and equip indigenous security forces in Iraq and Afghanistan.¹ A total of \$651 billion has thus been appropriated since September 2001 for defense operations in Iraq and Afghanistan and for the war on terrorism.

In addition, \$40 billion has been provided for diplomatic operations and foreign aid to Iraq, Afghanistan and other countries that are assisting the United States in the war on terrorism. Of that amount, \$16 billion was appropriated for the Iraq Relief and Reconstruction Fund.

DoD reports that it obligated an average of about \$11 billion per month in 2007 for operations in Iraq and Afghanistan and for other activities related to the war on terrorism – an increase of about \$3 billion compared with average monthly obligations in 2006. Operation Iraqi Freedom accounted for approximately 85 percent of all reported obligations; Operation Enduring Freedom (which refers mainly to operations in and around Afghanistan) accounted for another 15 percent. Additional security missions that have taken place in the United States since the terrorist attacks of September 11, 2001 – such as combat air patrols over Washington, D.C., and New York City (known as Operation Noble Eagle) – accounted for less than 1 percent.

Because most appropriations for operations in Iraq and Afghanistan and for other activities related to the war on terrorism appear in the same budget accounts that record appropriations for DoD's other functions, determining how much has actually been spent for those activities is difficult. However, CBO estimates that appropriations for defense operations in Iraq and Afghanistan and for the war on terrorism resulted in outlays of about \$430 billion through fiscal year 2007 (with about \$115 billion occurring in 2007). Of the funds appropriated for international affairs related to the war, about \$30 billion was spent through 2007, CBO estimates. In total, by the agency's estimate, outlays for operations in Iraq and Afghanistan amounted to about \$120 billion last year. The President has requested another \$105 billion for the war in 2008, in addition to the \$88 billion that has been appropriated for that year. If that amount is provided, outlays in 2008 (which also include outlays from prior years' appropriations) would total about \$145 billion, CBO estimates.

1. The \$33 billion includes \$5 billion provided for Iraqi security forces in 2004 in an appropriation for the Department of State's Iraq Relief and Reconstruction Fund.

Putting the Various Estimates of Past Wartime Costs in Perspective

- **No Bush Administration plan or budget that really explains FY2008 and FY2009 wartime costs because of problems in funding FY2008 supplemental and no real details on FY2009 supplemental.**
 - Peak appropriated costs and outlays for Iraq War alone have ranged around \$10-12 billion a month.
 - Iraq War costs should decline in FY2009 as cut from 20 to 15 brigade equivalents, Iraq assumes growing portion of costs, and US investment & O&M costs decline.
- **May drop to \$7-9 billion a month.**
- **Afghan War has cost from \$2billion to \$4billion a month, but has been badly underfunded.**
 - Afghan war costs will increase in FY2009 with new troop deployments. Are now open-ended, and complicated by fact should include aid to Pakistan.
 - No way to predict FY2009 costs, but probably around 20% higher.
- **Direct costs have peaked at around \$120-130 billion a year. Somewhere around 1% of GDP.**

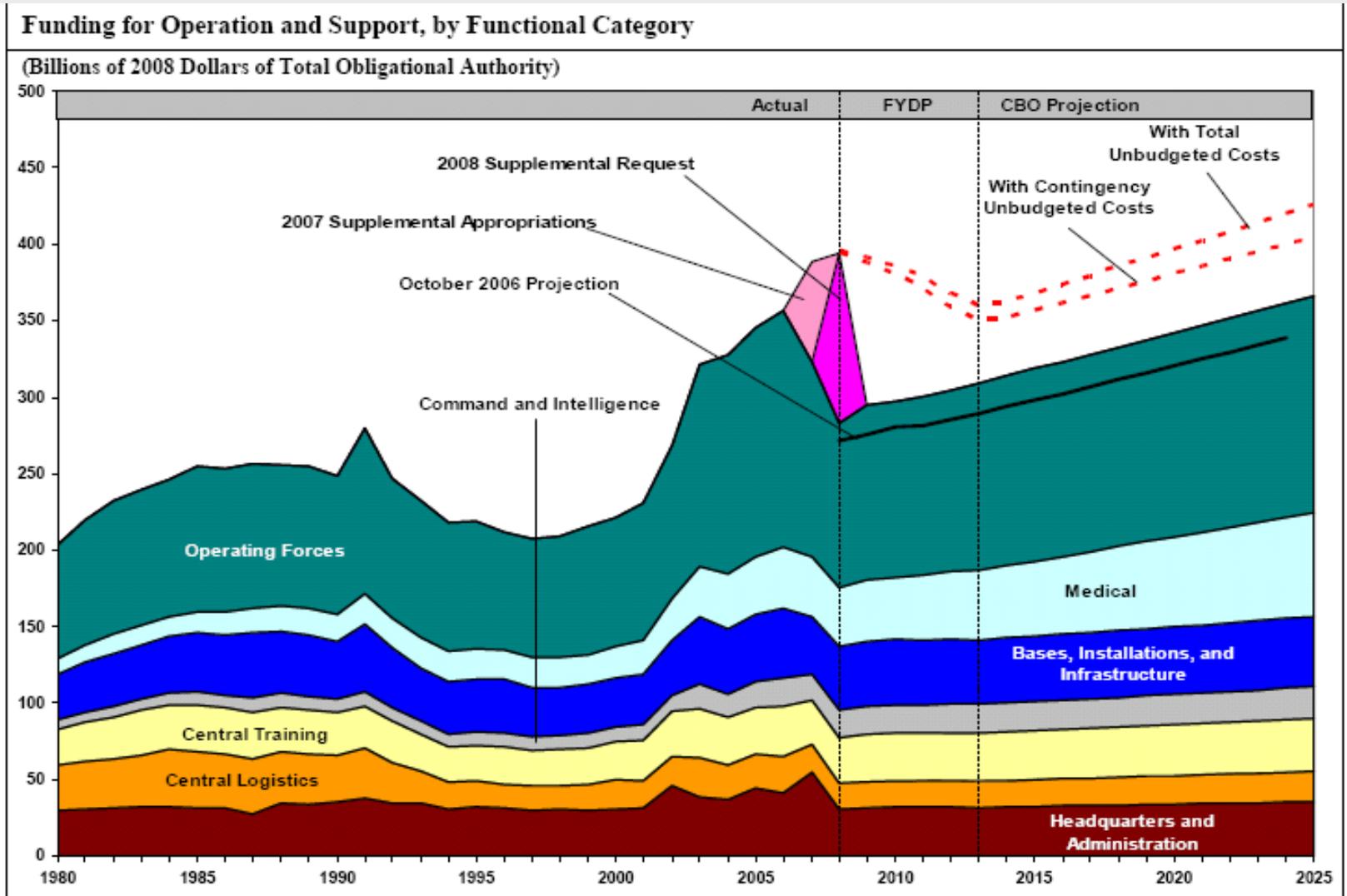
Key Factors Driving Future War-Related Costs

- Major increases are being made in ground forces with very uncertain mixes of modernization and “reset,” and allowances for transfers of equipment and supplies to Iraqi and Afghan forces.
- The CBO does not project the rise in military manpower costs per se, but does project that the future O&M costs of military manpower will rise sharply above the historical trend:
 - By approximately by 20% from FY2006-FY2025 if real-world unbudgeted costs are included .
- The CBO’s estimate of rising medical costs is stunning:
 - It has is projected to rise from a level of around \$290 billion a year since the start of the war to a level of over \$80 billion a year by FY2025.
 - But much of this is not war related, but rather the result of Congressional actions that have effectively raised the entitlement cost of of military medical care for the entire military.

The CBO does provide an Estimate of the Impact of Current Wars on the Entire Defense Budget Through FY2025

- The estimated baseline cost of the defense budget averages \$521 billion a year between FY2014 and FY2025 -- if deployed US combat personnel drop to about 35% of the present total by FY2025
 - The \$521 billion does not include supplementals but does raise the DoD level by 8% to correct for DoD undercosting.
- The real world cost, with supplementals and correcting for DoD undercosting of the budget would be about \$146 billion higher than DoD projects through FY2013, and would average about \$621 billion from FY2014-FY2025.
- The real world operating cost of US forces would be far higher than DoD budgets for.
- *But, even with these cost increases, the percent of GDP spent on defense would still continue to drop, reaching 2-3% by FY2025.*

Rising Operations and Support Costs if The US Cannot Cut Wartime Costs & Deployments



Source: CBO, *Long Term Implications of Defense Spending*, March 2008, p 4.

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The Lower Cost of “Winning”

- **Most future cost estimates assume either a constant level of war or a three to five year decline in spending as the US “wins.”**
- **The CBO has provided other estimates of the DoD budget in outlays if major cuts take place in current deployments.**
- **There is also a CBO estimate showing the steady-state cost of maintaining a US presence once the US has helped Iraq achieve a high degree of security and stability.**
 - **The capital cost of the US maintaining a 55,000 manpower level in strategic overwatch and an advisory role is estimated to be \$4-8 billion. The annual cost is estimated to be \$10 billion.**
 - **The capital cost of the US maintaining a 55,000 manpower level that both supports Iraqi forces in combat and provides an advisory role is estimated to be \$8 billion. The annual cost is estimated to be \$25 billion.**

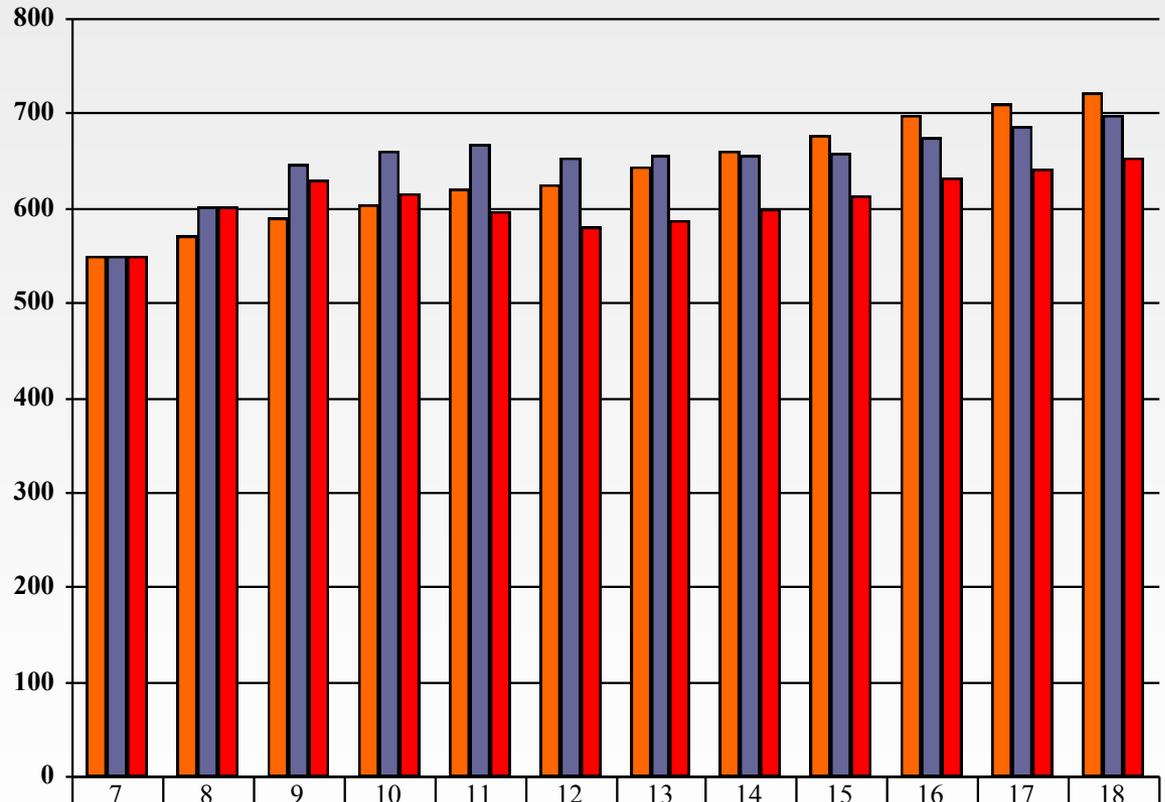
CBO Estimate of Possible Future Savings From Reduced Wartime Expenditures (\$US Billions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total, 2009- 2013	Total, 2009- 2018
Policy Alternatives That Affect Discretionary spending													
Reduce the Number of Troops Deployed for Military Operations in Iraq and Afghanistan and Other Activities Related to the War on Terrorism to 30,000 by 2010													
Effect on the deficit or surplus	-30	-43	-14	22	45	55	60	63	65	68	70	65	390
Debt service	*	-2	-4	-4	-2	0	3	6	9	13	17	-12	35
Reduce the Number of Troops Deployed for Military Operations in Iraq and Afghanistan and Other Activities Related to the War on Terrorism to 75,000 by 2013													
Effect on the deficit or surplus	-30	-58	-59	-51	-29	-13	4	17	21	24	25	-210	-120
Debt service	*	-2	-5	-9	-11	-13	-13	-14	-13	-13	-12	-40	-106
Total Outlays for Operations in Iraq and Afghanistan on CBO's Baseline	115	103	96	93	93	95	97	98	100	102	104	480	981

Source: CBO, *The Budget and Economic Outlook: FY2008-2018*, January, 2008, pp 12-13

CBO Estimate of Total Cost of Defense Outlays Under Different Assumptions Regarding in Afghan and Iraq Wars, and GWOT

(In Outlays of \$US Current Billions by Fiscal year)



Source: CBO, *Budget and Economic Outlook: Fiscal Years 2008 to 2018*, January 2008, p. 76.

■ CBO Baseline	549	572	590	603	620	626	645	660	677	698	710	723
■ Deployed Troops Decrease to 75,000 by 2013	549	602	646	661	669	654	656	656	659	676	687	699
■ Deployed Troops Decrease to 30,000 by 2010	549	602	631	616	596	580	588	600	613	632	643	654

“Winning:” Estimated Cost of a Long-Term, Low Level US Presence in Iraq

(Billions of \$US 2008 dollars)

	Assuming Combat Operations ^a	Assuming Non- Combat Operations ^b
One-Time Costs ^c	4 to 8 ^d	8
Total Continuing Annual Costs	25	10 ^e

a. For this scenario, CBO assumed that the United States would maintain approximately 55,000 military personnel in Iraq, which would operate at a pace and conduct missions similar to those of units currently deployed there.

b. For this scenario, CBO assumed that the United States would maintain approximately 55,000 military personnel in Iraq whose operations would be consistent with those undertaken in a non-combat environment.

c. These costs would probably be incurred over a period of several years.

d. The long-term deployment of our heavy brigade combat teams (HBCTs) in Iraq might require the purchase of additional HBCT equipment sets. However, given the Army's current inventories of combat vehicles, purchasing four full sets of HBCT equipment might not be necessary. Therefore, CBO included a range of one-time procurement costs for this scenario. The high end of the range, \$8 billion represents the cost of four full HBCT sets, and \$4 billion represents the cost of buying roughly half that amount of equipment.

e. CBO's estimate assumes that U.S. forces stationed in Iraq would not be able to rely heavily on Iraq's civilian economy and infrastructure for support for the foreseeable future. Estimated costs could decline if Iraq's economy and infrastructure were to develop significantly overtime. For instance, the current incremental cost of stationing U.S. forces in South Korea is less than \$1 billion annually.

Source: Congressional Budget Office, “The Possible Costs to the US of Maintaining a Long-Term Military presence in Iraq,” September 2007.

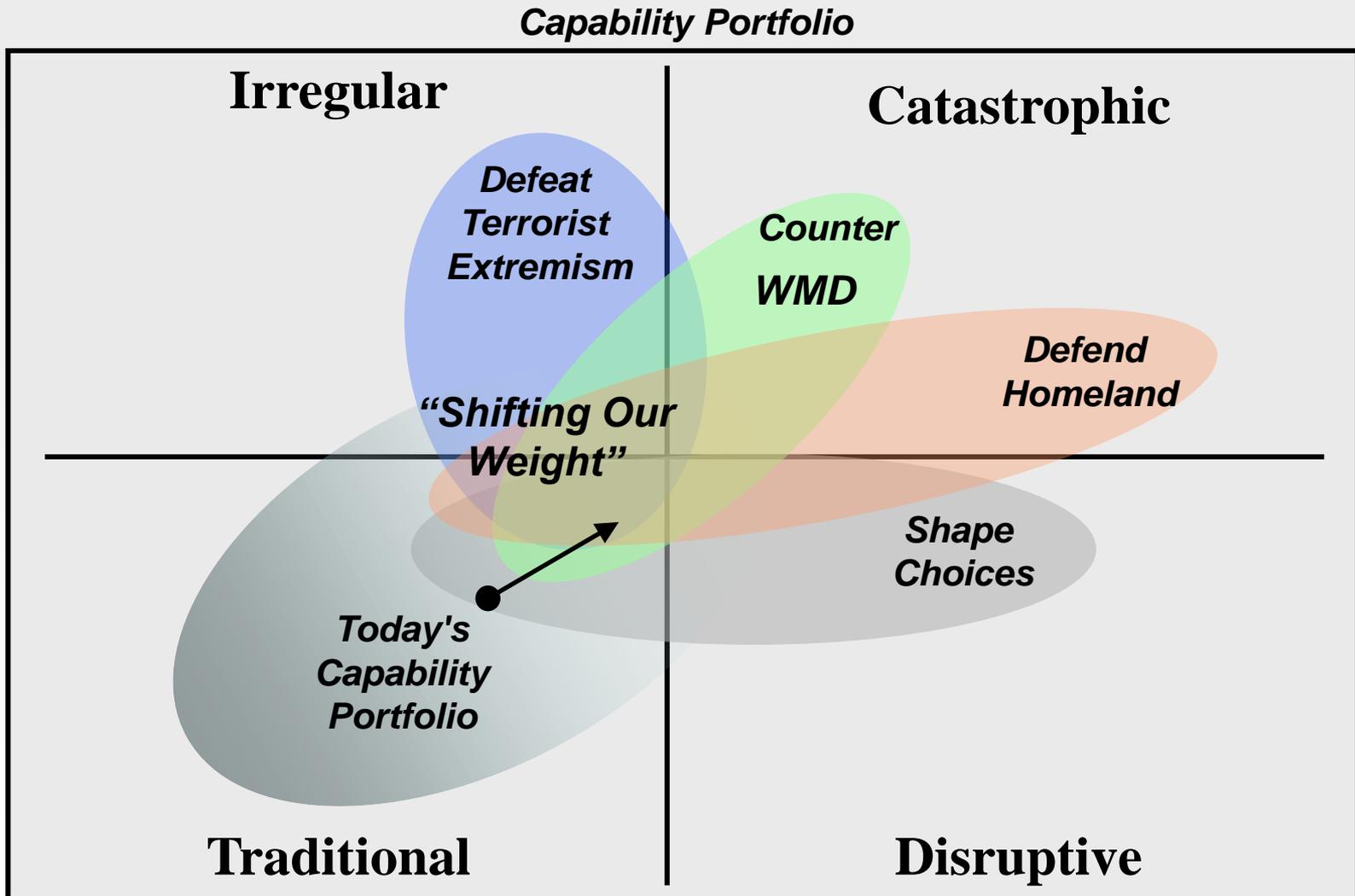
Source: CBO, Long Term Implications of Current Defense Plans: detailed Update for FY2008, March 2008, <http://www.cbo.gov/publications/bysubject.cfm?cat=38>

The QDR and Strategy Implosion: No Real Force Plans, Budgets, or Path for Modernization

Strategy Without Planning, Programming, and Budgeting

- **QDR consisted largely vague concepts with no ties to force plans, hard program decisions, or future budgets.**
- **Service chiefs focus on vague strategy documents and grabs for resources.**
- **Senior officials fail to take hard decisions, make difficult trade-offs.**
- **FYDP and defense program are steadily mortgaged both in terms of undercosting, failure in cost containment, and lack of clear ties between strategy, force plans, programs, and budgets.**
- **All services now rely on “failed” major procurement programs?**
- **No overall manpower plan for the future.**
- **Post-Iraq/Afghan Retention and Rebalancing issues largely unaddressed.**

DoD QDR'06 Objective – Planning by Blob



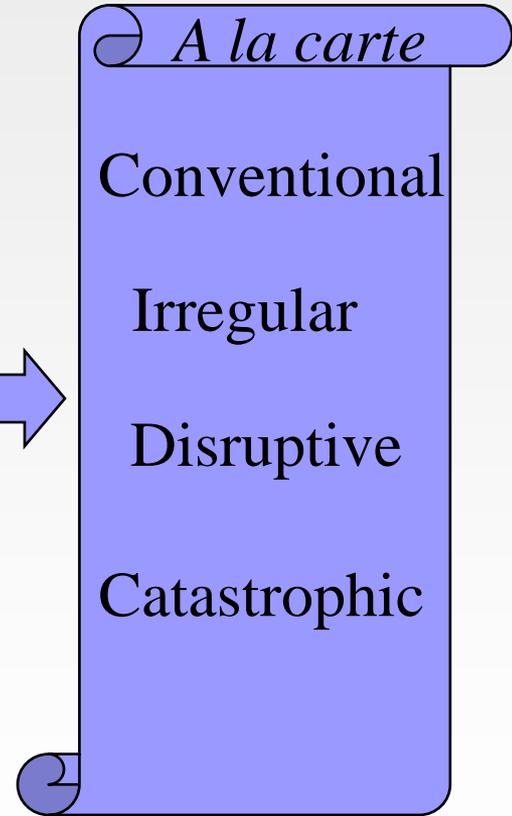
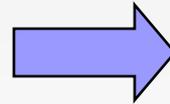
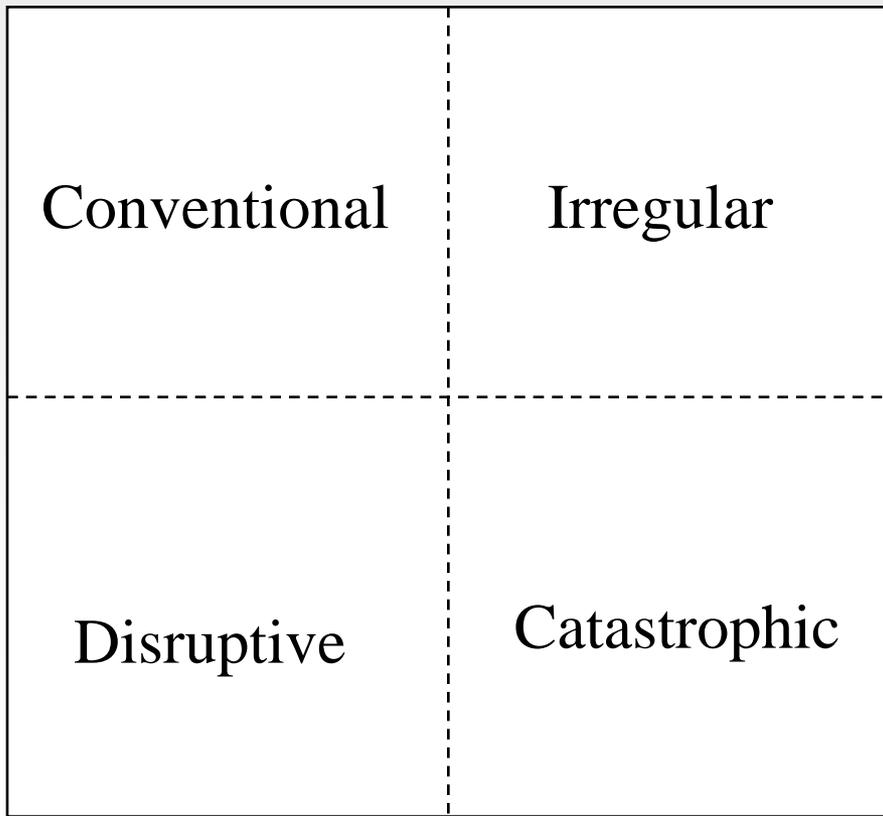
The Importance of Failing to Deal with Resource Limits and Uncertainty

- **What force levels can the US really afford?**
- **What is the future role of the US military: Warrior or “full spectrum” operations?**
- **How typical is Iraq? (Korea? Taiwan? Iran?)**
- **How real is the “long war?”**
- **Cost of failure to make hard decisions and trade-offs grows steadily with time, as does time needed to make changes.**
- **No clear plans for civilian partners.**
- **Ill-defined, US-centric goals for friends and allies.**
- **Many homeland defense issues unaddressed.**

Measuring the Extent To Which the U.S. Has Too Few Forces or the Wrong Forces

- **Can modularity, changing MOS specialties, rebalancing actives and reserves really do the job?**
 - **One-third increase in in Special Forces in QDR not clearly in Green Book. (p. 81)**
 - **National builders and stability experts really up one-third?**
- **Netcentric to Humancentric to Cost Containment to Allied Reliance**
- **High tech “RMA” versus Legacy Systems on Hand?**
- **What war(s) to plan for? What does “full spectrum” mean?**
 - **Iraq vs. Korea vs. Taiwan**
 - **Long War**
 - **War “X?”**
- **Coalition of the Unpredictable and Unquantifiable**

Current Strategic Framework – the Quad Chart and the Vagueness of Hybrid or “Full Spectrum” Warfare



Hybrid Adversaries & Hybrid Tactics

- **States using conventional and unconventional means: Iran, China, North Korea**
- **Non-state actors using both irregular and “state-like” capabilities: Hezbollah, the Taliban, Mahdi Army**
- **Terrorist networks presenting irregular and catastrophic threats: Al-Qaeda**
- **If cannot win a conventional fight, can challenge US through political, ideological, and economic means as well as asymmetric warfare.**
- **War of endurance or attrition also pose major challenge.**

Failing to Deal with the Impact of War and Strains on US Forces

- Wars have sharply stressed our force posture. Clear too few forces to fight two major regional contingencies or one major regional and one counterterrorism case.
 - Marginal, not “hollow”
- QDR2006 and service studies have produced “100 Flowers of Uncertainty” in undefined plans and budgets.
- FY2009-FY2013 FYDP Green Book projections show on;ly marginal effort to fund the necessary changes.
 - Rolling “get well” costs versus slipping outlays to out years and “dancing to the right”
- Much depends on Army and Marine Corp modularity and force restructuring.
- Underplanned Iraq War and other resets increasing interact with procurement problems?
- Manpower entitlement cost legacy is growing; as yet no clear effort to “rebalance” actives, reserves, career civilians, and contractors.
- Questions about should the US fight wars involving massive armed nation building; If limited wars are limited and optional, should the US commit itself.

Broken Army?

- **Most Army brigades are “not combat ready” due to equipment shortages.**
- **Half of the Army’s 43 combat brigades are deployed overseas, with the remainder either recovering from their latest deployment or preparing for their next one.**
- **For the first time in almost half a century, the 82nd Airborne Division cannot generate enough combat power to keep one of its brigades on strategic alert as a rapid-reaction unit.**
- **In total, nearly half of the Army’s fighting equipment is wearing away in Iraq or Afghanistan or waiting forlornly for repair or disposal.**
- **Usage rate for tanks in peacetime are about 550 miles per year. In Iraq tanks average over 5000 miles per year.**
- **Repeated deployments and shortened “dwell time” increase the risk of losing junior officers and mid-grade enlisted soldiers who would be very hard to replace.**
- **Two of the five new brigades bound for Iraq had to skip standard training at Fort Irwin, Calif.**

Sources: Gordon Lubold, “Is US Army Bent To The Breaking Point?”, CSM, April 4, 2007; Jay Price, “Stretched Thin, 82nd Airborne Giving Up Rapid-Reaction Unit”, Raleigh News & Observer, March 22nd, 2007; Robert H. Scales, “Army Equipment Disaster”, Washington Times, April 9, 2007; Mark Thompson, “Why Our Army is At The Breaking Point”, Time, April 16, 2007.

Shaping a Strategy and Force Posture: Deal with the Complexity of the “Long War”

- **Struggles to deal with national threats, often of very different kinds and fought on different terms;**
- **International struggles to defeat terrorist movements that cut across national lines, and often cultures, political systems, and religions;**
- **An ideological and political battle against Islamist extremism, and tensions between the West and Middle East, that act as a breeding ground for terrorism and the tolerance or support of terrorist movements;**
- **A struggle to deal with new forms of national and global vulnerability such as proliferation, increasing dependence on information technology and netting; critical infrastructure, and the secure, just-in-time flow of global trade.**
- **The problem that terrorism/insurgency cannot be separated from asymmetric warfare and insurgency, state use of terrorists as proxies or false flags, or terrorist use of states as sanctuaries.**
- **Cannot separate forces or technology from need for humanitarian, nation-building, and stability operations.**
- **All military actions have broader consequences, part of information warfare, public diplomacy, war of perceptions.**
- **More than local perceptions count: World opinion, world media, NGOs, UN, etc.**

The Next Administration Must Set New Spending Priorities: “Transform” Transformation

- **Must win sustainable Congressional and public support for real world and affordable plans, programs, and budgets.**
- **Clear decisions about who will do what when efforts are needed to create host country political accommodation, governance, development, and security forces.**
- **Create a functional interagency process and partner our military with effective civilian counterparts.**
- **Shape the future year planning, programming, and budgeting process to create real world “full spectrum” of capabilities to prevent hybrid threats from operating below or above the threshold of US conventional military superiority.**
- **Resize and balance US strategic commitments, forces, and/or budgets.**
- **Focus on the fact the best “force multiplier” may often be effective allies, and interoperability with a true partner.**
- **Come to grips with the need to conduct ideological and political warfare, and probable dependence on allies and friendly states.**
- **Accept the reality that political legitimacy in counterinsurgency will be measured in local terms and not in terms of American ideology.**

Strategy, Plans, and Programs Need to Be Global and Directed Towards the Future

- **Korea: Precision strike/stealth, missile/air defense, intel, sea power, key land elements, extended deterrence.**
- **Taiwan: Sea power, ASW, precision strike/stealth, missile/air defense, intel, sea power, extended deterrence**
- **Iran: Counterproliferation, defense against asymmetric naval threats, ASW, precision strike/stealth, missile/air defense, intel, sea power, extended deterrence**
- **Afghanistan: Far more limited exercises in counterterrorism and limited war.**
- **Strategic: Shaping the mix of nuclear, conventional, and defense.**
- **Intelligence and Netcentric: Meeting diversified global needs.**
- **Power projection: Increasing speed, sustainability, and capability with severe limits on numbers; avoiding breaking the force.**

Must Create New Approaches to Interoperability and Alliances on the National Level

- **Shaping US forces for jointness with regional and local allies.**
- **A New Hierarchy? Local, national, regional CT and CI forces versus conventional warfare?**
- **Redefining interoperability**
- **Redefining advisory, power projection, arms transfer efforts.**
- **Counterproliferation**
 - **Defensive is offensive**
 - **Real role of BMD**
- **Emergency relief/Humanitarian assistance**
- **The NGO/UN/civil agency problem.**

Must Reshape US Approach to the Problem of Alliances, International Cooperation, and Interoperability at the Regional and Global Level

- **Post-NATO modernism: Alliance of the willing and capable.**
- **Reliance on regional and local powers for what?**
 - **Regional deterrence, war fighting, containment, and counterterrorism.**
 - **Taiwan, South Korea**
- **Developing the forces (political systems and economy) of “failed states.”**
- **Dealing with international informal networks of non-state actors: Specifically Neo-Salafi Sunni Islamists.**
- **Counterproliferation/Extended deterrence**
- **Cooperation in ideological battles, information warfare, and public diplomacy.**

Must Redefine “Jointness”: Create An Effective Interagency Capability to Perform National Security Missions

- **NSC: Interagency versus line authority.**
 - **Role of the Vice President’s office.**
- **Creating a focused, risk oriented foreign service.**
- **Integrating Homeland defense.**
- **What is the proper role of NDI and how should the intelligence community be defined.**
- **Solving the stability operation/nation building problem.**
 - **The art of strategic neglect.**
- **Redefining the role of Congress.**

Limited Progress to Date in Creating USG “Whole-of-Government” National Security Capabilities

- **NSS, QDR, NSPD 44, DoD Directive 3000.05 all recognize the importance of SSTR/COIN/Irregular Warfare operations, BUT...**
 - **Few extra resources have been allocated to support the implementation of DoD’s Directive 3000.05, despite acknowledged capability shortages in various aspects of SSTR operations**
 - **NSPD 44 designates S/CRS as lead agency, but the office is underfunded, understaffed, and lacks bureaucratic clout**

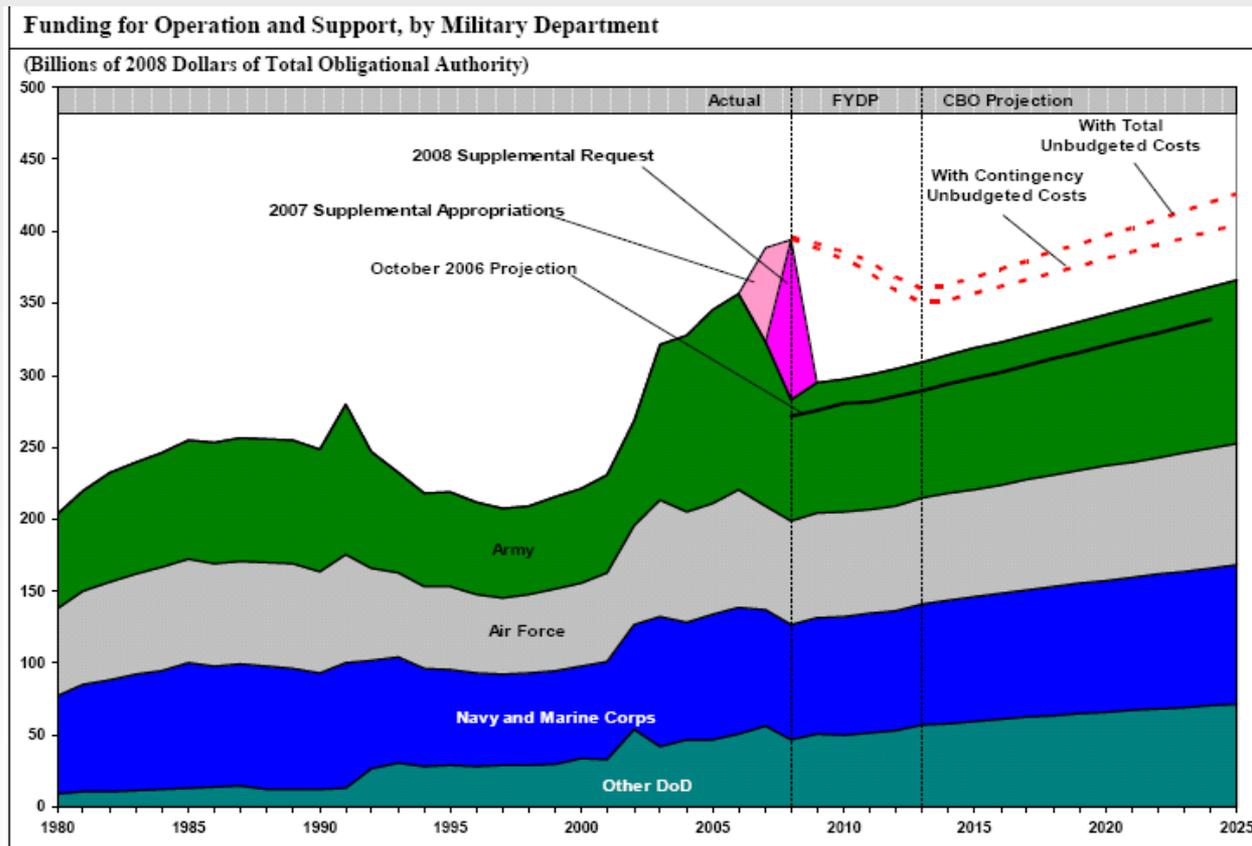
Overall Trends in Rising Operating Costs: Reality vs. The Baseline

Rising Operations and Support Costs: CBO Estimate

- **Operation and Support (O&S) accounts for about 60 percent of defense funding and pays for DoD’s day-to-day operations as well as for military and civilian payrolls. CBO created subcategories of O&S funding based on the force and infrastructure codes used within DoD. O&S funding will reach \$366 billion in 2025 not including potential unbudgeted costs, CBO projects.**
- **Most of the projected growth in O&S funding results from the growing cost of medical benefits for military personnel and from rising wages for both military and civilian personnel.**
- **As the dashed red lines in the figure show, growth in the demand for O&S resources could be greater than DoD anticipates. CBO estimates that with unbudgeted costs, the O&S budget might reach \$426 billion in 2025. the largest potential unbudgeted costs are those the following:**
 - **Continued involvement in contingency operations associated with the war on terrorism, such as those in Afghanistan, Iraq, and elsewhere (those unbudgeted costs decrease to about \$30 billion in 2025 under the assumption that the U.S. forces comprising about 75,000 personnel continue to be deployed overseas as part of the war on terrorism.**
 - **Faster-than-expected growth in DoD’s health care costs (\$12 billion of unbudgeted costs in 2025).**
- **Increases in military and civilian pay account for all of CBO’s projected funding growth in every subcategory except “Operating Forces” and “Medical”. CBO projects that those pay levels will grow at the same rate as the employment cost index (ECI), a measure of the average pay level in the U.S. civilian economy.**
- **In comparison with last year’s FYFP (covering 2007 to 2011), the 2008 FYDP shows an average increase in total O&S funding of 6 percent. That increase is largely the result of planned growth in the number of Army and Marine Corps personnel. For the 2007-2013 period, the 2008 FYDP shows a cumulative end-strength increase of 65,000 active-duty Army personnel and nearly 28,000 active-duty Marine Corps personnel.**

Source: CBO, *Long Term Implications of Defense Spending*, March 2008, p 4.

Real-World Projection of Far Higher Operating Costs of US Forces Through FY2025



- The O&S subcategory “Operating Forces” pays for military and support units assigned to Combat Commands.
- CBO projects that the Operating Forces category will experience \$6 billion of funding between 2013 and 2025, in addition to pay increases. That extra growth is attributable to the following sources:
 - Continuing long-term trends of rising O&M costs per active-duty service member in the Army and Marine Corps ground forces.
 - Increased O&M costs for aging weapon systems; and
 - New weapon systems that are more complex and have higher O&M costs than the systems they replace.
- In comparison with the 2007 FYDP, the 2008 FYDP shows an average increase in total Operating Forces funding of about 9 percent over the period spanning 2008 to 2013. that increase is largely the result of planned growth on the number of Army and Marine Corps personnel.

Source: CBO, *Long Term Implications of Current Defense Plans: detailed Update for FY2008*, march 2008, <http://www.cbo.gov/publications/bysubject.cfm?cat=38>

Mil Pers vs. O&M: CBO Estimate

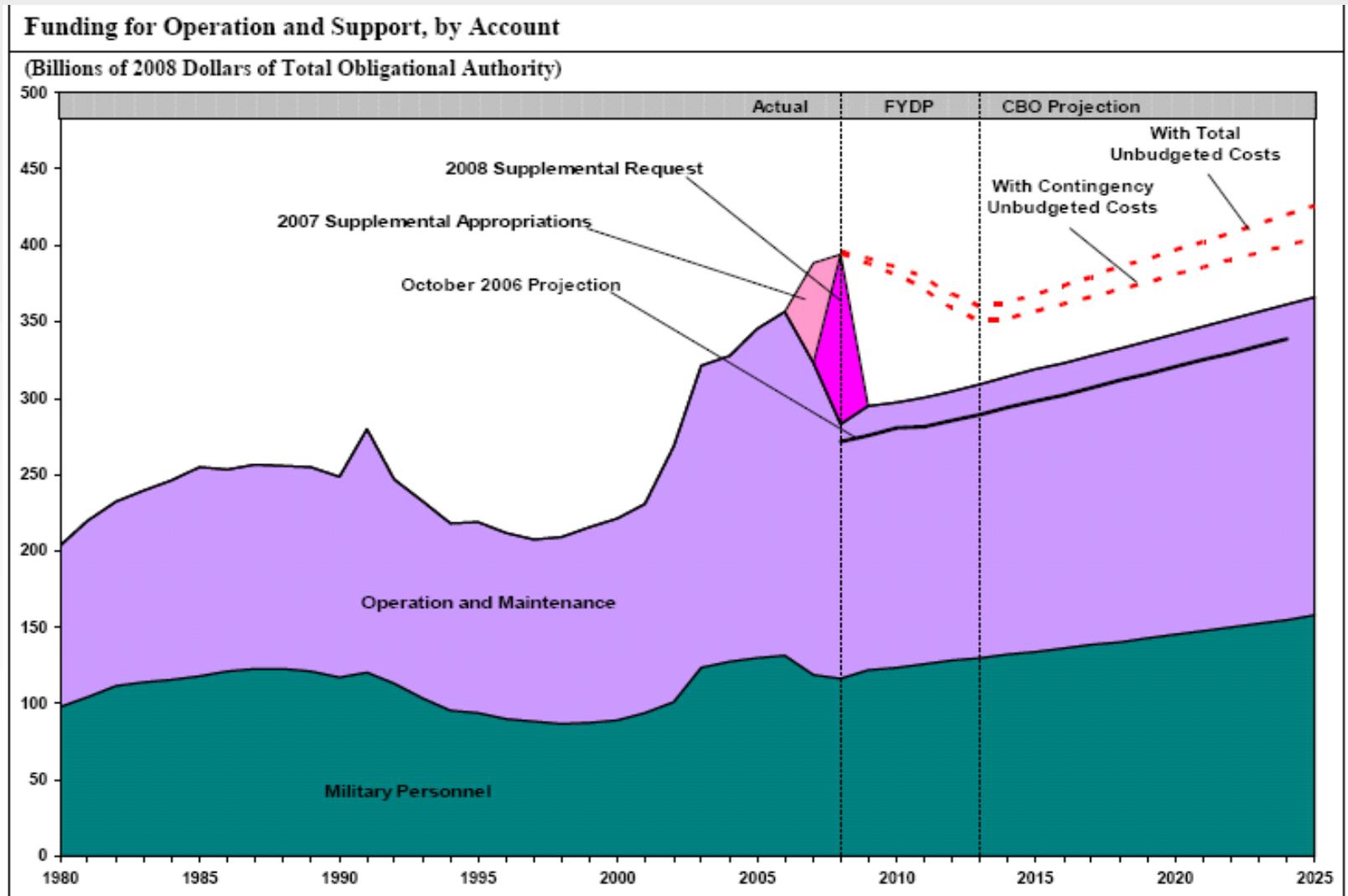
- **CBO projects that funding for military personnel will increase from \$130 billion in 2013 to \$158 billion in 2025, an average annual growth rate of 1.6 percent. That growth is attributable to two factors:**
 - **CBO's assumption that military pay raises will keep pace with the ECI (which has historically grown faster than inflation); and**
 - **CBO's assumption, which is consistent with that of DoD's actuaries, that medical accrual costs will steadily increase at a nominal annual rate of 6.25 percent. Those accrual costs are intended to reflect the future liability arising from the government's obligation to provide medical care for current service members (and their dependants) after they retire from the military and reach age 65.**

- **In CBO's projection, operation and maintenance (O&M) funding will increase from \$180 billion in 2013 to \$209 billion in 2025, an average annual growth rate of 1.3 percent. Most of that growth comes from the following sources:**
 - **The assumption that DoD civilian employee pay raises, like military pay raises, will also keep pace with the ECI; and**
 - **Rising medical costs associated with the Defense Health Program, which provides medical care to active-duty military personnel and their dependants. The Defense Health Program is not funded on an accrual basis.**

- **About 84 percent of emergency and supplemental funding for O&S is allocated to O&M in 2008; about 16 percent is allocated to paying for military personnel, including special pays and compensation for activating reserve component personnel.**

Source: CBO, *Long Term Implications of Defense Spending*, March 2008, p. 6.

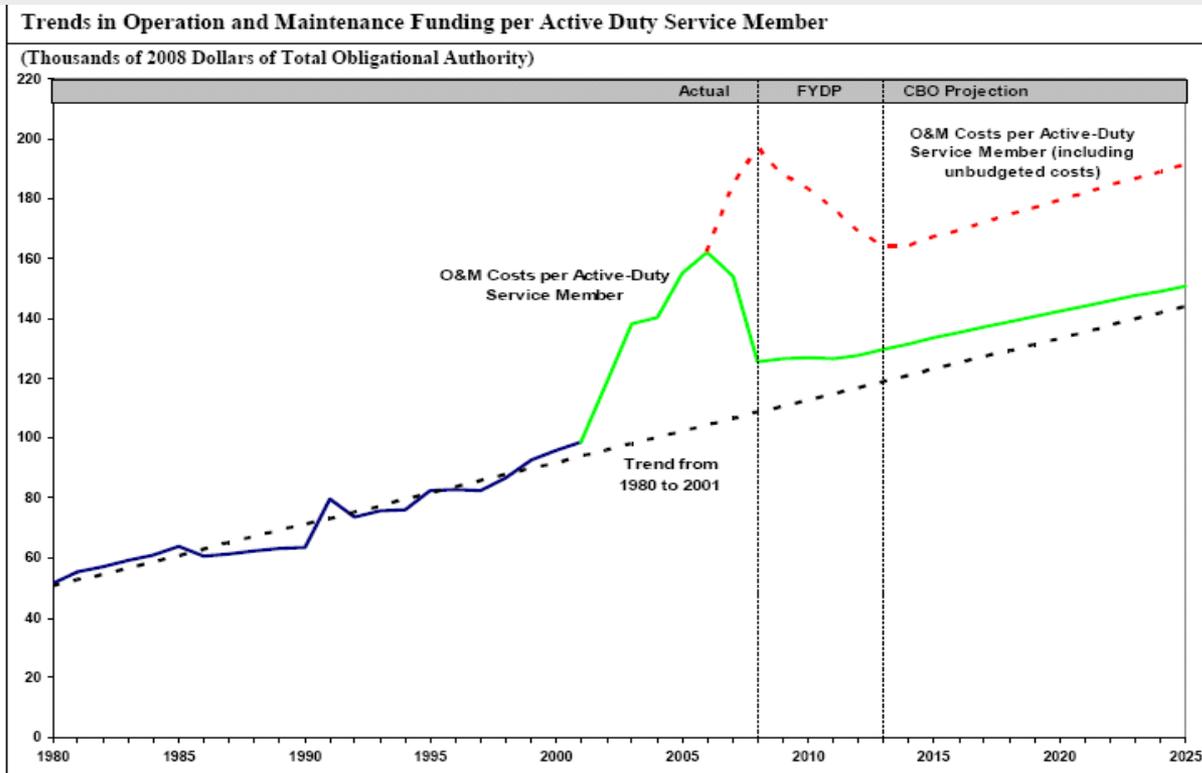
Military Personnel and O&M Costs Will Be Much Higher than DoD “Baseline” Budget Estimates



Source: CBO, *Long Term Implications of Defense Spending*, March 2008, p. 6.

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An “Unaffordable” All Volunteer Force?: CBO Projection of Operating Costs Per Soldier Through FY2025



- From 1980 to 2001, operation and maintenance costs grew steadily by an average of about \$2,000 per active-duty service member per year. Excluding potential unbudgeted costs, CBO projects a similar rate of O&M cost growth in the future.
- Since 2001, O&M costs per service member have grown more rapidly because of funding for operations in Iraq and Afghanistan. The FYDP and CBO’s projection exclude future funding for those operations.

Source: CBO, *Long Term Implications of Current Defense Plans: detailed Update for FY2008*, march 2008, <http://www.cbo.gov/publications/bysubject.cfm?cat=38>

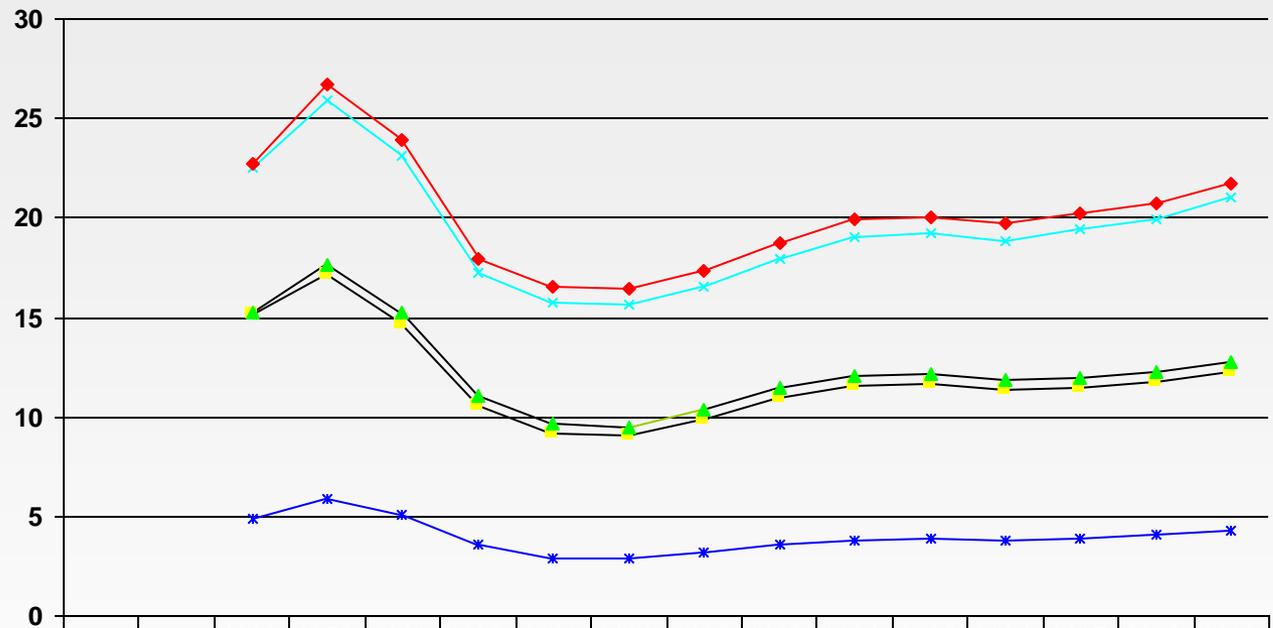
The Defense Manpower Affordability Issue

Meeting The Needs Of The U.S. Active And Reserve Military

- **Impact of Past Cuts in end strength:**
 - **Military from 2.1 million in FY1990 to 1.5 in FY2007, and 1.4 in 2009 in FY2009**
 - **Civilians from 997,000 in FY1990 to 664,000 in FY2007, and 713,000 in FY2009.**
 - **Contractors?**
- **Need for “rebalance” actives and reserves, and ensure all take a turn in combat.**
- **Impact of overdeployment and the need for a new “Social Contract”**
 - **Need for time to train; career development and family.**
 - **Need for longer reserve duty cycles less frequently.**
- **Problems of determining risk premium when so few serve.**
- **Realism of uncertain calls for “Super soldier” in QDR**
 - **Everyone above average with unusual foreign language skill.**
- **Real-world life cycle cost and productivity of military vs, civilian vs. contracting out?**
 - **Civilians as supplements to military end strength?**

Defense Manpower Places Limited Burden as Shares of Public Employment and Total Labor Force

(Percentages of Indicated Totals)

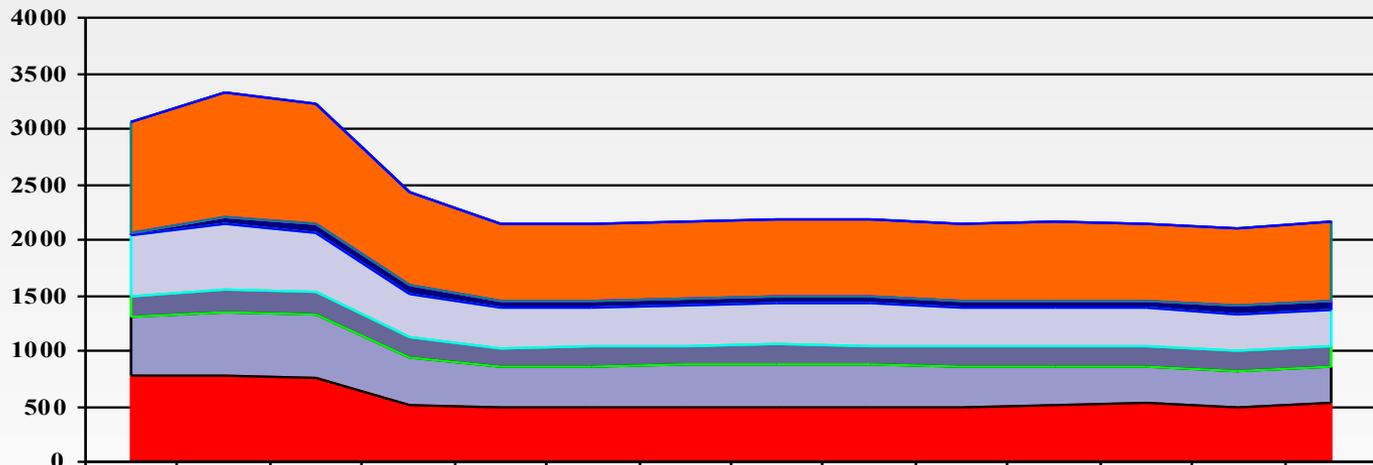


			1980	1985	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
—x— DoD Mil as a % Public Employment	Milita	Federa	22.5	25.9	23.1	17.2	15.7	15.6	16.5	17.9	19	19.2	18.8	19.4	19.9	21
—◆— Def Mil as a % Public Employment	Milita	Federa	22.7	26.7	23.9	17.9	16.5	16.4	17.3	18.7	19.9	20	19.7	20.2	20.7	21.7
—■— DoD Civ as a % Public Employment	Civilia	Federa	15.1	17.1	14.7	10.6	9.2	9.1	9.9	11	11.6	11.7	11.4	11.5	11.8	12.3
—▲— Def Civ as a % Public Employment	Civilia	Federa	15.2	17.6	15.2	11.1	9.7	9.5	10.4	11.5	12.1	12.2	11.9	12	12.3	12.8
—*— DoD as % of Total Labor Force			4.9	5.9	5.1	3.6	2.9	2.9	3.2	3.6	3.8	3.9	3.8	3.9	4.1	4.3

Source: Office of the Undersecretary of Defense (Comptroller).
National Defense Budget Estimate for the FY 2009 Budget
 (Greenbook). March 2008, p. 217.

Decline in Total DoD Manpower Since End of Cold War

(Trend in Total Manpower in End Strength in Thousands)

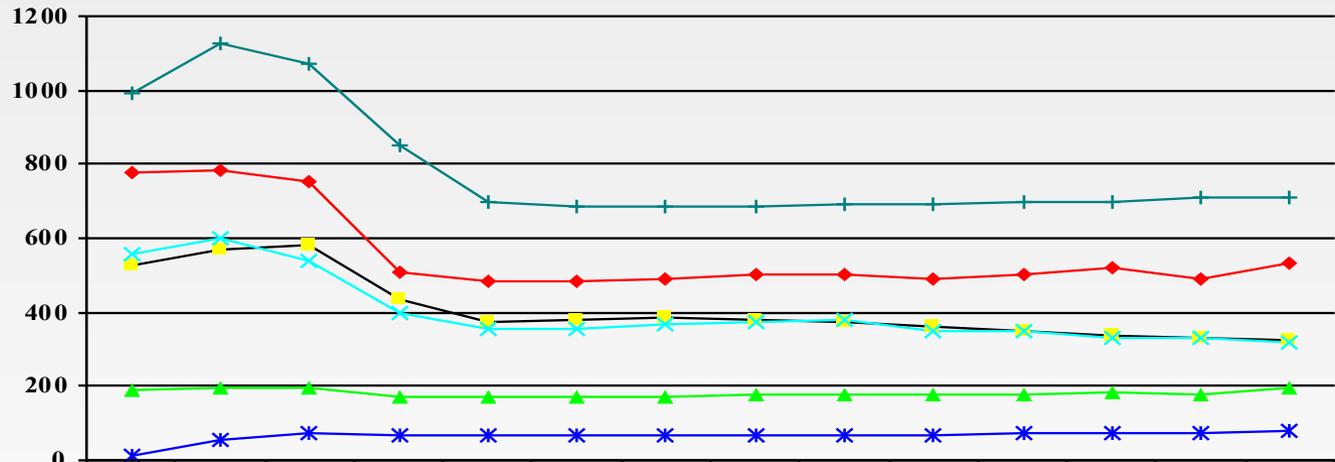


	1980	1985	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
*Total DoD Manpower	*3054	*3336	*3217	*2432	*2147	*2138	*2165	*2188	*2184	*2147	*2156	*2145	*2110	*2158
*Total Civilians	991	1129	1073	849	698	687	687	688	690	692	700	695	708	713
*Total Military	*2063	*2207	*2144	*1583	*1449	*1451	*1478	*1500	*1494	*1455	*1456	*1451	*1402	*1445
Full Time Guard and Reserve	13	55	74	65	65	65	66	66	66	69	71	72	76	77
Air Force	558	602	539	400	356	354	368	375	377	352	349	333	329	317
Marine Corps	188	198	197	174	173	173	174	178	178	180	180	186	180	194
Navy	527	571	583	435	373	378	383	382	373	362	350	338	328	325
Army	777	781	751	509	482	481	487	499	500	492	505	522	489	532

Source: Office of the Undersecretary of Defense (Comptroller).
National Defense Budget Estimate for the FY 2009 Budget (Greenbook).
 March 2008, p. 213.

Army and Marine Corps Gains Offset Air Force and Navy Losses

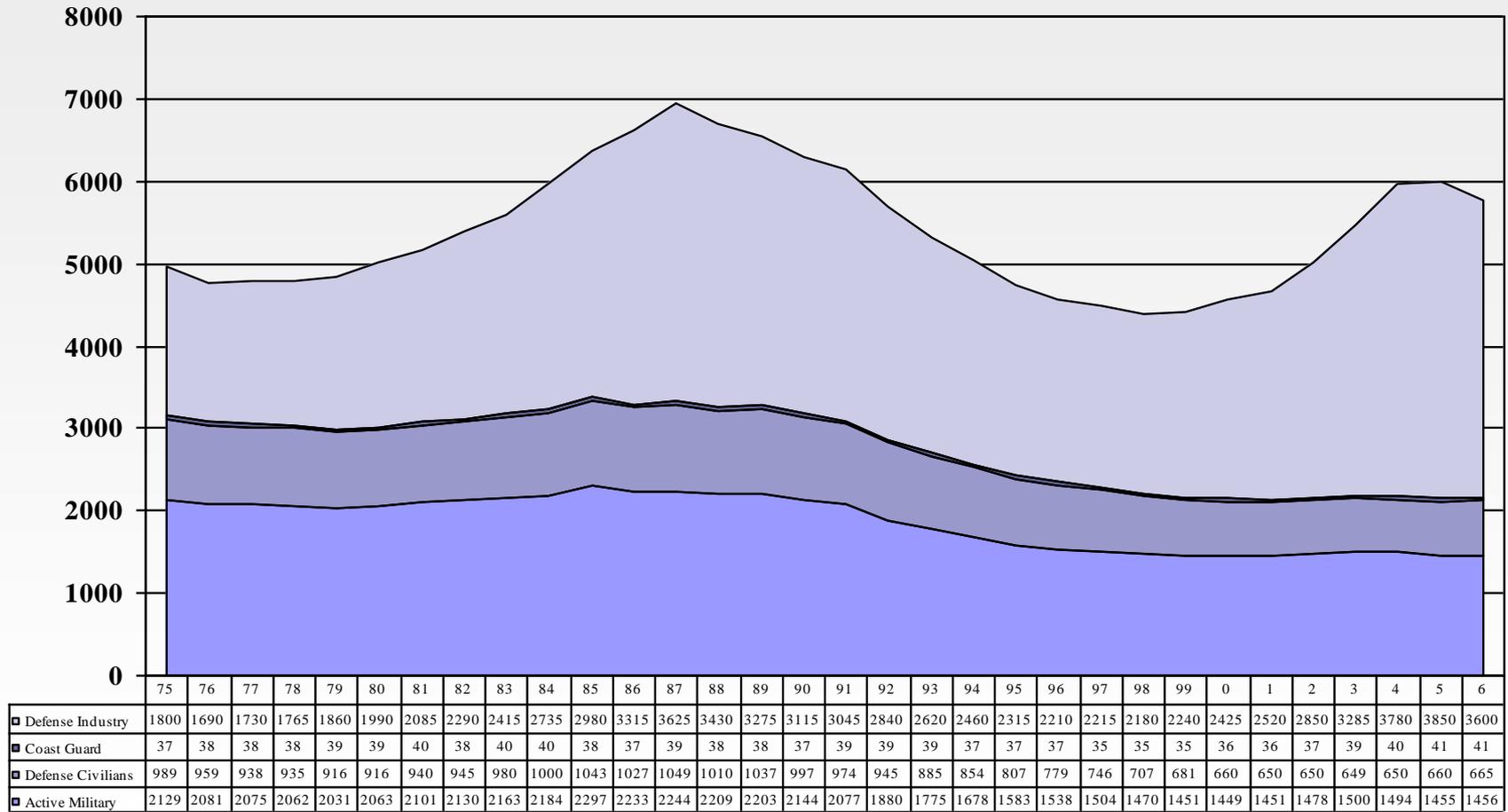
(Trend by Key Force Element in End Strength in Thousands)



	1980	1985	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
◆ Army	777	781	751	509	482	481	487	499	500	492	505	522	489	532
■ Navy	527	571	583	435	373	378	383	382	373	362	350	338	328	325
▲ Marine Corps	188	198	197	174	173	173	174	178	178	180	180	186	180	194
✕ Air Force	558	602	539	400	356	354	368	375	377	352	349	333	329	317
* Full Time Guard and Reserve	13	55	74	65	65	65	66	66	66	69	71	72	76	77
● *Total Military	*2063	*2207	*2144	*1583	*1449	*1451	*1478	*1500	*1494	*1455	*1456	*1451	*1402	*1445
+ *Total Civilians	991	1129	1073	849	698	687	687	688	690	692	700	695	708	713
* *Total DoD Manpower	*3054	*3336	*3217	*2432	*2147	*2138	*2165	*2188	*2184	*2147	*2156	*2145	*2110	*2158

Source: Office of the Undersecretary of Defense (Comptroller).
National Defense Budget Estimate for the FY 2009 Budget
(Greenbook). March 2008, p. 213.

But, Trends in Defense Manpower Since 1970s: Cut Career, Boost Contract

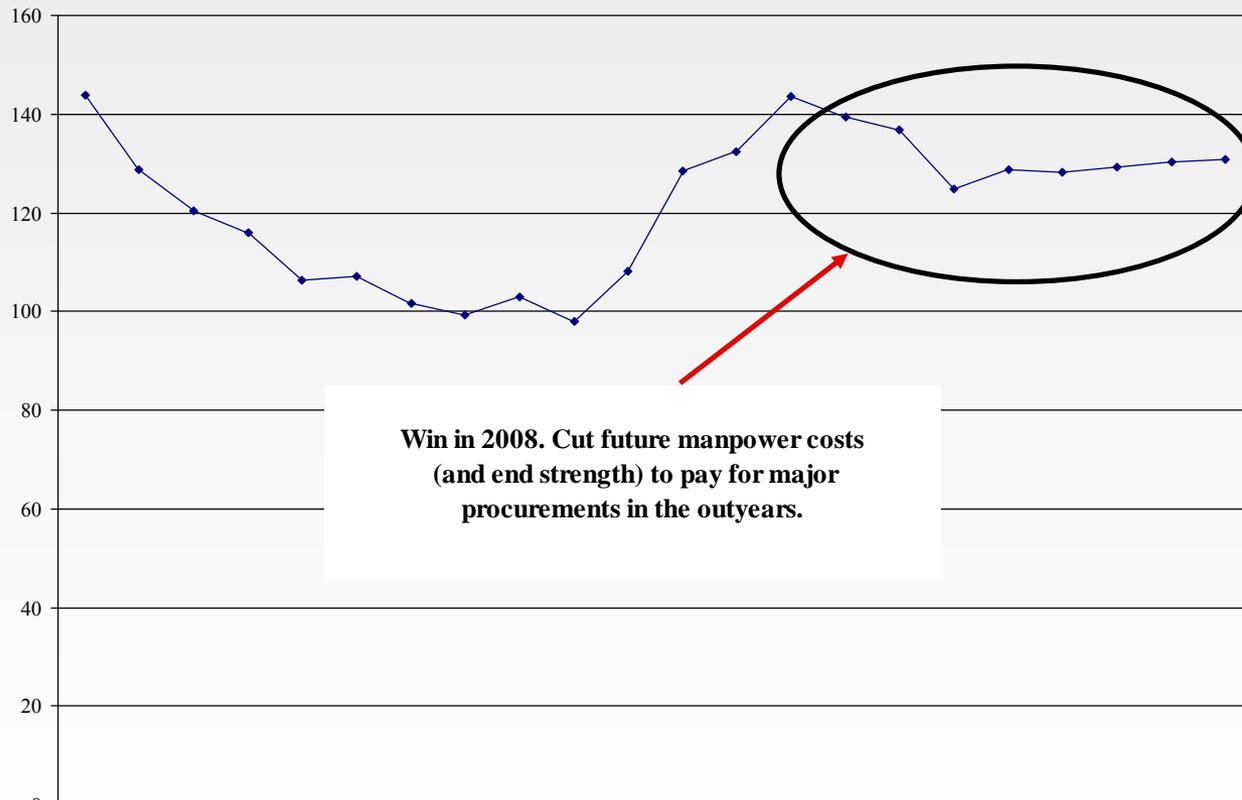


Source: Office of the Undersecretary of Defense (Comptroller), *National Defense Budget Estimates for FY2006*, Washington, Department of defense, April 2005, Table 7-6.

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And, Baseline Budget Request and Current FYDP Do Not Properly Fund Military Manpower Costs

(In Constant FY2009 \$US billions in Budget Outlays)



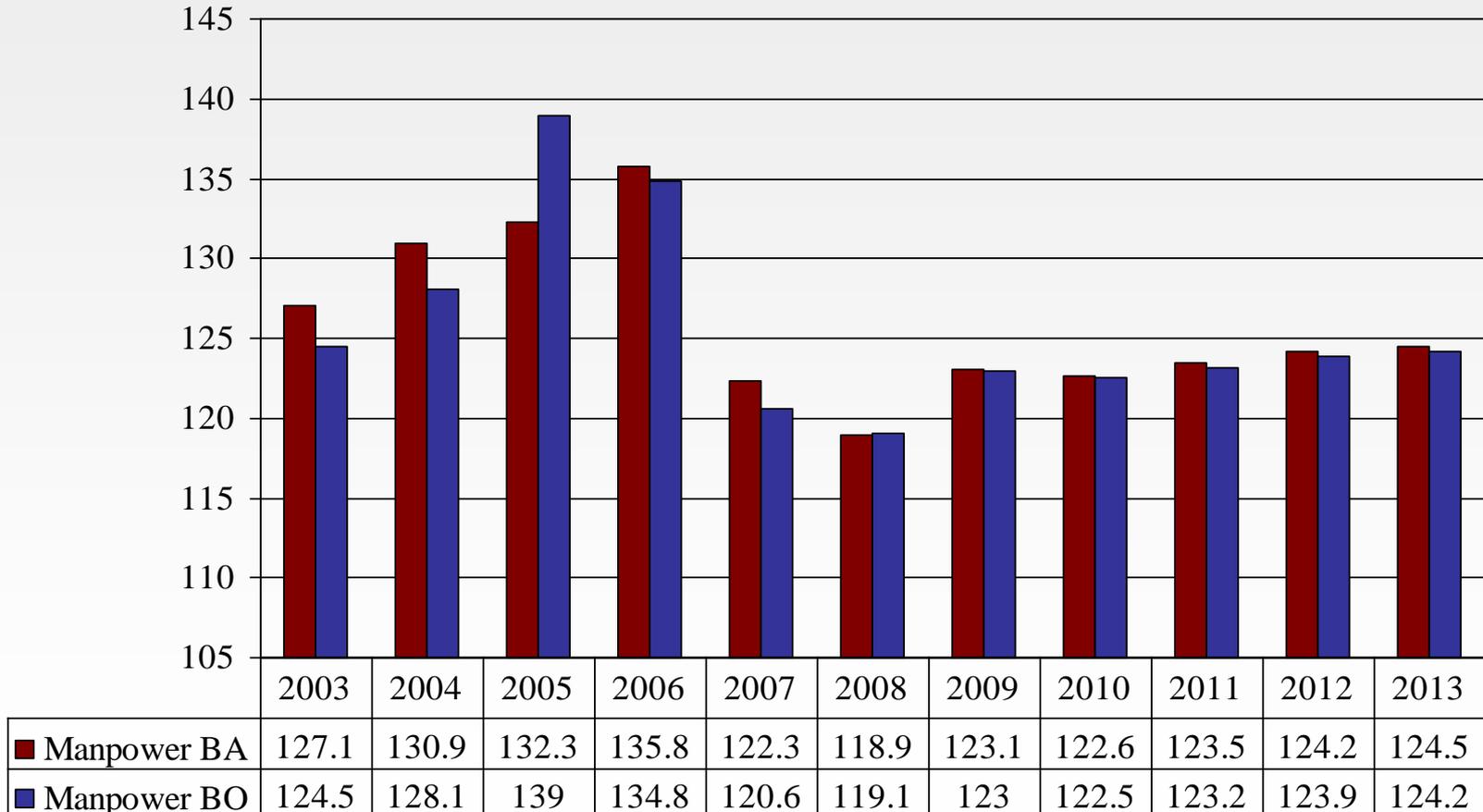
Win in 2008. Cut future manpower costs (and end strength) to pay for major procurements in the outyears.

	92	93	94	95	96	97	98	99	0	1	2	3	4	5	6	7	8	9	10	11	12	13
— Military Manpower	144	129	120	116	106	107	102	99	103	98	108	128	132	144	139	137	125	129	128	129	130	131

Source: Office of the Under Secretary of Defense (Comptroller), *National Defense Budget Estimates for FY2009*, Washington, Department of Defense, April 2008, Table 6-11.

Planned Manpower Expenditures Do Not Reflect Future Plans for Constant Manpower Levels and Major Rises in Costs

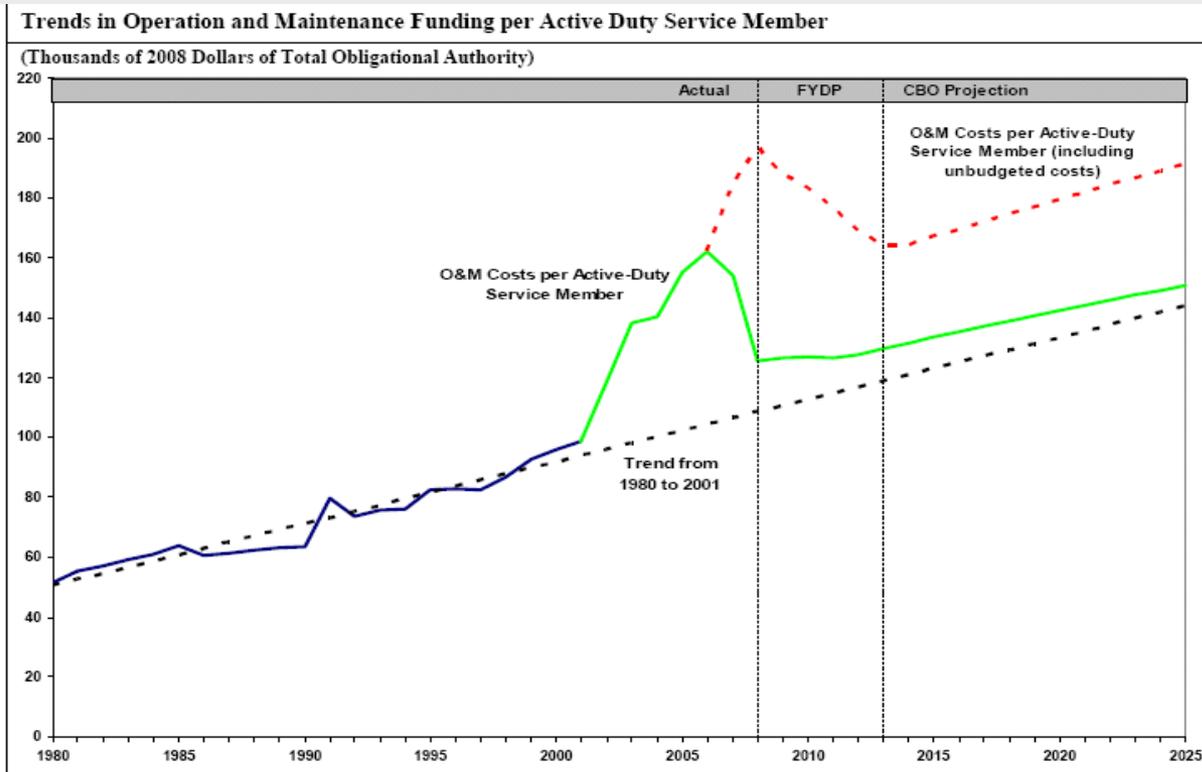
(In Constant FY2008 Billions)



Source: *FY2008 Green Book*, p. 115 and 133

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The Real-World Trends: Rising Cost of Military Personnel



- From 1980 to 2001, operation and maintenance costs grew steadily by an average of about \$2,000 per active-duty service member per year. Excluding potential unbudgeted costs, CBO projects a similar rate of O&M cost growth in the future.
- Since 2001, O&M costs per service member have grown more rapidly because of funding for operations in Iraq and Afghanistan. The FYDP and CBO's projection exclude future funding for those operations.

Source: CBO, *Long Term Implications of Defense Spending*, March 2008, p 8.

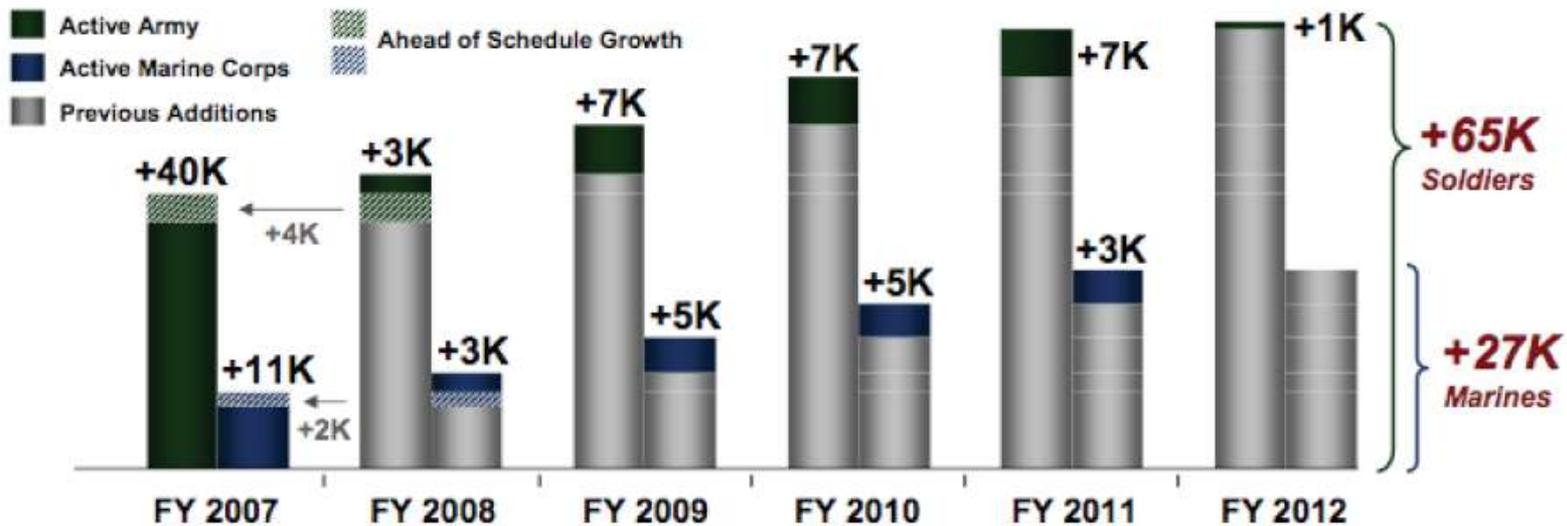
Need More Realistic Plans and Budgets to Determine Army and Marine Corps End Strength

- **Recent deployment levels have strained active and reserve force to limit, if not beyond.**
- **Need fully deployable forces, not Cold War legacies or stay at home “battle buddies”**
- **Planned changes in land force structure and deployability at least partially address these issues, but unclear are enough to deal with current and future long wars.**
- **Similarly, boosting of Army and Marine Corps end strength is affordable, but may not be enough for long war era if it continues.**
- **Can’t have a two major regional contingency strategy with a one major regional contingency manpower base.**

Increase Ground Capabilities

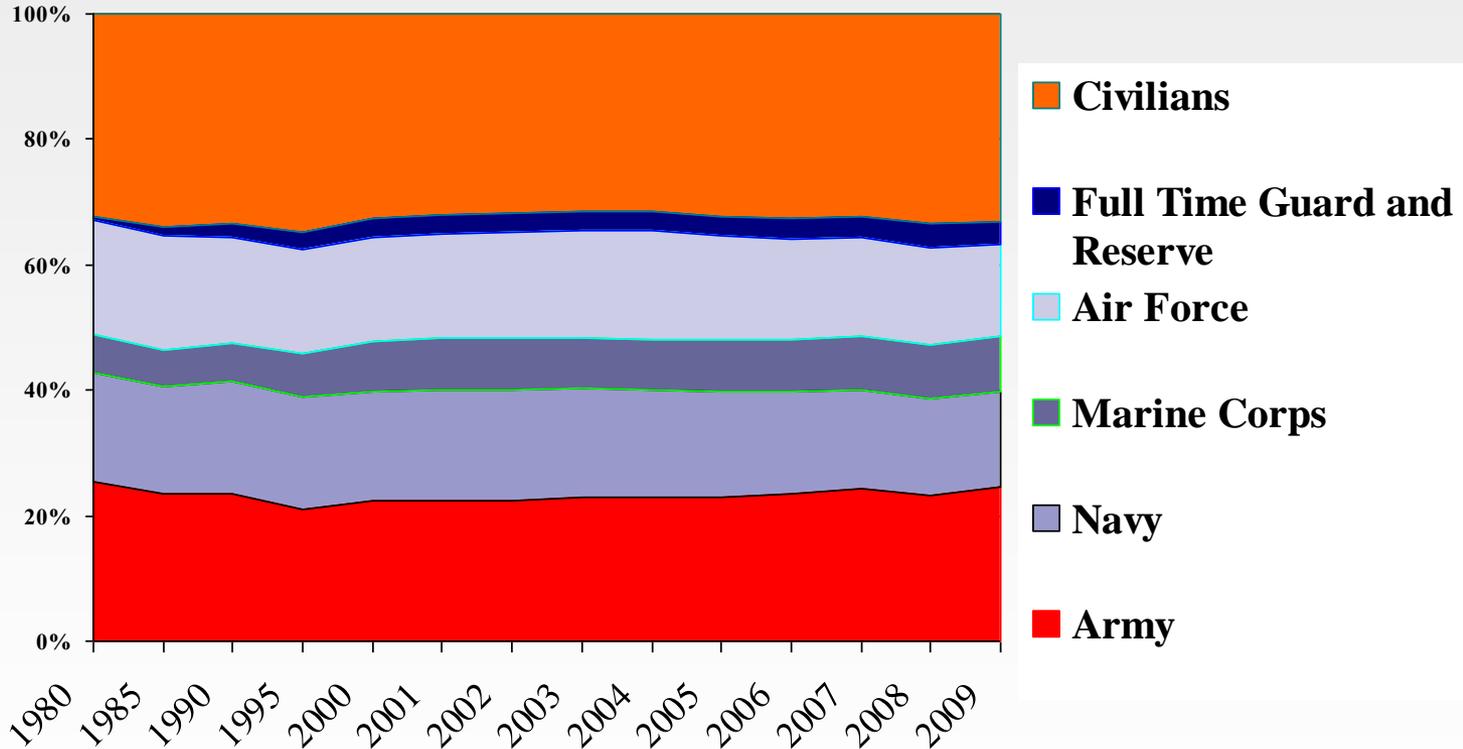
+\$8.7B
FY08 - FY09

Army Active	42	Brigade Combat Teams (482.4K Soldiers)	➔	48	Brigade Combat Teams (547.4K Soldiers)
	12/12	Months Home Station / Months Deployed		24/12	Months Home Station / Months Deployed
Marine Corps Active	2.5	Marine Expeditionary Forces (175K Marines)	➔	3	Marine Expeditionary Forces (202K Marines)
	7/7	Months Home Station / Months Deployed		14/7	Months Home Station / Months Deployed



Currently Planned Army and Marine Corps Gains Do Not Lead to Dramatic Shifts in Force Share

(Percentage by Key Force Element in End Strength in Thousands)



Source: Office of the Undersecretary of Defense (Comptroller).
National Defense Budget Estimate for the FY 2009 Budget
 (Greenbook). March 2008, p. 213.

The Next Administration Must Determine How Much Manpower is Enough? How Much is Affordable?

- **Legacy of current wars is high military manpower costs which limit ability to pay for adequate force levels.**
 - Cost containment is a key issue, but so is force quality.
 - Need “risk premiums” when so few Americans serve
 - Military medical costs are creating major new “entitlement” cost.
- **Need more realism in determining how combat ready and deployable reserves can and should be.**
- **Need to re-examine military-civilian trade-offs in terms of cost-effectiveness:**
 - Military versus career civilian.
 - Career military and civilian versus contractor.
 - Role of contractors in combat. .
- **Uncertain calls for “Supersoldier” character of QDR**
 - *Everyone above average with unusual foreign language skills?*
- **What should the future manpower impact of the State Department and other civilian agencies be.**

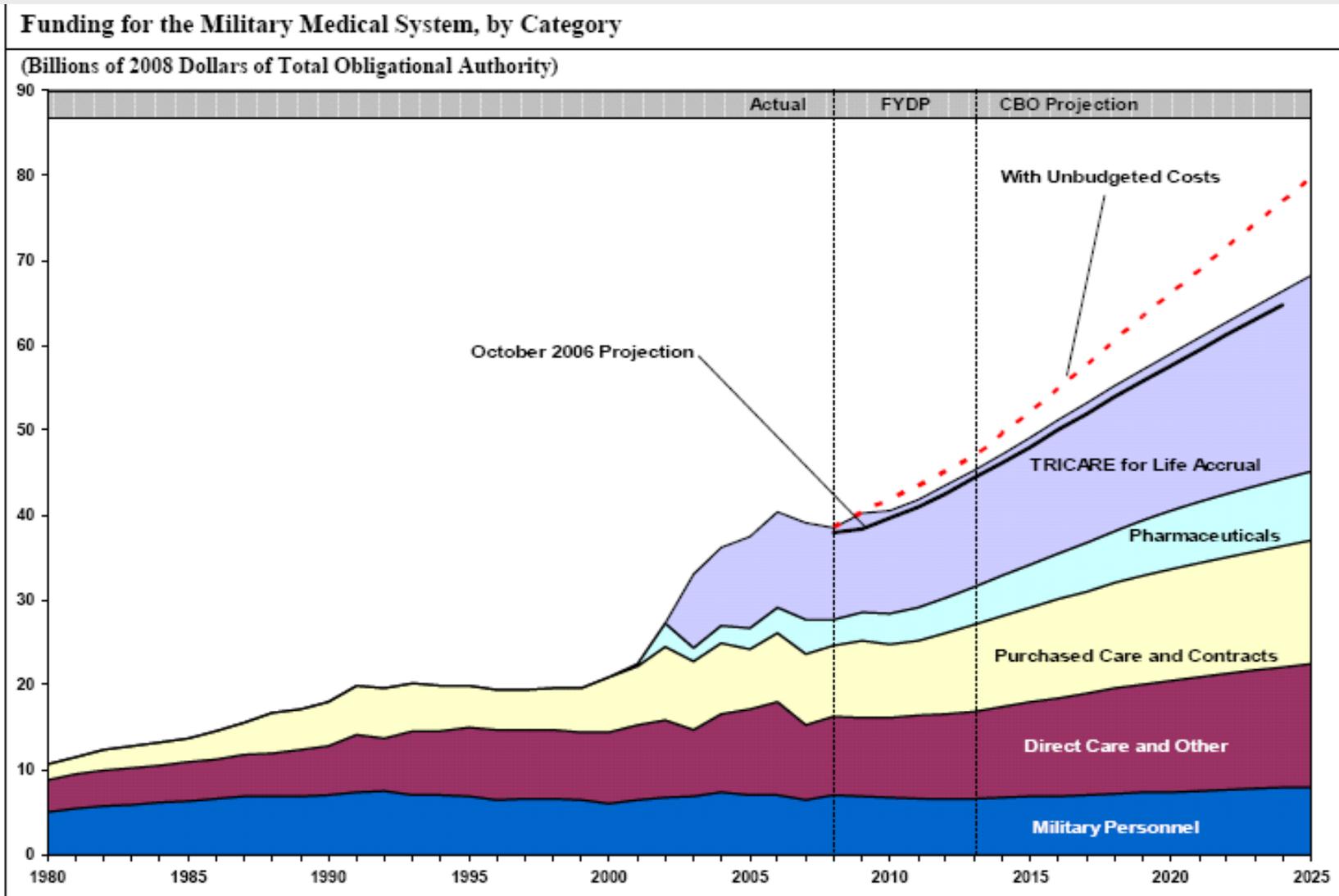
Rising Military Medical Costs

The Unaffordable Military Medical Burden?

CBO Estimate

- **CBO estimates that total real medical funding will increase by 77 percent, from \$39 billion in 2008 to \$68 billion by 2025. Real medical funding including potential unbudgeted costs could more than double, reaching \$80 billion by 2025, CBO projects.**
- **Accrual payments for beneficiaries over age 65 will make up more than 41 percent of the increase in medical funding. CBO projection indicates that by 2025, accrual payments will be twice as large in real terms as they are currently, reaching a total of \$23 billion. (Note that payments are made out of the accrual fund to cover pharmaceuticals, purchased care, and direct care for Medicare-eligible beneficiaries. The amounts spent on those beneficiaries are therefore excluded from the remaining categories described below.)**
- **Pharmaceutical expenditures are projected to more than double, from \$3 billion in 2008 to \$8 billion in 2025; with cost risk included, real drug expenditures will more than triple, to \$11 billion in 2025.**
- **Purchased care and private-sector contracts are projected to grow by 75 percent in real terms, from \$8 billion in 2008 to \$15 billion in 2025. Funding for that category including cost risk could increase by 117 percent in real terms, reaching \$18 billion in 2025.**
- **The category that comprises the military's direct-care system and other medical funding is projected to grow by nearly 60 percent in real terms, from \$9 billion in 2008 to \$15 billion in 2025. If costs grew more quickly than DoD has anticipated, funding in that category could rise by 114 percent in real terms, reaching \$20 billion in 2025, and contributing (along with other factors) to the dashed line labeled "With Unbudgeted Costs" in the figure.**
- **CBO anticipates that funding for uniformed medical personnel will grow by 14 percent in real terms by 2025 as a result of pay increases that outpace inflation. CBO expects real funding on the military personnel category to grow from \$7 billion in 2006 to \$8 billion in 2025.**

The Unaffordable Military Medical Burden? CBO Estimate

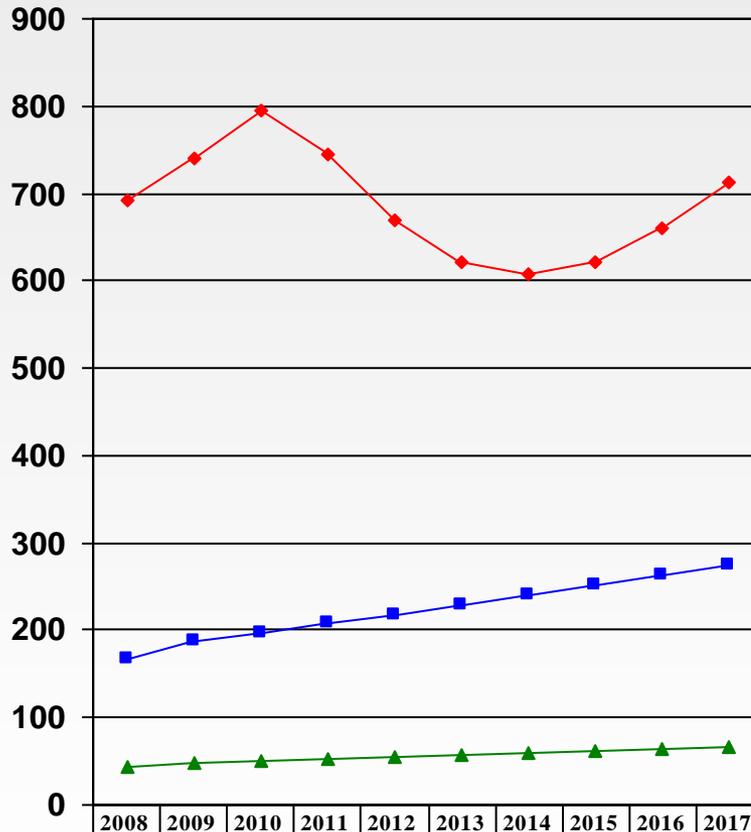


CBO: Long Term Implications of Defense Spending, March 2008, p 9.

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Estimated VA Spending of OIF and OEF Veterans 2008-2017, Low Option

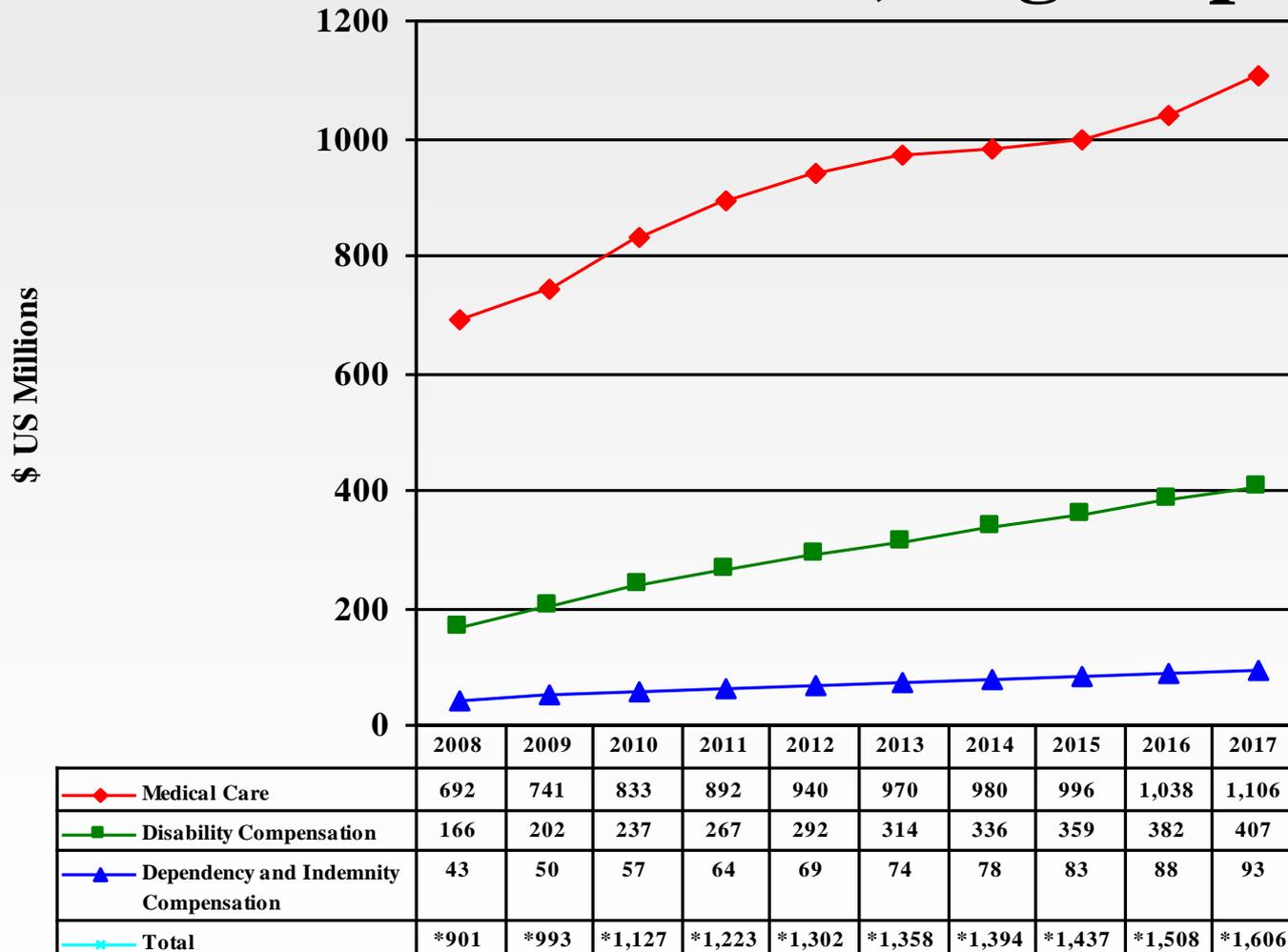
\$ US Millions



- Source: CBO Testimony, Statement of Mathew S. Goldberg, Deputy Assistant Director for National Security. Projecting the Costs to Care for Veterans of U.S. Military Operations in Iraq and Afghanistan. 17 October 2007, 17.
- As of December 2006, of 1 million active duty and 400,000 reservists deployed to Iraq and Afghanistan, 690,000 have become eligible for VA healthcare.
- Of 229,00 OIF/OEF patients seen by the VA, 3 percent have been hospitalized in VA facilities at least once since 2002. The rest were on an outpatient basis only. VA estimates an average annual cost of \$ 2,610 per OIF/OEF veteran who used VA health care in 2006, and an overall average of \$ 5,765 per year for all VA patients
- VA medical costs associated with the wars could total between \$7 billion and \$ 9 billion over the 10-year period until 2017. disability compensation and survivors' benefits could add another \$3 billion to \$4 billion over the same period.

◆ Medical Care	692	741	796	745	669	621	607	622	660	712
■ Disability Compensation	166	188	197	207	218	228	239	251	263	275
▲ Dependency and Indemnity Compensation	43	47	50	52	54	57	59	62	64	67
✦ Total	*901	*976	*1,043	*1,005	*940	*906	*906	*935	*987	*1,055

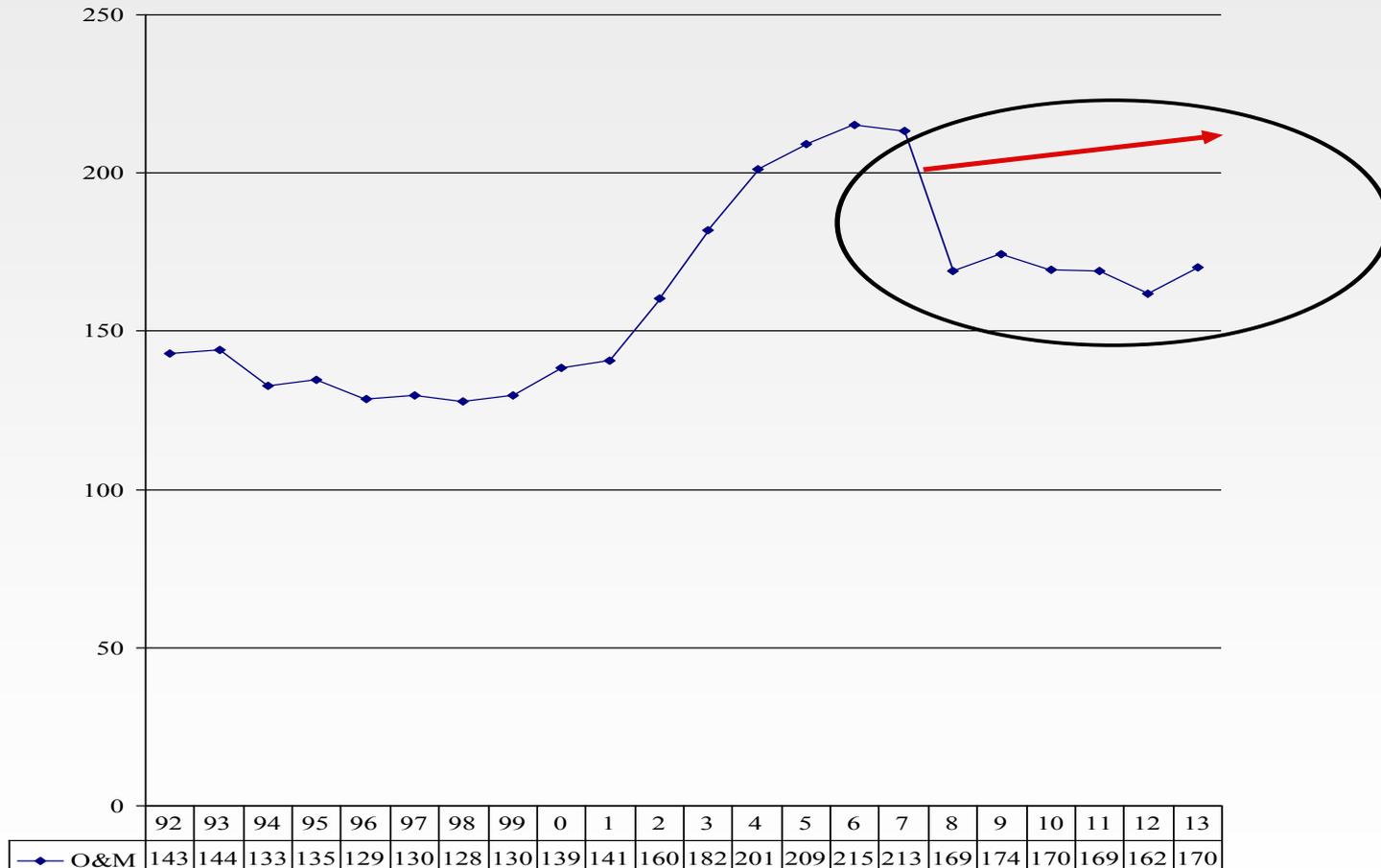
Estimated VA Spending of OIF and OEF Veterans 2008-2017, High Option



Source: CBO Testimony, Statement of Mathew S. Goldberg, Deputy Assistant Director for National Security. Projecting the Costs to Care for Veterans of U.S. Military Operations in Iraq and Afghanistan. 17 October 2007, p. 17.

The Operations, Maintenance, and “Reset” Crisis

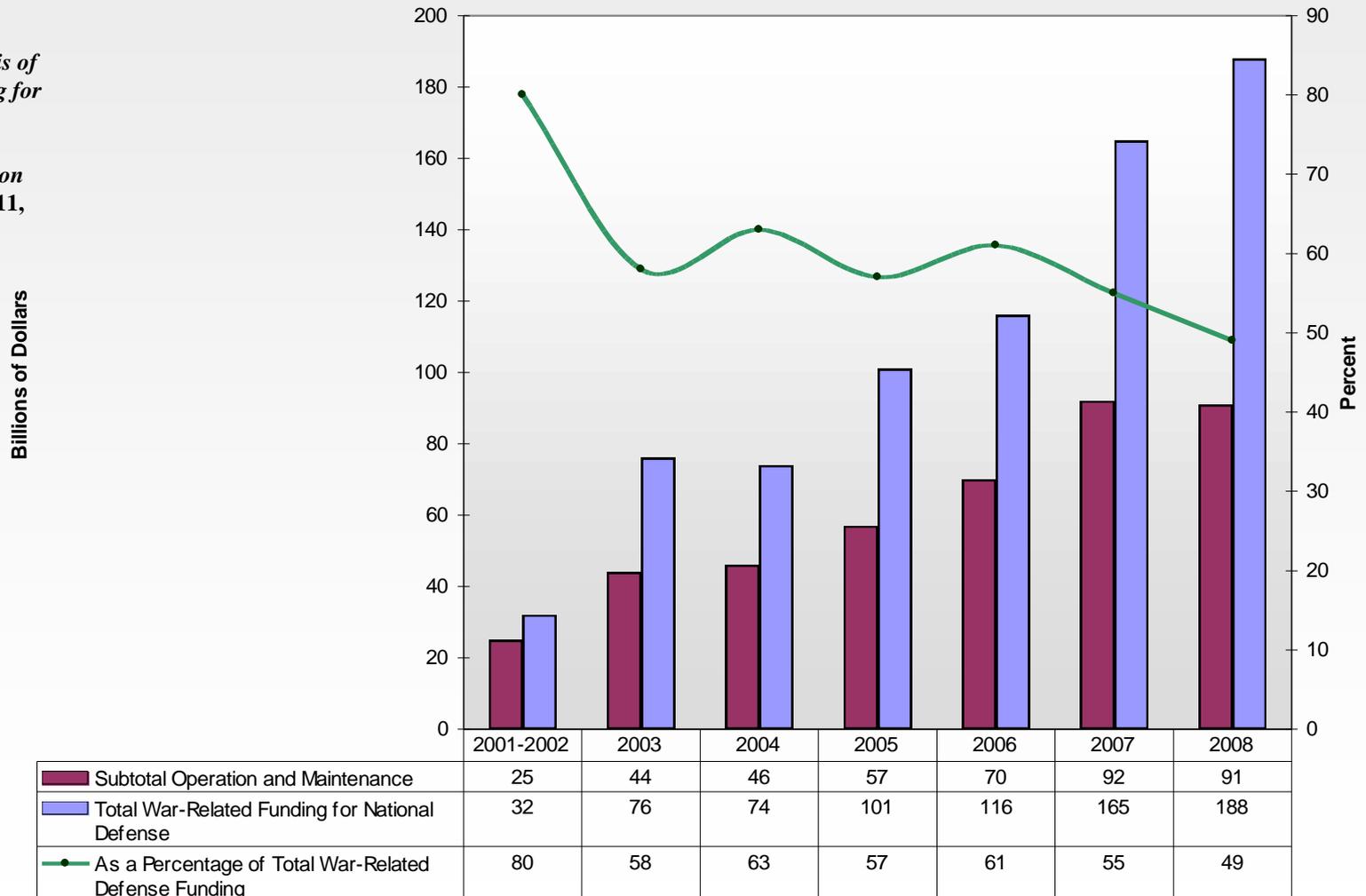
Real War, Phony Operations and Maintenance Budget: FY1992-2013



Source: Adapted by Anthony H. Cordesman from data provided by Office of the Under Secretary of Defense (Comptroller), *National Defense Budget Estimates for FY2008*, Washington, Department of Defense, March 2006, Table 6-8 and 6-11.

Poisoning the Chalice: Operations and Maintenance Funds Drop as Share of Emergency and Supplemental Appropriations for Afghan and Iraq Wars, and GWOT, (In \$US Current Billions by Fiscal year)

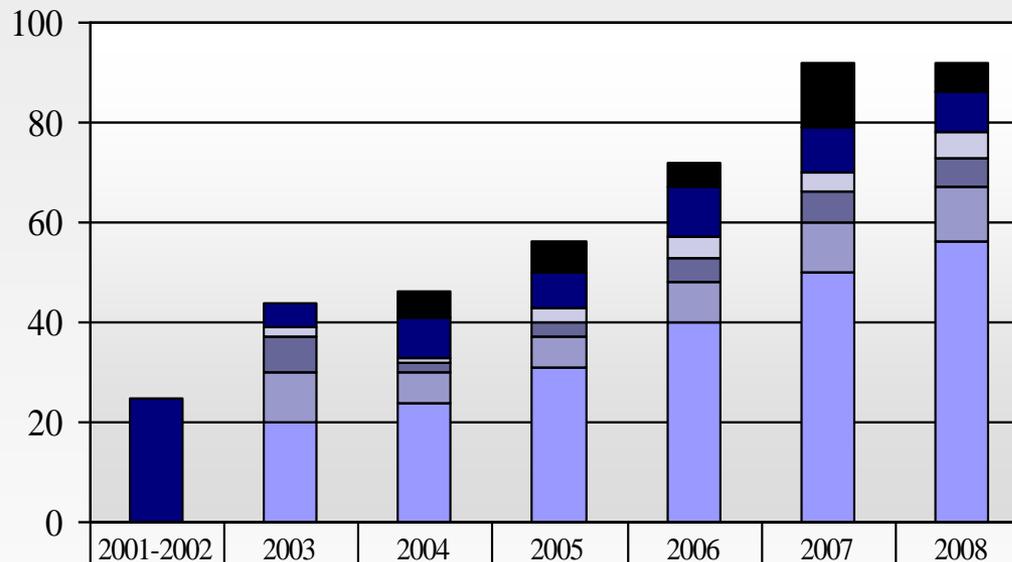
Source: CBO, *Analysis of the Growth in Funding for Operations in Iraq, Afghanistan, and Elsewhere in the War on Terrorism*, February 11, 2008.



O&M, Reset, and/or Force Modernization?

Supplemental and Emergency War Appropriations for Operation and Maintenance by Branches

Source: CBO, *Analysis of the Growth in /funding for Operations in Iraq, Afghanistan, and Elsewhere in the War on Terrorism*, February 11, 2008.



■ Iraq and Afghanistan Security Forces	0	0	5	6	5	13	6
■ Defensewide and Other	25	5	8	7	10	9	8
□ Marine Corps	0	2	1	3	4	4	5
■ Navy	*	7	2	3	5	6	6
■ Air Force	*	10	6	6	8	10	11
■ Army	*	20	24	31	40	50	56

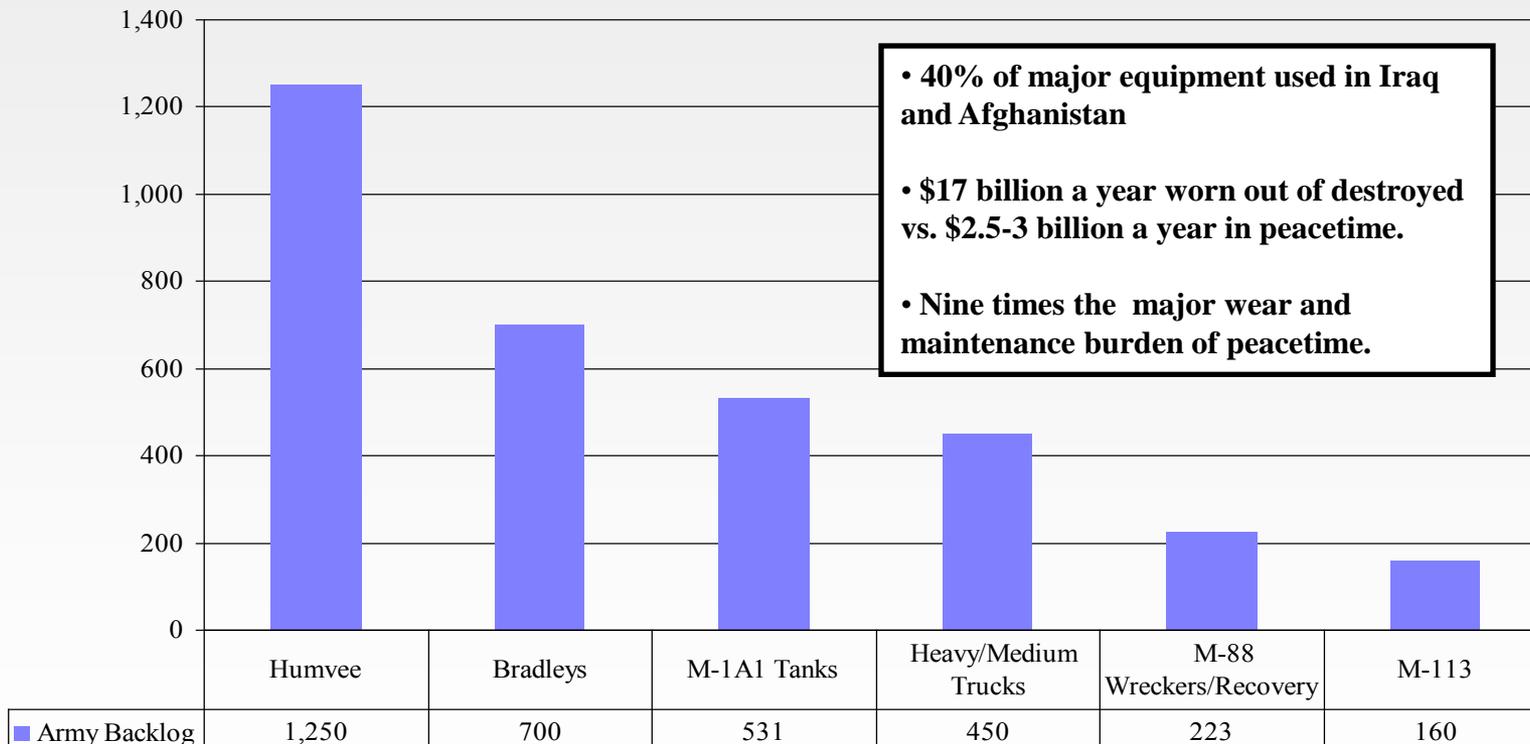
* = less than \$500 million

The Army-Marine Corps Equipment Readiness Crisis

“We have a strategy right now that is outstripping the means to execute it.”

Army Chief of Staff Gen. Schoomaker

March, 19 2007



“This is not an Army that was built to sustain a Long War”

Gen. John Abizaid

The Modernization and Procurement Crisis

Major Uncertainties in Estimates of Equipping-Related Costs^a to Restructure, Grow and Rebuild the Army

Dollars in billions

Program	Estimates Based on Army Data	Description and Limitations
Equip restructured modular units	\$43.6	<ul style="list-style-type: none"> ■ Estimate developed before unit designs were finalized. ■ Army has not revised its 2005 estimate. ■ Army plans to request additional funds to address equipment shortages in modular units through fiscal year 2017.
Increase the number of and equip new Army units	\$18.5	<ul style="list-style-type: none"> ■ Could not assess how the Army calculated this amount because Army budget documents do not identify key assumptions or the steps used to develop the estimate. ■ Army plans to accelerate the completions if this plan from fiscal year 2013 to 2010.
Reset the force	\$118.5 ^b	<ul style="list-style-type: none"> ■ Army stated it will require reset funding for a minimum of 2 to 3 years after hostilities end. ■ Future reset costs are unclear, according to the Army, because they depend on how much equipment is lost, damaged, or worn beyond repair during current operations and how long the operations will continue.
Reconstitute prepositioned stocks	\$10.6	<ul style="list-style-type: none"> ■ Army estimates that total costs will be between \$10.6 billion and \$12.8 billion. ■ Unclear whether the Army has included these funds into future budget planning.
Total	\$191.2^c	

a. These estimates include costs for both procurement and operation and maintenance.

b. The estimate includes \$54 billion in funds for reset from fiscal year 2004 through fiscal year 2008, as reported by the Army in its February 2008 report to Congress. To calculate fiscal years 2009-2013 estimates, we assumed \$12 billion per year through fiscal year 2013, which is the average of the 2006-2007 amounts.

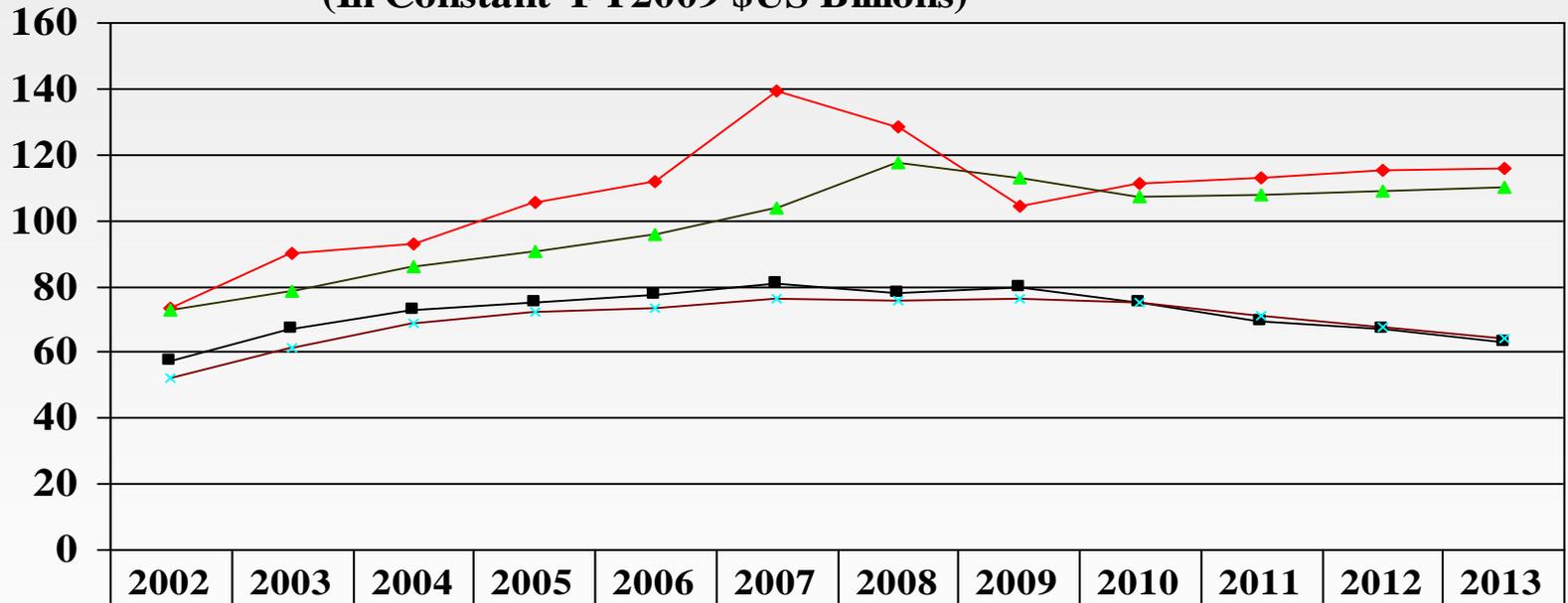
c. There are on-going assessments of some of these estimates as part of the fiscal years 2010-2015 programming process that could lead to revised estimates, according to Office of the Secretary of Defense and Army officials.

Future Procurement and Force Transformation Not Properly Funded

- **FYDP does not fund adequate RDT&E and procurement funds for current service force and modernization plans.**
- **CBO estimates show the FYDP calls for major ramp up in procurement in BA, but slips BO to post Bush years**
- **Crisis not new, all too apparent in 2007**
- **GAO estimated that the Pentagon often underestimated procurement time and costs by 20-50%.**
- **Top five weapons programs' costs escalated by 85% between FY 2001 and FY 2005, from \$281 billion to \$521 billion.**
- **26 major systems showed RDT&E cost escalation of \$42.7 billion last year.**
- **RDT&E costs are expected to rise 28% between FY 2005 and FY 2009, from \$144 billion to \$185 billion.**
- **“Liar’s contest” mentality.**

“Dancing to the Right”: Disguise Procurement Problems by Slipping to Outyears and Cutting RDT&E

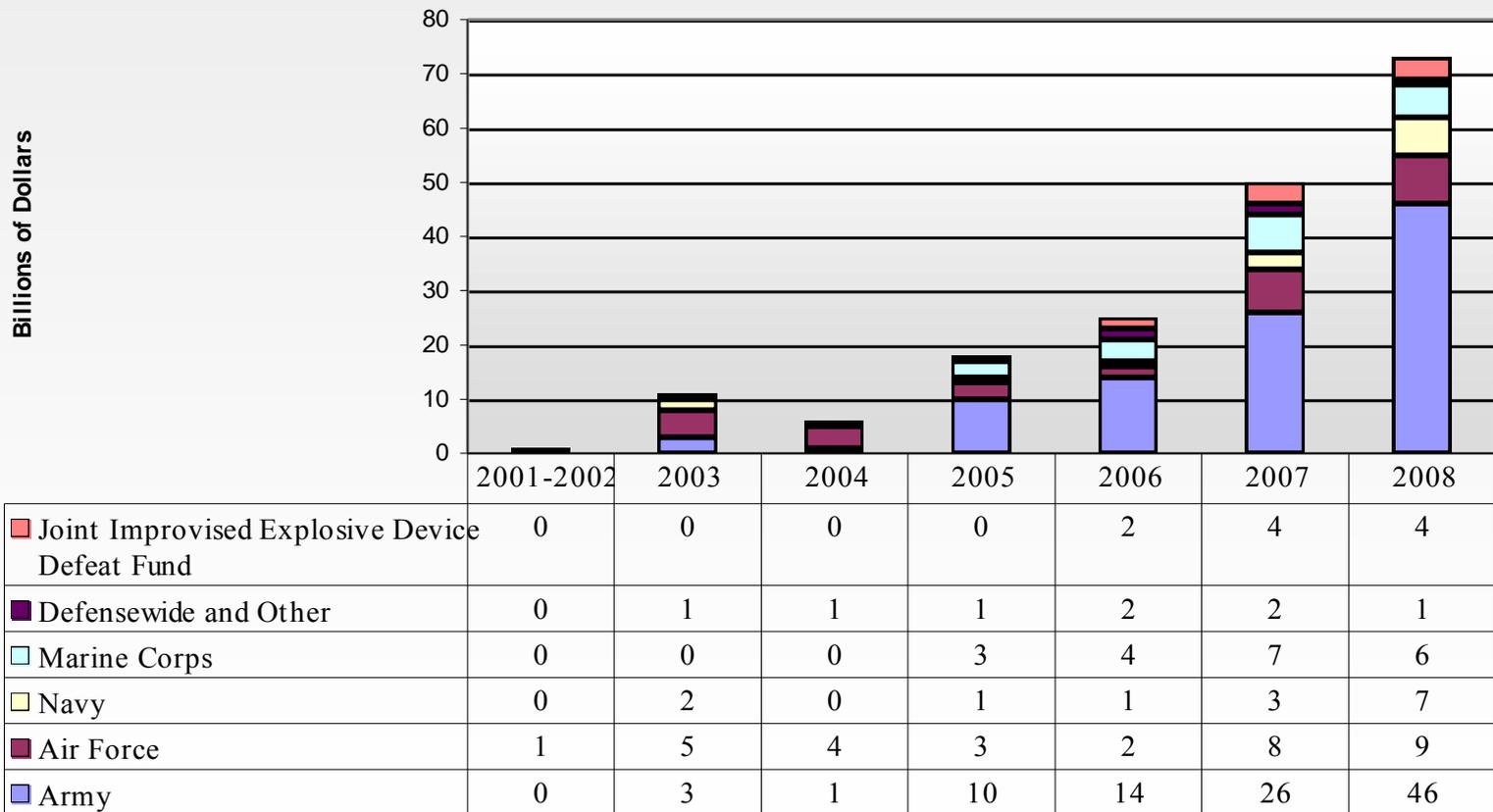
(In Constant FY2009 \$US Billions)



Emergency and Supplemental Procurement Costs for Afghan and Iraq Wars, and GWOT Impose Further Strain

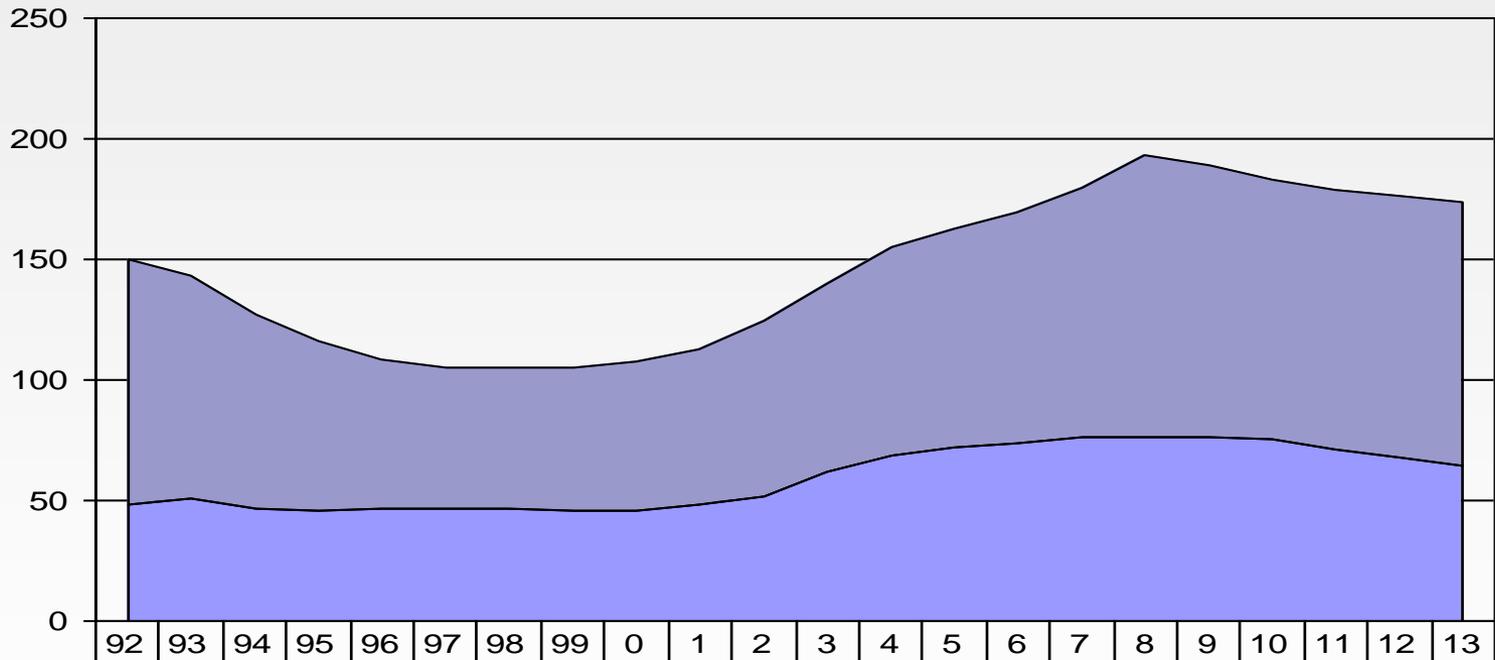
(In appropriations of \$US Current Billions by Fiscal year)

Source:
CBO,
*Analysis of
the Growth in
/funding for
Operations in
Iraq,
Afghanistan,
and
Elsewhere in
the War on
Terrorism,*
February 11,
2008.



Paying for Transformation at the Expense of RDT&E

(Constant FY2009 \$US billions in Budget Outlays)



■ Procurement	102	93	81	70	61	59	59	59	62	65	73	78	86	91	96	104	118	113	107	108	109	110
■ RDT&E	48	51	47	46	47	47	47	46	46	48	52	62	69	72	73	76	76	76	75	71	67	64

Source: Adapted by Anthony H. Cordesman from data provided by Office of the Under Secretary of Defense (Comptroller), *National Defense Budget Estimates for FY2008*, Washington, Department of Defense, March 2006, Table 6-8 and 6-11.

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\$336 Billion, and the Future US force Posture, At Hazard in Major Procurement Programs

Planned RDT&E and Procurement Funding for Major Defense Acquisition Programs, as of December 2006

Fiscal year 2008 dollars in billions

Program	Fiscal year					Total
	2008	2009	2010	2011	2012	
Ballistic Missile Defense System	\$8.9	\$9.1	\$9.1	\$8.9	\$8.8	\$44.9
Joint Strike Fighter	6.7	6.9	8.1	8.4	11.3	\$41.4
Virginia Class Submarine	2.9	3.7	3.9	3.8	4.7	\$19.0
Future Combat Systems	3.6	3.2	3.2	3.2	3.7	\$17.0
V-22 Joint Services Advanced Vertical Lift Aircraft	3.0	3.1	3.1	2.8	3.0	\$15.0
DDG 1000 Destroyer	3.5	2.8	2.9	2.7	2.6	\$14.4
Future Aircraft Carrier	3.1	4.6	1.7	0.6	3.4	\$13.4
F-22A	4.4	4.3	0.5	0.4	0.5	\$10.1
P-8A Multi-mission Maritime Aircraft	0.9	1.2	2.9	2.7	2.5	\$10.1
F/A-18 EF	2.1	1.7	1.9	1.6	1.5	\$8.8
Funding for Top 10 MDAP programs	39.1	40.6	37.3	35.2	42.0	\$194.2
Funding for other 85 MDAP programs	33.2	31.5	26.9	25.4	24.1	\$141.1
Total	\$72.3	\$72.1	\$64.2	\$60.6	\$66.1	\$335.3
Top 10 MDAP programs (percentage of total)	54	56	58	58	64	58

Source: GAO, *Defense Acquisitions – Assessment of Selected Weapon programs*, GAO-08-467SP, March 2008, pp. 10-11.

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Legacy of Cold War Programs and Past Efforts At Force Transformation that that Are Fundamentally Unaffordable

■ Legacy Problems

- FCS.
- Ship building.
- Aircraft
- Net and IT Systems: Agency-wide
- Space

■ New Requirements

- Counterterrorism
- Counterinsurgency
- Stability/Nation Building Humanitarian.
- Homeland Defense

Defense Acquisition is Out of Control: FY2000-FY2007

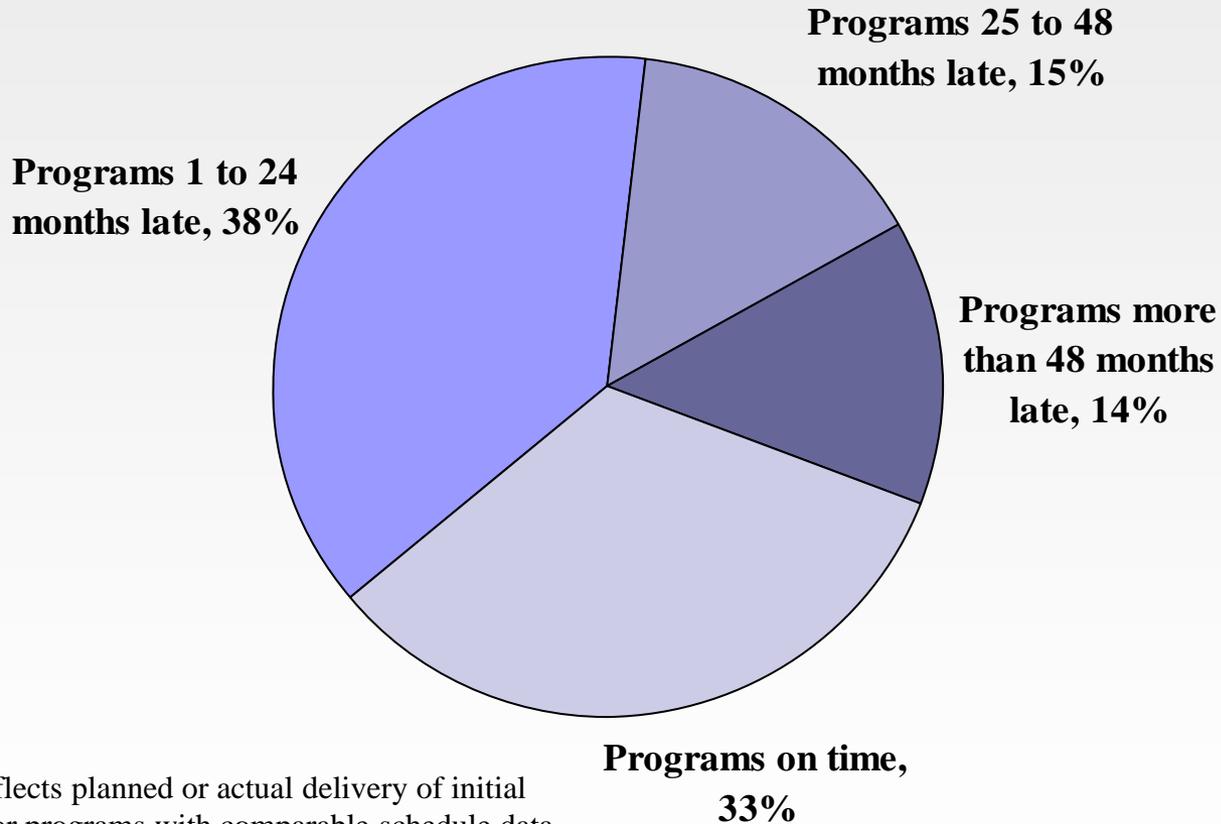
Analysis of DoD Major Defense Acquisition Program Portfolios (FY2008 dollars)

	FY 2000 Portfolio	FY 2005 Portfolio	FY 2007 Portfolio
Portfolio size			
Number of programs	75	91	95
Total planned commitments	\$790 Billion	\$1.5 Trillion	\$1.6 Trillion
Commitments outstanding	\$380 Billion	\$887 Billion	\$858 Billion
Portfolio performance			
Change in total RDT&E costs from first estimate	27 percent	33 percent	40 percent
Change in total acquisition cost growth	6 percent	18 percent	26 percent
Share of programs with 25 percent or more increase in program acquisition unit cost	\$42 Billion	\$202 Billion	\$295 Billion
Average schedule delay in delivering initial capabilities	16 months	17 months	21 months

Source: GAO, *Defense Acquisitions, Assessments of Selected Weapons Systems*, GAO-08-467SP, March 2008, p. 2

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Delays Become the Rule and Not the Exception



Note: This reflects planned or actual delivery of initial capabilities for programs with comparable schedule data.

Major Weapons Program Cost Escalation

- **The GAO estimates that 60 of the 72 programs assessed had to reset their business case at least once because they lacked necessary knowledge to reasonably estimate the cost and time it would take to develop and produce the product.**
- **GAO estimates the cost growth of the major defense acquisitions programs to be \$42 billion in the FY 2000 portfolio, \$202 billion and \$295 billion in the FY 2005 and FY 2007 portfolios, respectively.**
- **Roughly half of the assessed programs show more than 25 percent growth in program acquisition unit cost.**
- **The total RDT&E cost of the FY 2007 major acquisition program portfolio changed by 40 percent from the first cost estimate.**

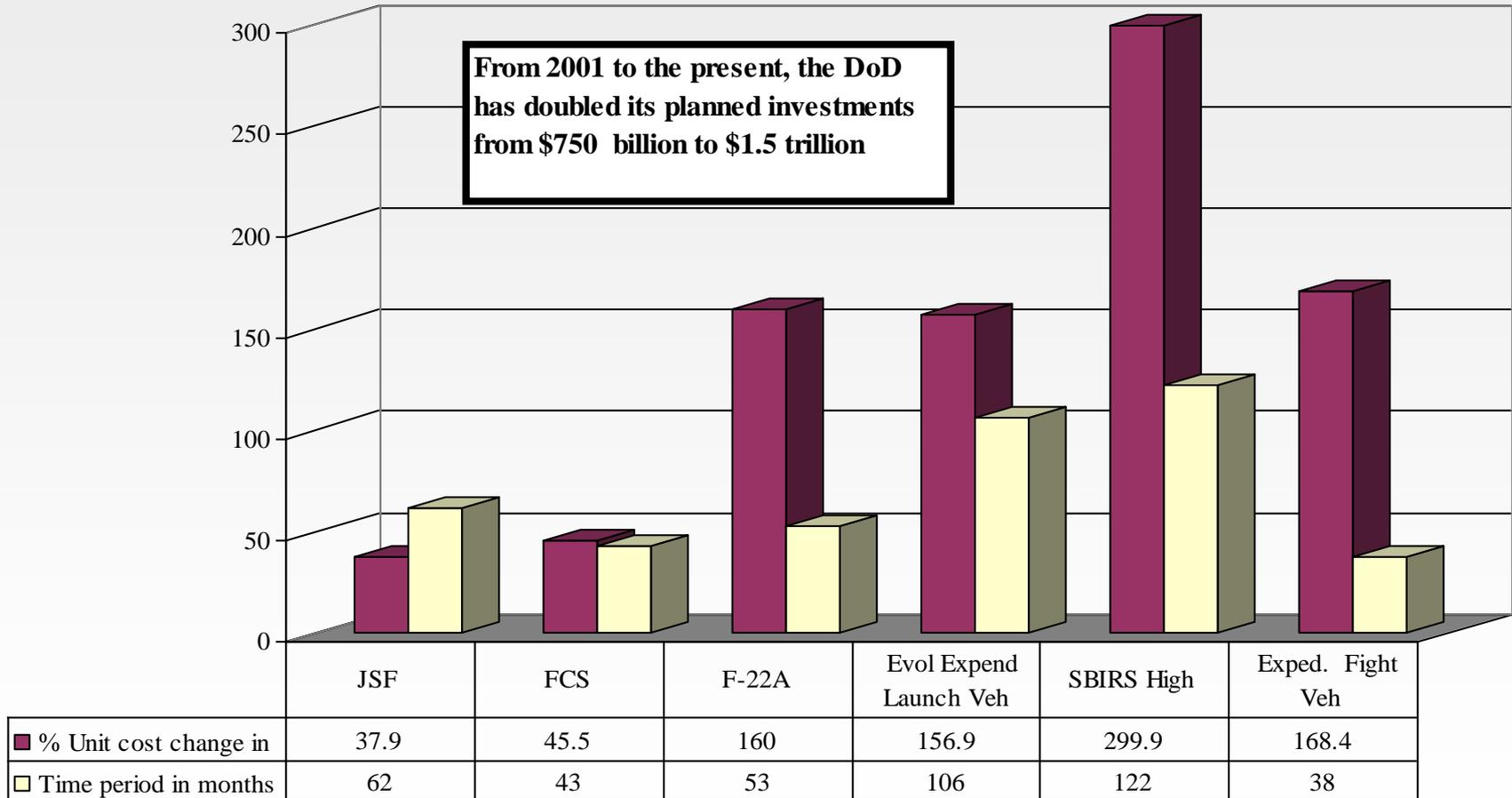
Major Weapons Program Cost Escalation

- From FY2001 to FY2007, the DoD has doubled its planned investments from \$750 billion to \$1.6 trillion.
- In a review of 72 major weapons programs, GAO found that their cost has grown by 26% since the first estimate. The cost of the 72 programs in FY2007 portfolio was \$295 billion more than had been projected initially.
- DOD's annual investment in RDT&E and procurement of major weapon systems is at its highest level in two decades. Over the next five years, the Department plans to invest \$900 billion with more than \$335 billion, or 37% going to new major weapon systems.
- Even though for the period 2000-2006 defense spending accounts grew at an annual average of a 5.4%, DoD projects that for the 2008-2012 period the growth rate will be **-8.5%!**
- The same programs have also experienced an increase in the time needed to deliver initial capabilities. The average schedule delay has risen from 16 months in FY 2000 to 17 and 21 months in FY 2005 and FY 2007, respectively.

Source: GAO, *Defense Acquisitions: Assessment of Selected Weapons Programs*, March 2007 and March 2008.

Procuring Defense to Death: The Wonderful World of “Transformational” Cost Escalation

(Measured as Percent Rise in Unit Cost by Program)

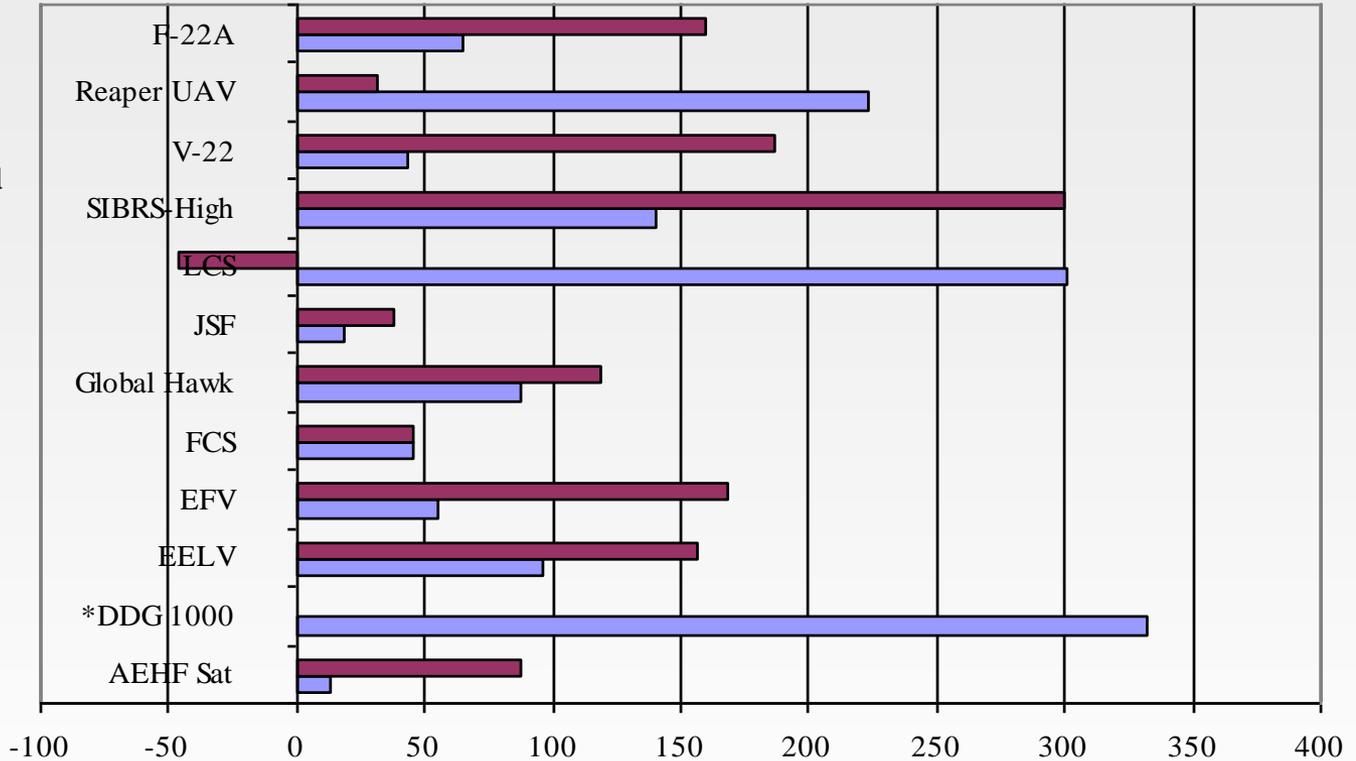


Source: Government Accountability Office, *Defense Acquisitions: Assessments of Selected Weapons Systems*, GAO-08-467SP, March 2008.

Cost Escalation As of March 2007

(Percent in Constant FY2007 Dollars)

Source: Government Accountability Office, "Defense Acquisitions: Assessments of Selected Weapons Systems," GAO-08-467SP, March 2008.



	AEHF Sat	DDG* 1000	EELV	EFV	FCS	Global Hawk	JSF	LCS	-SIBRS High	V-22	Reaper UAV	F-22A
■ Unit Cost	87.8	n/a	156.9	168.4	45.5	118.7	37.9	46.5-	299.9	186.9	31.5	160
■ Program Cost	12.9	331.9	95.6	55.3	45.5	87.5	18.2	301.1	139.9	43.8	222.9	64.9

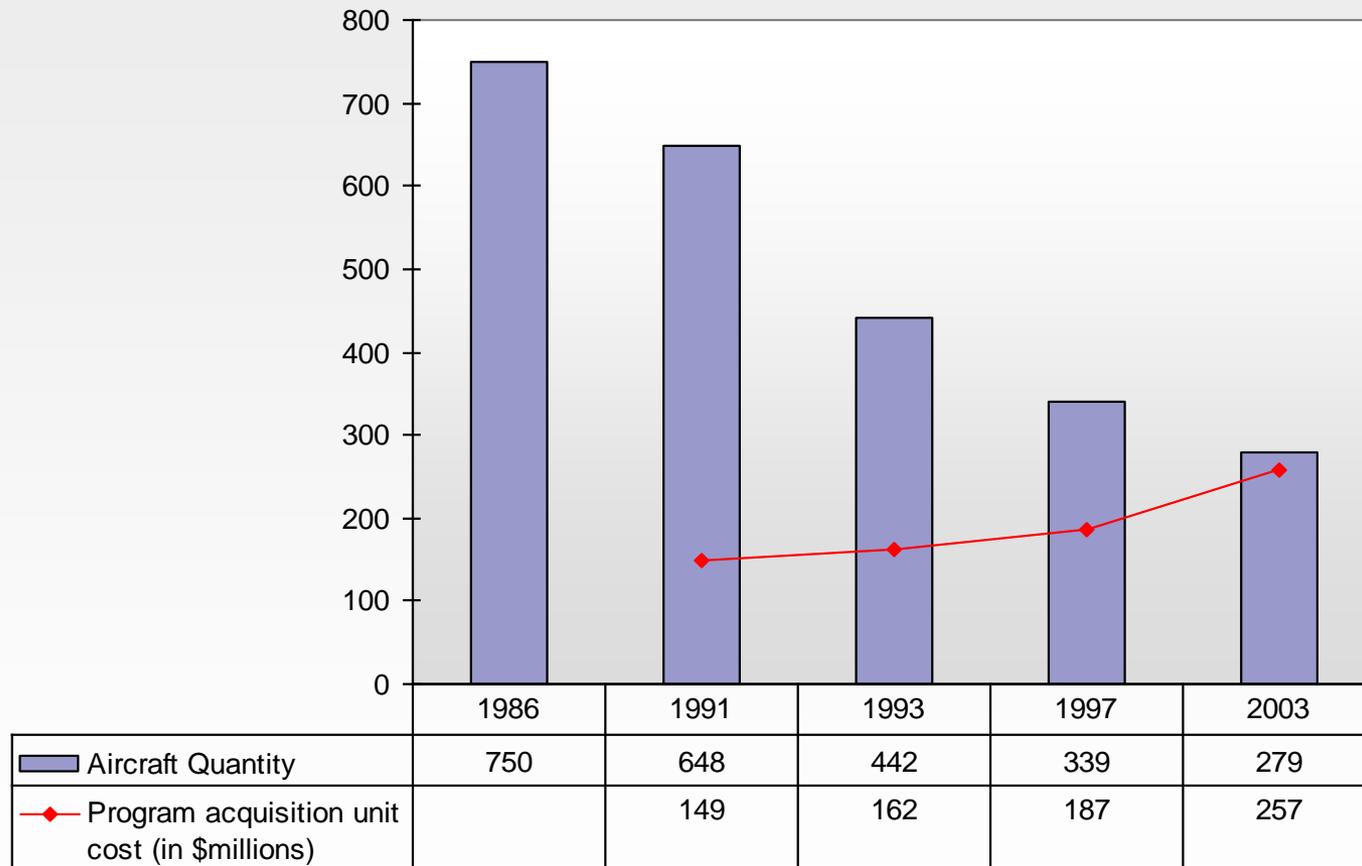
*Numbers for the DDG 100 Destroyer refer to RDT&E costs.

Examples of Key Program Management Failures

Program	Initial Investment (\$US billions)	Initial Quantity	Latest Investment (\$US billions)	Latest Quantity	% Unit Cost Change	% Quantity Change
Joint Strike Fighter	203	2,866	240	2,458	37.9	-14.2
Future Combat System	88.3	15	128.5	15	45.5	0
F-22A Raptor	3.6	273	5.9	173	160	-36.6
Evolved Expendable Launch Vehicle	16.5	181	32.3	138	156.9	-23.5
Space-Based Infrared System High	4.4	5	10.5	3	299.9	-40
Expeditionary Fighting Vehicle	8.7	1,025	13.5	593	168.4	-42.1

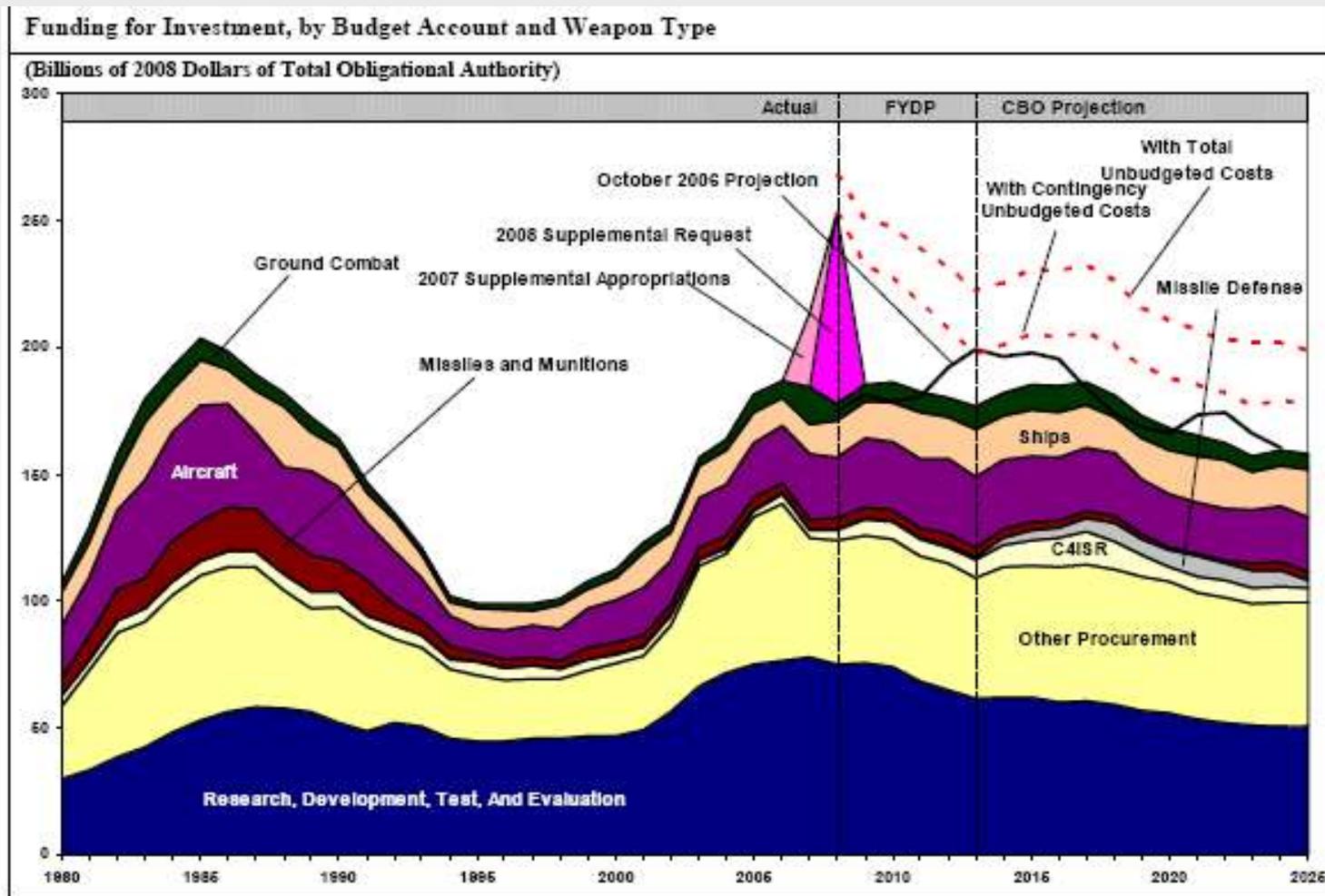
Source: Government Accountability Office, *Defense Acquisitions: Assessments of Selected Weapons Systems*, GAO-08-467SP, March 2008.

The F-22: A High Technology Force Shrinker



Source: Adapted from *Tactical Aircraft: Air Force Still Needs Business Case to Support F/A-22 Quantities and Increased Capabilities*. Government Accountability Office Report to Congressional Committees. 15 March 2005.

Real World Future Investment Costs Are Much Higher Than DoD Budgets and Plans for



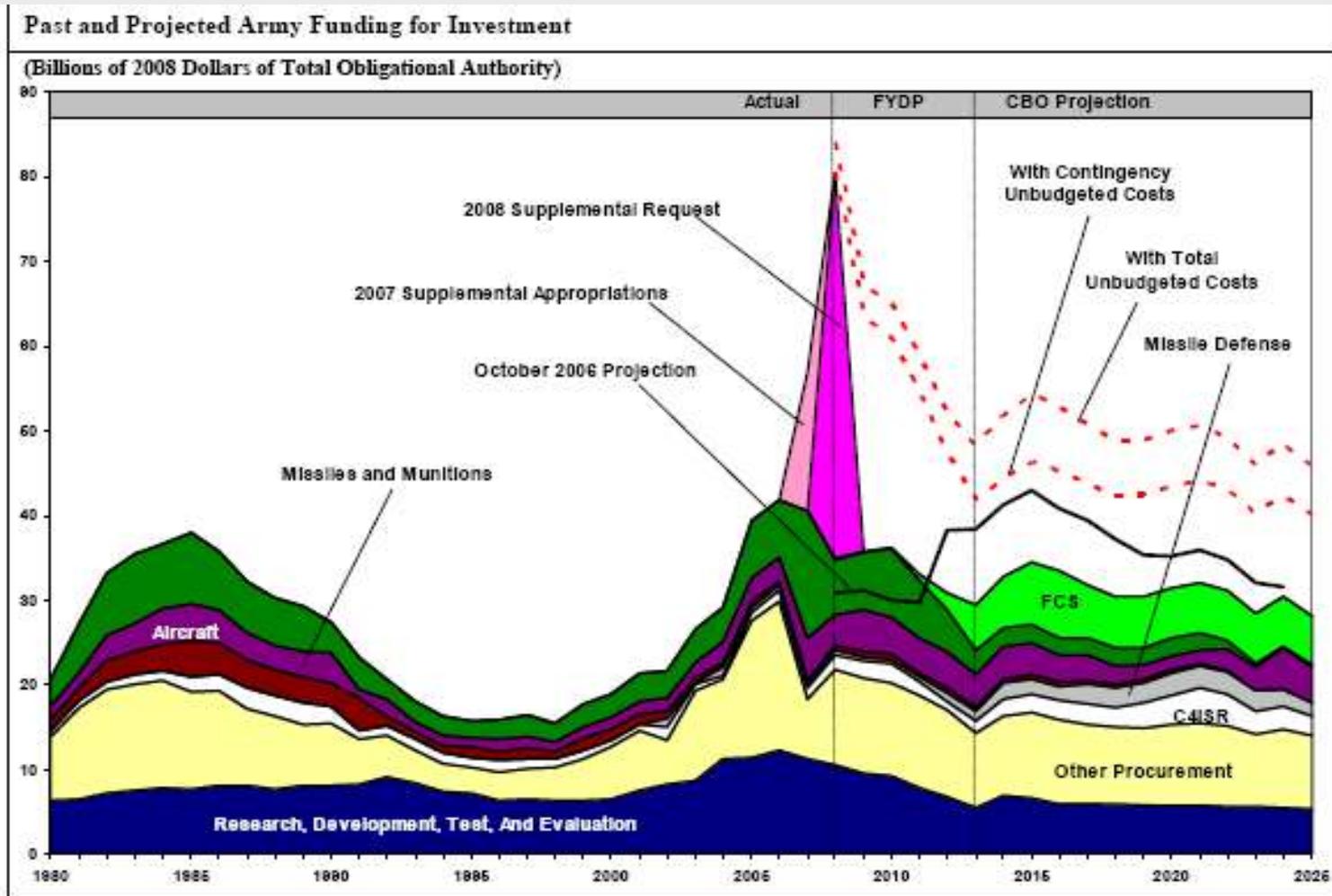
Source: CBO, *Long Term Implications of Defense Spending*, March 2008, p 10.

Investment Costs: How the CBO Made Its Estimate

- **The 2008 FYDP anticipated that investment funding would be \$177 billion by 2013 – about the same as the Administration’s request in 2008 excluding emergency supplemental funding. On the basis of that plan, CBP projects that if weapons costs do not grow as they have historically, investment funding will reach about \$185 billion by 2015, and then decline. Over the 2014-2025 period, that funding would average about \$172 billion a year.**
- **If the costs of weapons grow in the future as they have over the past 30 years, funding for planned purchases in 2013 (excluding unbudgeted costs for contingencies) could equal \$201 billion, or about 14 percent more than without unbudgeted costs. In that case, funding during the 2014-2023 period could average almost \$195 billion a year. Including both growth in the costs of weapon systems and potential unbudgeted costs for contingency operations, investment funding would average \$215 billion annually over the 2014-2025 period, CBO projects.**
- **The decrease in this year’s projection over the latter years of the FYDP period, relative to CBO’s October 2006 projection, stems from several changes DoD has made to its plans, including a delay in the start of production of the Army’s Future Combat Systems program, cancellation of the Air Force’s E-10 surveillance aircraft, delays in the KC-X tanker program, and reductions in the annual purchases of F-35 Joint Strike Fighters.**

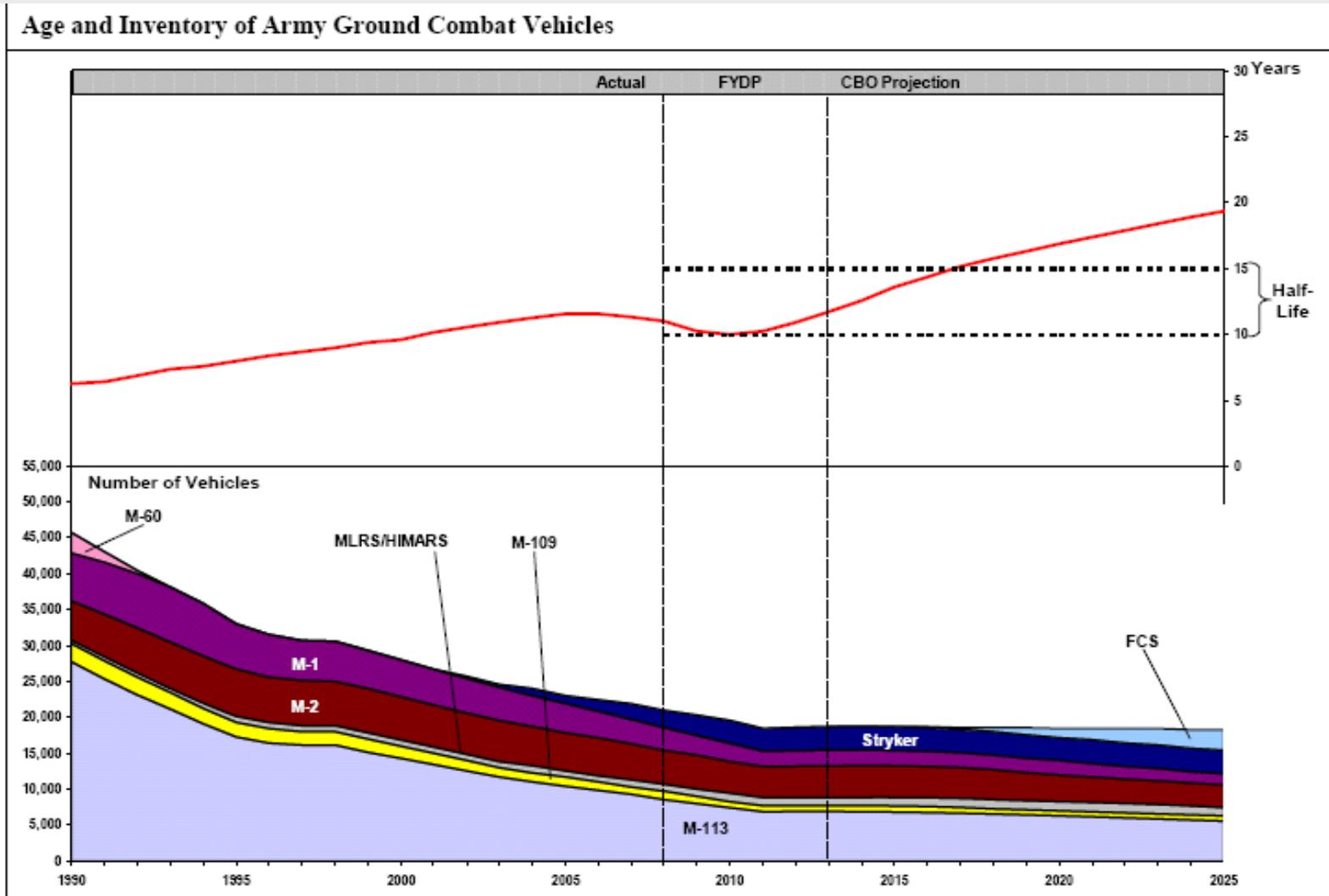
Source: CBO, *Long Term Implications of Defense Spending*, March 2008, p 10.

The Army Investment Crisis



Source: CBO, *Long Term Implications of Defense Spending*, March 2008, Figure 3-3.

Re-Shaping the Army Vehicle Fleet and FCS

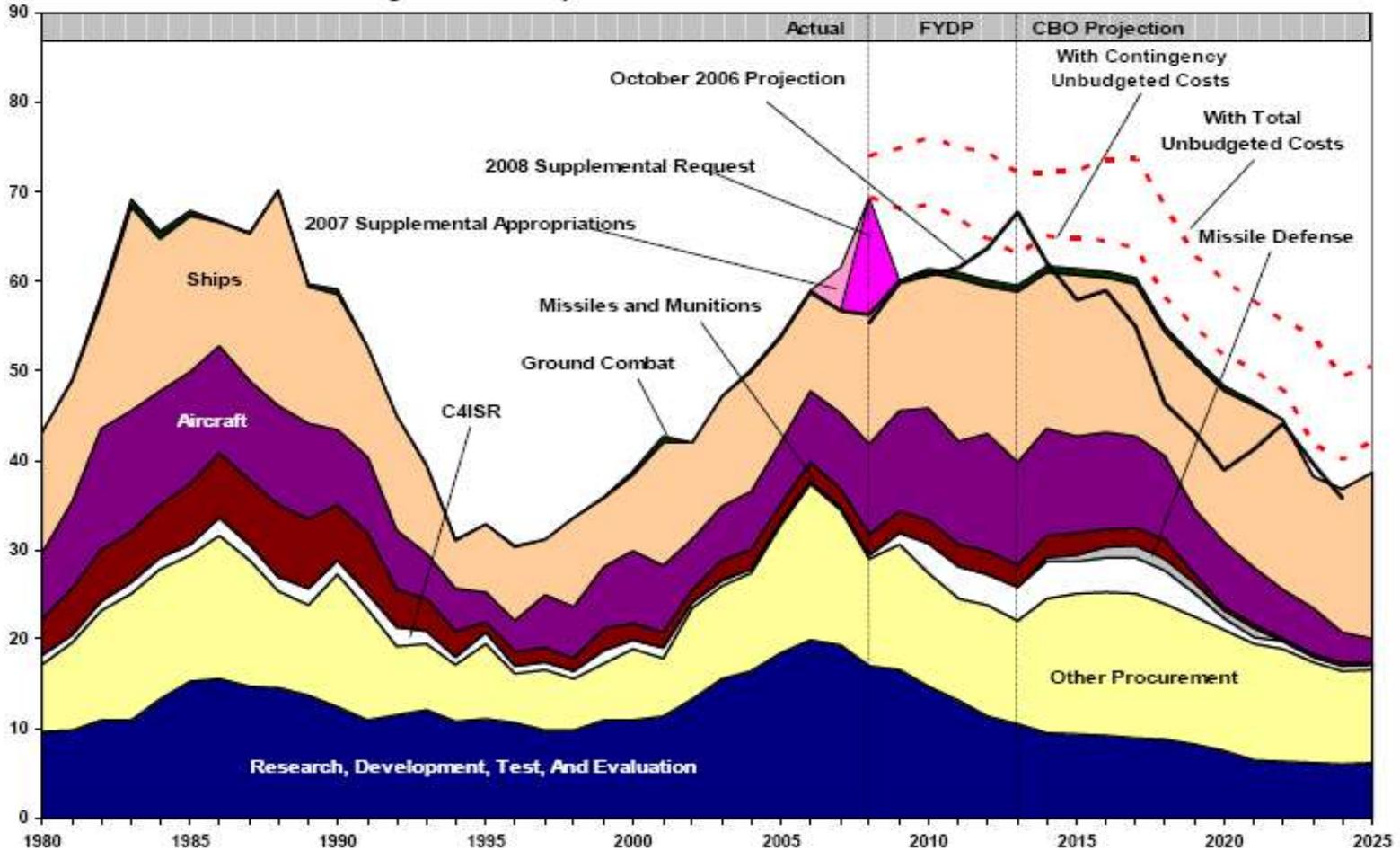


Source: CBO, *Long Term Implications of Defense Spending*, March 2008, Figure 3-5.

The Navy-Marine Corps Investment Crisis

Past and Projected Navy and Marine Corps Funding for Investment

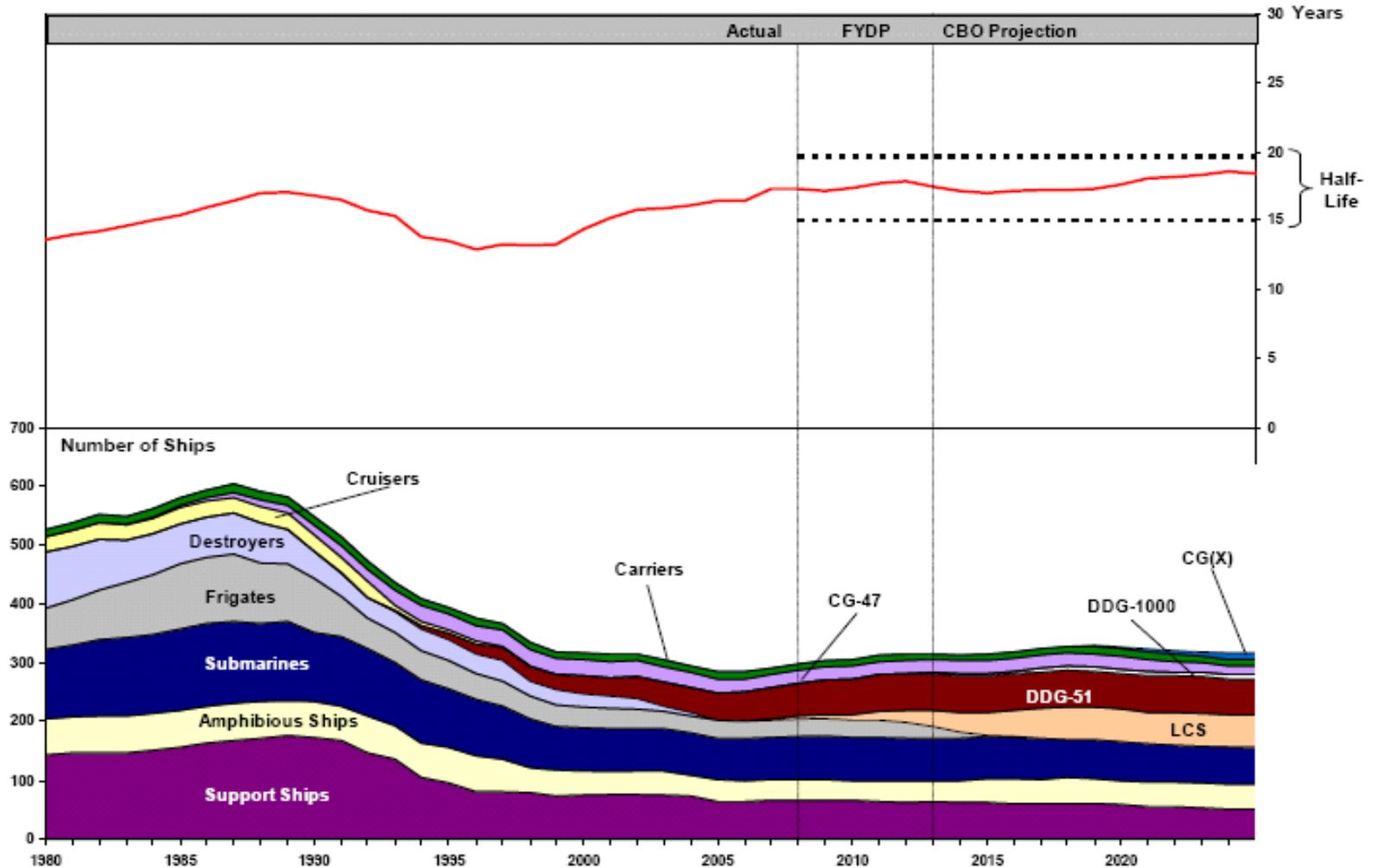
(Billions of 2008 Dollars of Total Obligational Authority)



Source: CBO, *Long Term Implications of Defense Spending*, March 2008, Figure 3-9.

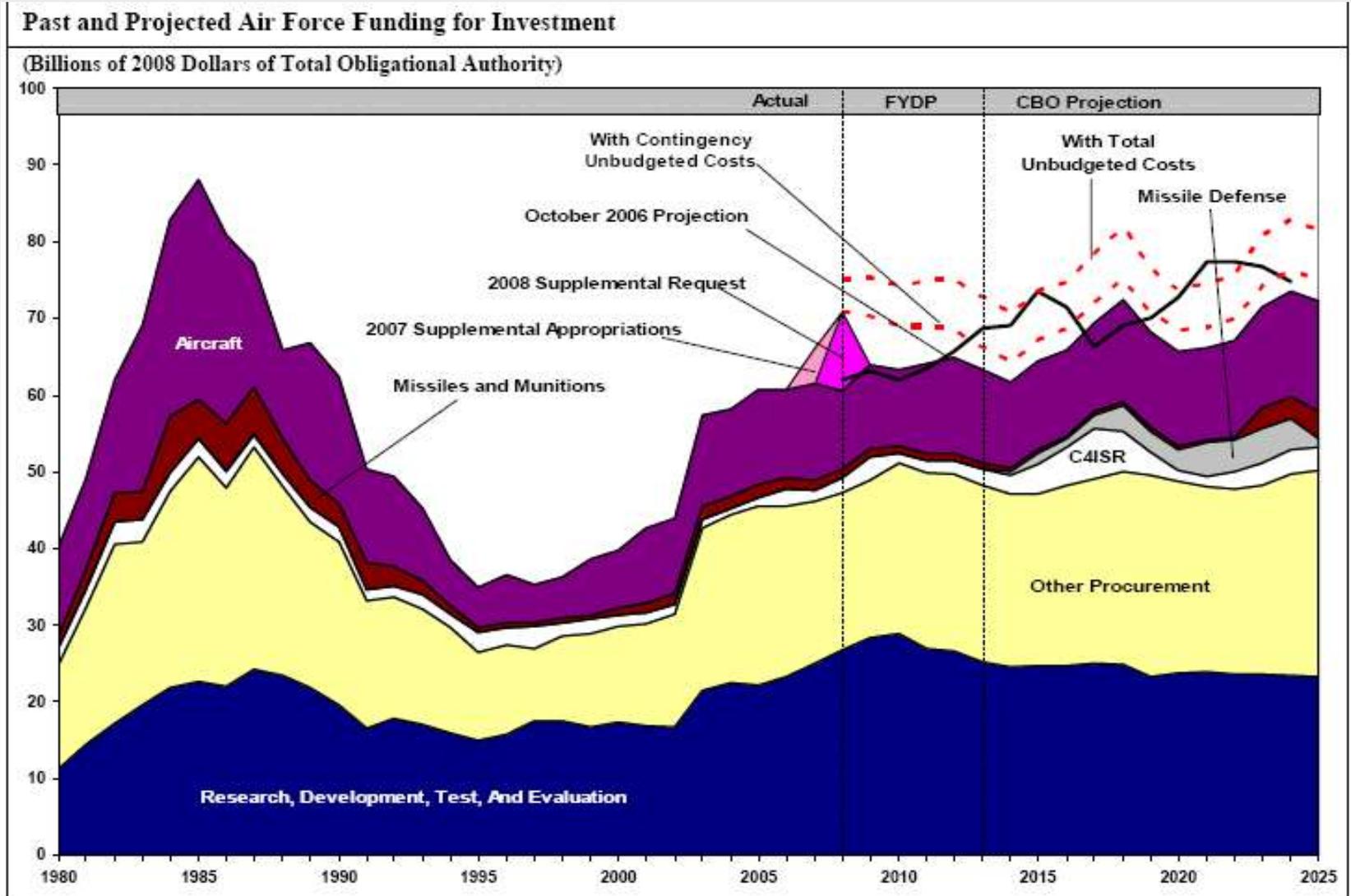
Creating an Affordable Fleet

Age and Inventory of Battle Force Ships



Source: CBO, *Long Term Implications of Defense Spending*, March 23 2008, Figure 3-11.

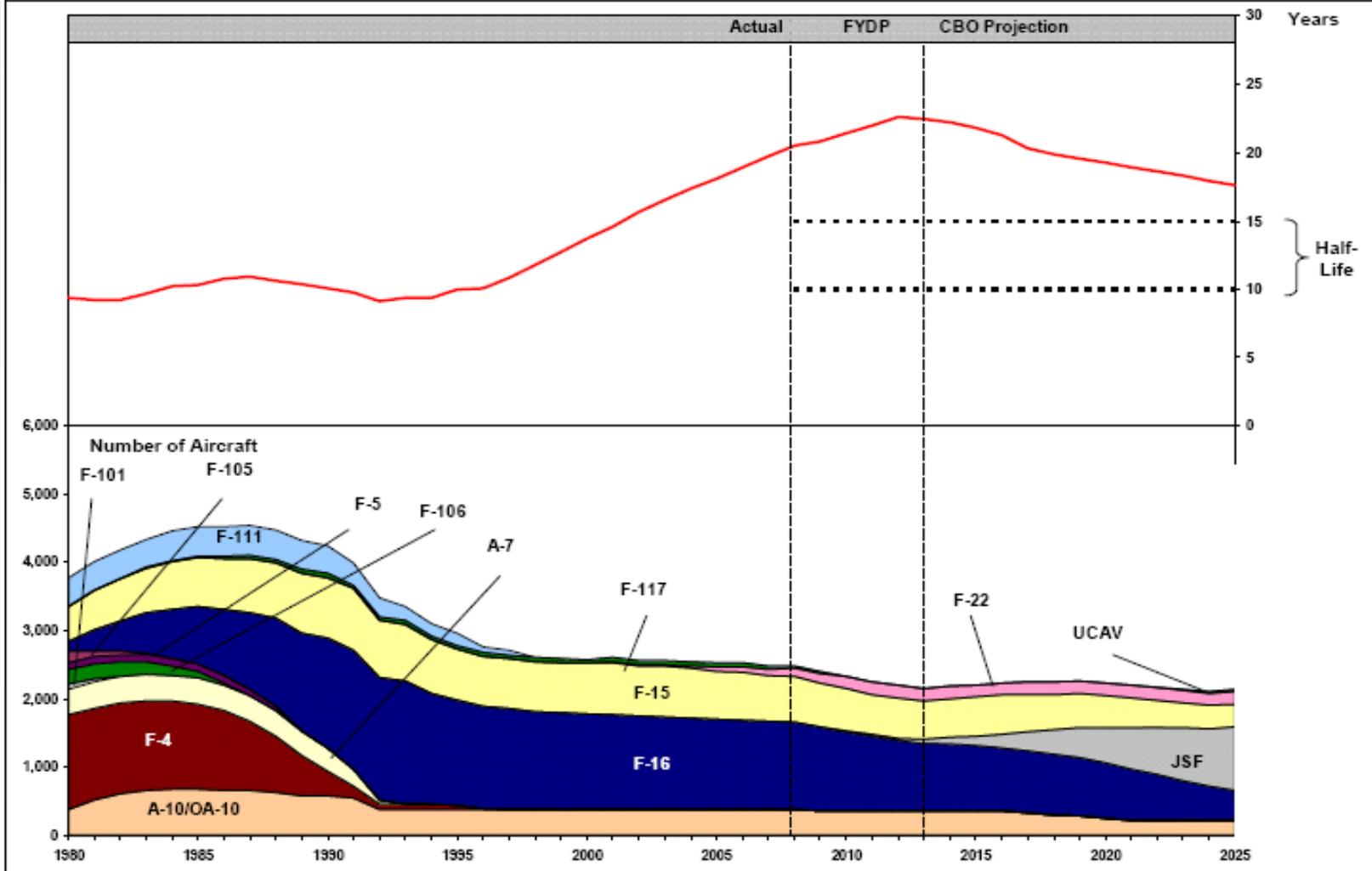
The Air Force Investment Crisis



Source: CBO, *Long Term Implications of Defense Spending*, March 23 2008, Figure 3-19.

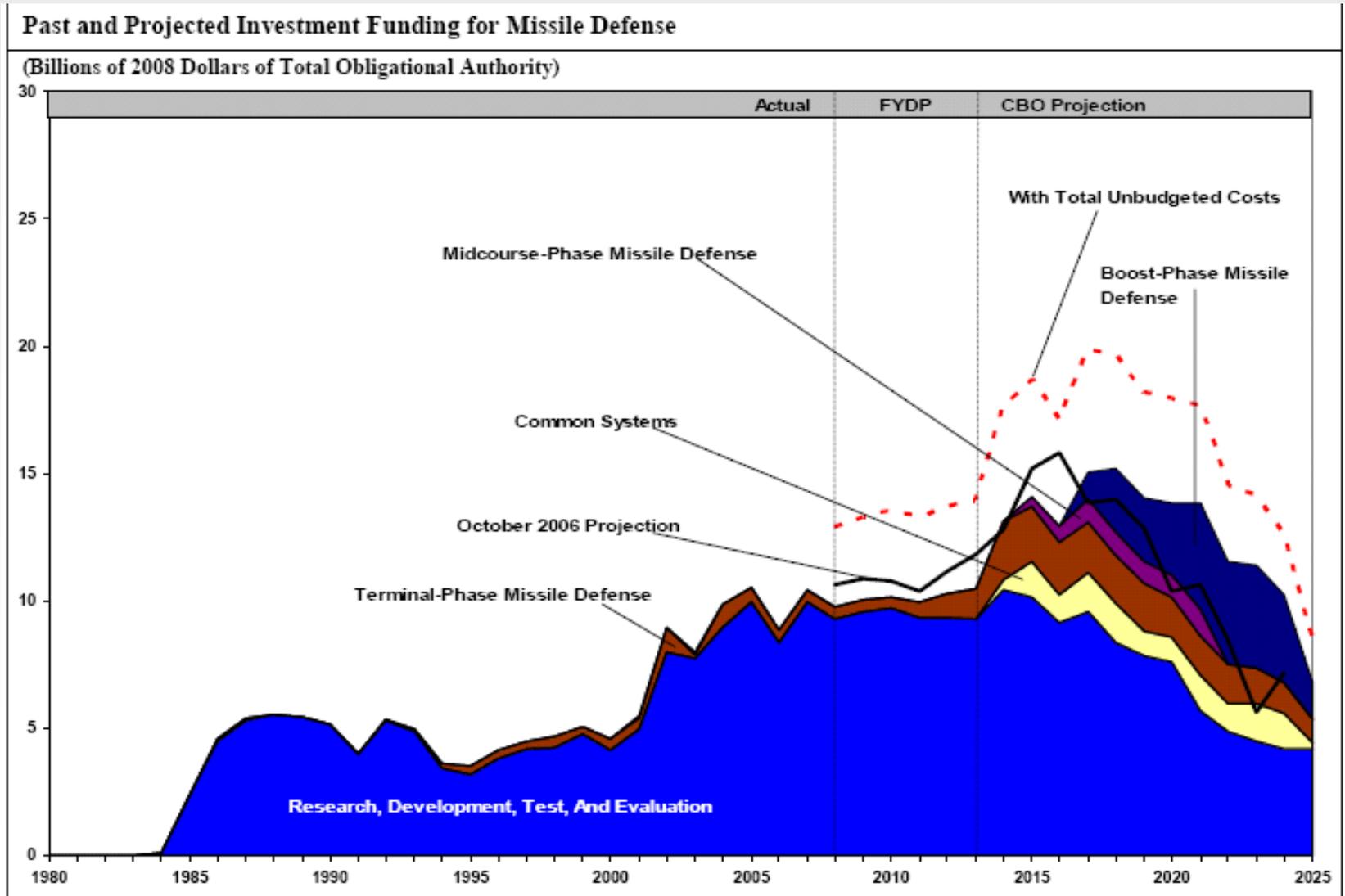
Reshaping the Air Force Fighter Fleet

Age and Inventory of Air Force Fighter and Attack Aircraft



Source: CBO, *Long Term Implications of Defense Spending*, March 23 2008, Figure 3-21.

Is Missile Defense Affordable?



Source: CBO, *Long Term Implications of Defense Spending*, March 23 2008, Figure 3-30.

The Need for Success and Cost Containment in Major Weapons Programs

- **Weapon systems comprise one of the largest discretionary items in the federal budget, and will face pressure from rising mandatory spending obligations.**
- **Weapon systems face competing demands from other DoD priorities, i.e. operations in Afghanistan and Iraq.**
- **Weapons programs now take far longer to develop and deploy and cost far more to buy, than is acceptable:**
 - **Future Combat Systems costs have escalated 54% to \$131 billion since the program started.**
 - **F-22A Raptor program unit costs have escalated 177% while the quantity to be procured has decreased by 71%.**
 - **The unit cost of the extended range guided munition program has escalated 94% while the quantity to be procured has decreased by 76%.**
 - **The cost of the SBIRS-High program has escalated 149% in eight years.**
 - **Services, contractors, and DoD are trapped in a mutually destructive “liar’s contest” to out promise competing programs, branches, and services.**