Defense budgets run in cycles, with periods of increase followed by periods of decline. For years, defense analysts have been predicting that the defense budget is coming down, but it has been on an historic run for the past decade. The FY 2009 Department of Defense (DoD) Authorization Act was 65 percent higher than in FY 2001 in real dollars. This exceeds even the “Reagan Buildup” from FY 1980-1985. Figure 1 shows the annual trends in the DoD budget since 1962. The issue is not whether defense budgets will come down, but when. Neither Congress nor the Defense Department is ready to deal with declining defense budgets. Let’s look at the reasons why this is so and what the solutions might be.

**Shortfalls**

Despite the defense budget increases since 2001, there are some huge shortfalls in defense today. Shortfalls are the gaps between what the Services say they need and what the budget will support. The DoD process for identifying shortfalls is the PPBS and the Future Years Defense Program, a FYDP that is shaped by the National Security Strategy, the National Defense Strategy, and additional guidance from the Secretary of Defense. Because of the dynamics of the wars and of budget supplemental, it has been years since DoD calculated how big the shortfalls are, and it ceased to make conscious trade-off decision about these shortfalls. Since 2001, DoD has “fixed” shortfalls by using supplemental appropriation funding.

As a result, there has been no truly fiscally-disciplined FYDP for a decade, and this administration has yet to provide a FYDP to Congress. Among other consequences, this lets the Pentagon avoid recognizing its real shortfalls.

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Some shortfalls are simply the result of taking today’s defense program and projecting it into the future, then comparing those projections to the planned budget levels as reflected by the FYDP sent to Congress. The Congressional Budget Office (CBO) documents these shortfalls\(^2\), including

- military pay and benefits and pay for civilian employees,
- military health care,
- Operation and Maintenance (O&M), and
- major weapon systems and equipment.

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

It is difficult to quantify equipment shortfalls to which the Services themselves will not yet admit, but CSIS estimates that today’s shortfalls in the Army alone may exceed the size of the entire Army budget pre-9/11. Equally important is the need to make tradeoffs to find the right level of risk consistent with the strategy. Without quantified shortfalls, risk cannot be used to measure acceptable levels of requirements. DoD needs a real FYDP to make that assessment.

The absence of a disciplined FYDP also hurts the ability of the Congress to evaluate the shortfalls in DoD and to adjust the priorities in the defense budget. Congress needs a clear straightforward projection of the Defense Program in order to judge the balance of requirements to programs and resources.

Potential Solutions
There have been at least three ways DoD has tried to address these shortfalls, but they have all fallen short.

One has been to use emergency supplemental appropriations to fund equipment. By FY 2007, nearly two-thirds of Army procurement funding was from supplemental.

Two was the changes to the PPBS undertaken by Secretary Rumsfeld, which resulted in program issues getting less attention and becoming less relevant. At CSIS, we conducted a critique of the Rumsfeld PPBS changes.\(^3\) We recommended a return to the previous program and budget processes.

Three was the adjustments announced last April by Secretary of Defense Robert Gates in his FY 2010 budget. As Secretary Gates later noted, these reductions and cancellations did little to fix long term budget shortfalls.

Real Solutions
How do we deal with the shortfalls? The FYDP and the PPBS are the tools DoD has used for decades to identify shortfalls and prioritize scarce resources, and they have been neglected. The solution, then, is to fix the tools. The challenge is not spending more money. We either have to provide the resources needed to meet force structure and requirements, adjust the overall size of the force, constrain the requirements for their use, or live with more risk than we want. Regardless of which paths we choose, we need to revitalize the tools of a fiscally disciplined Defense Program, program review, and FYDP. There is no other real solution. This is hard work, and there is no shortcut to this process. Failing to engage in a disciplined process will make today’s shortfalls worse. Congress and the Executive Branch need to work together to meet these challenges.

—David Berteau
