# THE 2014 QDR AND FY15 DEFENSE BUDGET: WHAT ARE WE WATCHING FOR

On March 4, the Defense Department released overviews of its proposed budget for Fiscal Year 2015 (FY15). This is a budget which on one hand complies with the revised Budget Control Act caps for FY15 ($496 billion in base budget spending) and on the other hand tries to illustrate the pain of living under those caps. That illustration takes the form of an additional $26 billion of proposed defense spending in FY15 and another $115 billion over the remaining four years of the FY 2015-2019 Future Years Defense Program, or FYDP. CSIS asked its defense experts to look at the announcements of the past week and summarize what they are seeing and what they will be looking for as more information is released to Congress and the public in the coming weeks. They have sought to point out issues and concerns that have not been covered elsewhere. Their responses are below.

## REDISTRIBUTING THE SERVICE SHARES

*David J. Berteau, Senior Vice President and Director, National Security Program on Industry and Resources*

The chart below compares the budget levels for the Army, Navy (including the Marine Corps), Air Force, and defense-wide accounts for the FY14 enacted appropriations and the FY15 budget request. It shows the Air Force increasing by 2.4 percent and the Navy by 0.3 percent while the Army declines by one percent and defense-wide accounts by 2.7 percent. We will watch the outyears of the FYDP for underlying causes of these changes (such as declining fuel purchases in the defense-wide accounts) and to see whether these changes indicate a longer-term trend to shift resource shares among the services.

**DoD Base Budget by Military Department**
(Current $ thousands)

| | FY14 Enacted | FY15 Request | Difference, FY14-FY15 |
|---|---|---|---|
| Army | 121,686,104 | 120,330,929 | -1,355,175 |
| Navy | 147,324,539 | 147,685,630 | 361,091 |
| Air Force | 134,708,938 | 137,781,235 | 3,072,297 |
| Defense-Wide | 92,303,861 | 89,806,389 | -2,497,472 |
| Total | 496,023,442 | 495,604,183 | -419,259 |

## INVESTMENT ACCOUNTS ARE SHRINKING, RDT&E IS LARGELY PROTECTED

*Greg Sanders, Fellow, National Security Program on Industry and Resources*

The FY15 DoD budget proposal attempts to protect funding for RDT&E (Research, Development, Test and Evaluation) in a time of slight decline from FY14 to FY15 in constant dollar base budget requests. Using Office of Management and Budget (OMB) deflators, in the aggregate, there is a one percent drop in RDT&E funding, smaller than the two percent drop in the budget as a whole. There is a drop of four percent in procurement spending, but that may be offset in part by spending from the Overseas Contingency Operations (OCO) budget. In 2014, OCO account spending constituted seven percent of total procurement spending, so once the FY15 OCO budget is known, final procurement percentages may be higher. Budget briefings on RDT&E focused on cyber, missile defense, nuclear deterrence, space, precision strike, ISR (intelligence, surveillance, and

reconnaissance), and counter terrorism and special operations. This list of priorities fits with an idea that U.S. conventional capacities are sufficient, that the Department need not emphasize new stabilization capabilities, and that emerging and asymmetrical threats are where the U.S. is most vulnerable. This protection of the RDT&E budget represents a reversal of what happened to R&D contract obligations in 2013. (Initial CSIS analysis shows a drop of about a fifth from 2012 to 2013 in unclassified R&D contract obligations.)

Military Department briefings provide a broad idea of where each component is going, though many details remain unreported. The Army is taking the heaviest hit to investment accounts; military personnel spending is becoming a larger proportion of the Army budget, while procurement drops by eight percent and RDT&E by nine. The Air Force has a four percent jump in procurement, the only service to experience growth in constant dollars, but a one percent drop in RDT&E, replacing legacy systems and lower priorities with new projects and protecting the KC-46, the F-35, and the LRS-B programs. The Navy goes the other way, taking a nearly 10 percent hit in procurement offset by a seven percent jump in RDT&E.

## Compensation Reform Tradeoffs Coming to a Head

*Ryan Crotty, Fellow, National Security Program on Industry and Resources*

One of the key defense debates over the president's budget submission to Congress will be over compensation reform. Congress has historically rolled back many of DoD's attempts at reform, but DoD has continued to request them each year. This year, the leadership of DoD and the services have all been out in front of the issue, highlighting the importance of getting savings from compensation changes in order to prevent deeper cuts to other parts of the budget. Nonetheless, the magnitude of these tradeoffs has been undersold so far.

Between unfunded reforms in FY14 and the new set of savings baked into the FY15 budget, the impact of failing to enact this compensation reform would be $34 billion across five years. This means that, unless Congress approves DoD's requests, $34 billion would have to be taken from somewhere else—personnel, training, equipment, R&D or other priorities.

For illustrative purposes, a cut of $34 billion would de-fund the entire F-35 program for three years (over 300 planes), cut all DoD basic and applied research for five years, or reduce Army military personnel funding for 80,000 soldiers over the FYDP. The pushback on compensation reform has already begun—$500 million of unbudgeted compensation cost already needs to be built back into FY15 alone because the 2014 omnibus appropriation changed the COLA agreement in the Ryan-Murray budget deal that set the baseline for the FYDP. Congress needs to keep in mind the consequences of just saying "No" to compensation reform—or enumerate the hard choices it would make to take compensation changes off the table.

## Army Issues

*Maren Leed, Senior Adviser, Harold Brown Chair in Defense Policy Studies*

There were not many surprises with respect to the Army. Plans for accelerated end strength cuts, with the active component falling to 490,000 by the end of FY15 instead of FY17, were previewed by Secretary Hagel, as were reductions in the Reserve and National Guard. While there will likely be significant discussion over the Army's total size in the longer term, the levels in the FY15 budget had been already accepted by most (though on a slower timeline).

There will likely be continued concern raised about the health of the ground combat vehicle industrial base, especially in light of the "transition" of the Ground Combat Vehicle into an R&D effort to inform a future infantry fighting vehicle, though the specifics may not be clear for a week or two.

The two largest issues in FY15, however, will likely be the size and role of the National Guard and Army readiness. The most contentious part of the active/reserve debate will be over the Army's Aviation Restructuring Initiative, particularly as Congress receives additional detail about the cost analysis. The other question will be whether Congress will view Army training shortfalls as sufficiently important to find additional funding for that purpose.

## AIR FORCE ISSUES

*David J. Berteau, Senior Vice President and Director, National Security Program on Industry and Resources*

The Air Force has continued a little-noticed trend of reducing its overall end strength, in both military and civilian personnel. Overall, though, the budget briefings indicate a serious attempt to integrate reductions across the service. In addition, the Air Force appears to have undertaken to identify specific tasks and functions that can be reduced or eliminated, particularly with regard to headquarters staffs at all levels. This could be a model for the rest of DoD, particularly the Office of the Secretary of Defense.

One additional area that we will be watching is the connections between Air Force budget decisions and the recommendations of the congressionally-mandated Commission on the Structure of the Air Force. Our initial look indicates some commonality between the Air Force budget proposals and the commission's recommendations, but we need to do more analysis to determine the depth of that commonality.

## NAVY ISSUES

*David J. Berteau, Senior Vice President and Director, National Security Program in Industry and Resources*

As Greg Sanders notes above, the Department of the Navy has cut procurement funding and increased RDT&E spending. The real questions for Navy trends, though, cannot be answered just by examining FY15 spending proposals. These questions include future aircraft carrier levels, the mix of surface warfare ships including cruisers and littoral combat ships, and the longer-term crowding-out effect that the Ohio Replacement Program will have on overall Navy Ship Construction spending.

There are two intriguing issues that are somewhat buried within the Navy's budget briefings and material released to date. One is that the real savings from cancelling the overhaul of the USS George Washington nuclear aircraft carrier might not be as much in the funding that would pay for the overhaul; it might instead be in the force structure savings in military personnel costs. CSIS has calculated the manpower savings of removing one carrier from the Navy to be approximately $1.3 billion per year. This level of cost-savings tradeoff bears watching as Congress reviews the budget this year.

The second area worth watching is the Navy's efforts to rein in costs in service contracts. While details are spare, DoD statements indicated annual projected savings of $3 billion. Given the past history of such savings being at times elusive, coupled with the potential magnitude of projected savings in this case, the other Military Departments and the Congress will be watching implementation closely.

## QDR 2014: FORCING THE HAND OF CONGRESS

*Sam Brannen, Senior Fellow, International Security Program*

Each of the three Secretaries of Defense to serve in the Obama Administration has issued a wartime defense strategy. For Secretary of Defense Chuck Hagel, the war that most animates the 2014 Quadrennial Defense Review (QDR) is the one inside Washington.

There have been no greater threats to U.S. national security in recent years than the fiscal crisis created by the Budget Control Act and the steady erosion within Congress of a defense and national security consensus. Those disorders on the home front forced a QDR—and the entire defense senior leadership team—to focus on salvaging the nation's defenses rather than thinking strategically about their evolution.

In the 2014 QDR, Secretary Hagel has spotlighted increasing risk due to budget cuts and future uncertainty. This QDR has also rightly batted the ball back into Congress's court to make hard decisions that would address the areas where cost growth inflators are eating the Pentagon from within, including military compensation, acquisition, and base consolidation.

The QDR and the Chairman's Assessment of the QDR make clear the assumption that we are headed not for an inter-war period of rest, but for another decade of high demand for the U.S. military, with a potentially even

more dangerous period from 2025 on. If the Pentagon's top civilian and military leaders are forced to continue to grapple with budget uncertainty year after year, they simply will not have the ability to shape the joint force to meet these future challenges.

### Implementing the Asia Pacific Rebalance

*Zack Cooper, Fellow, International Security Program & Japan Chair*

Facing questions about U.S. credibility in Ukraine and Syria, U.S. allies in Asia are looking to the 2014 QDR and the FY15 defense budget for signs of U.S. commitment to and staying power in Asia. Many allies and partners supported the U.S. rebalance to the Asia-Pacific, but they harbor concerns about the Administration's implementation of the rebalance strategy. Although the QDR applies the term rebalance to a broader set of activities unrelated to Asia, the QDR does address regional concerns by highlighting initiatives that are integral to strengthening U.S. relationships, posture, and capabilities in the Asia-Pacific. For example, by continuing critical air and maritime modernization programs, the Pentagon has avoided cuts to vital Asia-Pacific capabilities and demonstrated DoD's intent to fulfill its regional commitments. Nevertheless, many allies and partners will note with interest and concern the QDR assessment by the Chairman of the Joint Chiefs of Staff that the U.S. military has accepted more risk in the difficulty of conventional fights and increased reliance on allies and partners. With the United States facing continued budget constraints and China announcing another year of double-digit growth in military spending, U.S. policymakers will need to continue to take concrete steps to assure allies and partners that the U.S. can maintain a favorable military balance in the Asia-Pacific region. That's what we will be looking for in forthcoming details of the budget and FY15-19 FYDP.

### What Happens Next?

*David J. Berteau, Senior Vice President and Director, National Security Program on Industry and Resources*

DoD, and the entire U.S. federal government, have proposed two budgets. One is consistent with the Budget Control Act caps as revised by last December's Bipartisan Budget Act (the so-called Ryan-Murray deal). The second sits more than $50 billion above those caps. In the comings months, Congress will undertake the following steps.

- Passing Budget Resolutions in the House and Senate (or finding a substitute)
- Marking up and passing authorizing bills from the House and Senate Armed Services Committees
- Marking up and passing appropriations bills for defense spending

Absent budget resolutions that violate the Budget Control Act caps or congressional votes to change Ryan-Murray, the appropriators will need to mark up to levels that are below what the Administration seeks and (for defense at least) what many in Congress would like to approve. Will we see a repeat of last July's drama, where House Republicans had to pull from floor consideration an appropriations bill because complying with the budget caps was simply too painful to pass? Or, perhaps more likely, will we see deferrals and delays in any hard choices by passing a Continuing Resolution until after the November congressional mid-term elections? The answers to those questions will unfold this spring and summer.