

America's FY2020 Defense Strategy and Programming Crisis

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For several decades, American strategic planning has been little more than a facade for annual line item budget debates. Arguably, U.S. strategic planning peaked when Harold Brown was Secretary of Defense in 1981. From that point onwards, efforts to create and manage U.S. national security using some effective linkage between strategy and real-world planning, programming, and budgeting activity steadily declined.

Meaningful posture statements by the Secretary that tied strategy to plans and budgets faded away, along with real-world force goals, future year defense plans and budgets, and efforts to link strategy and spending to key joint mission areas like the categories in the program budget system or to the major regional and functional military commands.

American Farce Planning

By the time the U.S. invaded Iraq in 2003, the defense budget had effectively reverted to a focus on annual spending by military service and agency. There was no clear linkage between the DoD budget and the nuclear weapons activities of the Department of Energy. "Homeland" defense became a major new national security activity after 9/11, but also became an uncoordinated mix of individual Departmental and Agency activities that the OMB and CBO can barely measure, has no effectiveness measures, and – as the latest CBO studies indicates – costs around \$70 billion a year. The annual State Department and USAID budget justification remained an inchoate mess showing the cost of major program activities in ways that could not be linked to any clear strategy for a given region, nation, and the activities of the Department of Defense, or in a given war.

U.S. strategy documents bordered on farce. They set broad policy goals without any supporting plans, force goals, clear mission-oriented programs, future years pending plans, and measures of effectiveness. Meaningless national strategy documents and Quadrennial Defense Reviews (QDRs) came and went – each with new goals and slogans, and all with no clear substance. Actual spending was dominated by annual military service budgets, coping with program problems and cost escalations, and funding optional wars like those in Afghanistan and Iraq on a constantly changing annual basis that led to major program turbulence and shifts in spending.

The passing of the Budget Control Act (BCA) in 2011 effectively killed any last remnants of a coherent effort to create consistent defense and other national security planning, programming, and budgeting (PPB) activities. Every post-BCA year became a battle to find ways around the budget ceilings set by the BCA, compounded by efforts to manipulate the added funding provided by the Overseas Contingency Operations (OCO) accounts that were supposed to pay for the added spending for Afghanistan, Iraq, and the wars on terrorism to work around the BCA budget caps.

Every year became another exercise in getting some form of authorization and appropriation for the coming year, with the knowledge that the coming four years of spending in the Future Year Defense plan would have to change to the point where the budget figures issued for each outyear had little real meaning.

At the same time, the QDRs issued by the Bush and Obama Administrations continued to set broad goals for futures that could never exist. They had no real definitions of mission requirements, no meaning force or modernization plans, no spending goals, no supporting net assessments, and no

effort to assess the constant warnings from OMB and the CBO that long-term federal spending was being dominated by the growth of civil entitlement plans that were creating a steadily growing federal deficit and debt, and conflict between future civil and national security spending.

The New National Security Strategy, National Defense Strategy, and the Need to Translate Them into Real World Plans and Budgets

This situation will not change unless the Trump Administration uses the FY2020 Department of Defense, State Department, Department of Energy, and other defense and homeland security budgets to provide something approach credible plans, programs, and budgets that are tied to key missions and goals – not simply fund the costs of line item inputs to DoD and Agency spending.

The Administration must now deal with the fact the new National Security Strategy (NSS) that the Administration issued in late 2017 set no clear goals, contained no real plans, and had no estimates of the resources required to implement them. They were as empty as any of the efforts of President Trump's recent predecessors, and without real plans, programs, and budgets, they had had about the same substantive value as the make-up on a corpse.

The new National Defense Strategy (NDS) issued by Secretary Mattis in early 2018 was no better than the NSS. President Trump set specific goals for building up the total size of U.S. forces as he ran for office, but the NDS did not address them, or set any goals, plans, programs, or budgets for its new emphasis on Russia and China as primary threats, Iran and North Korea as secondary threats, and the need to deal with a vaguer defined post-ISIS threat from terrorism and extremism.

The Department of Defense's FY2019 budget submission was little more than a set of annual service and defense agency line item budget requests with a thin gloss of strategic generalities. CBO and GAO studies indicated that DoD was still sharply under-costing its budget request, and a recent CBO analysis of the Overseas Contingency Operations (OCO) budget is little more than a warning that the OCO budget is largely a facade in providing a coherent costing of America's ongoing wars.

The State Department budget justification was as much of an incoherent mess as in past years – demonstrating that the State Department QDRs could be even more meaningless and ineffective than the Department of Defense QDRs, and OMB dropped its annual effort to at least cost the total budget for home land defense.

The good news was that the Congress did approve a rise in U.S. spending national security for at least FY2019. A CBO annual summary of the overall federal budget for FY2018 – issued a day after the November 6th election – noted that,

Spending for military activities of the **Department of Defense** (DoD) rose by \$38 billion (7 percent) in 2018, increasing for the second consecutive year (in 2017 such spending rose by 1 percent). The increase in 2018 was fueled by an 11 percent rise in funding that DoD received after lawmakers raised the statutory caps on appropriations set by the Budget Control Act of 2011, as amended. All major categories of defense spending increased: operation and maintenance by \$11 billion (or 5 percent), research and development by \$9 billion (or 13 percent), procurement by \$9 billion (or 8 percent), and military personnel by \$7 billion (or 5 percent). As was true in 2017, growth in spending by the Air Force was the fastest (9 percent); growth for both the Army and the Navy was about 6 percent. Military spending by DoD was 3.0 percent of GDP in 2018, about the same level as in both 2016 and 2017, but lower than in any other year since 2001.

The FY2018 budget request did not, however, indicate what new forces, readiness, and modernization any of these increases would actually buy, or how they would help support the new

NSS and NDS. DoD never provided any data to show this beyond increases in spending by service and agency.

As for any credible long-term spending, shortly before the election, press reports indicated that President Trump had cut the ceiling for total defense spending in FY2020 by roughly 5% and from \$737 billion to \$700 billion. Much of the press math in the reports was highly uncertain, and it seems more likely that the President cut total national security spending from around \$716 billion to \$700 billion.

These press reports came out of remarks by the President at the end of a long press conference that focused on the overall budget and took place on October 17th. The White House transcript quotes his statements on defense as follows:

Last budget we had to go — because of the military — we had to fix our military. Our military is in the process of being fixed. Planes are being made. Boats are being made. Ships are being made. Missiles, rockets, everything. Our nuclear is being brought to a level that nobody else could even imagine. Pray to God we don't have to use it. But there will be nothing like what we have, and there is nothing like what we have...And that's why I did that. I made deals with the devil in order to get that done, because we had to improve our military. Our military was depleted. It was in bad shape. Our great people in the military hadn't received a wage increase in more than 10 years. Now they're getting an increase. First time in more than 10 years.

...But I'd like you all to come back with a 5-percent cut. And I think if you can do more than that, we will be very happy. There are some people sitting at the table — I'm not going to point you out — but there are some people that can really do substantially more than that. Because now that we have our military taken care of, we have our law enforcement taken care of, we can do things that we really weren't in a position to do when I first came.

So we'll see you at the next meeting. I'll see you many times before. I'm sure I'll speak to all of you during this term. But that's a very, very important request that I'm making of everybody sitting around this table. It's tremendous amounts of money, and it's something that we can do...And I believe we could actually do it, easily. So rather than go by the penny plan, we'll call it the nickel plan. At least it will be a one-year nickel plan. We may do another nickel plan next year too.

Q Mr. President, does that include the Defense Department, sir? The 5-percent cut.

THE PRESIDENT: We know what the budget — the new budget is for the Defense Department. It will probably be \$700 billion. So it's 716; it was 700 — 716. And that's a very substantial number but it's defense. It's very important. I mean, to us, without defense, maybe the rest of it doesn't mean very much. But if you know, it was a \$520 [billion] a very short while ago. And the reason I brought it up to 700 and then 716 was to build new ships. We're building new, incredible submarines, the finest in the world. The most powerful in the world, anywhere, ever. We're doing things that we have never done on this scale. So that included a lot of rebuilding of our military. So despite that, I'm going to keep that at \$700 billion — defense. Okay?

In fairness to the President, there are so many ways to total-up national security spending that no one can properly state the budget mark without supporting charts and details. At the same time, no one can create a meaningful new strategy and defense program without stability in both the plan and budget from year-to-year, and over the three-to-five-year period it takes to implement major changes in peacetime.

As any review of America's defense programs and spending will show, this also has not happened to any Administration since the collapse of the former Soviet Union. The last time any Administration actually made a coherent effort to actually implement such a U.S. defense program came at the start of the first Reagan Administration and it never came close to being fully implemented.

Coping with Tax Cuts, and Deficit/Debt Crisis

In practice, President Trump, his Secretaries of Defense and State, and the Joint Chiefs virtually now must define how they are going to actually implement the NSS and NDS in their FY2020 budget request. They have to get the support of a divided Congress. They must get meaningful support from America's strategic partners – rather than meaningful percentages of GDP in defense spending.

And, they must deal realistically with the challenges of a growing U.S. deficit and national debt at a time that polls indicate that many – if not most – Americans want more actual spending on entitlement programs. The same CBO annual summary of the budget quoted earlier noted that,

In fiscal year 2018, which ended on September 30, the federal budget deficit totaled \$779 billion— \$113 billion more than the shortfall recorded in 2017. The deficit increased to 3.8 percent of the nation's gross domestic product (GDP) in 2018, up from 3.5 percent in 2017 and 3.2 percent in 2016. Outlays in 2018 were reduced by a shift in the timing of certain payments; those payments were instead made in fiscal year 2017 because October 1, 2017 (the first day of fiscal year 2018), fell on a weekend. If not for that shift, the deficit in 2018 would have been \$823 billion, or 4.1 percent of GDP...Outlays for net interest on the public debt increased by \$62 billion (or 20 percent), partly because the rate of inflation was higher.

It also noted the pressure for higher entitlements spending, in spite of the President's efforts to roll back such spending:

Spending for the three largest entitlement programs—Social Security, Medicare, and Medicaid—rose by \$43 billion (or 5 percent), \$16 billion (or 3 percent), and \$14 billion (or 4 percent), respectively. Social Security outlays grew because of increases both in the number of beneficiaries (1.6 percent) and in the average benefit payment (2.9 percent). Spending for the retirement portion of Social Security grew by 5.3 percent; in contrast, the disability component grew by less than 1 percent. Medicaid outlays have risen by 47 percent over the past five years, largely because new enrollees were added through expansions of coverage authorized by the Affordable Care Act. The annual rate of growth in Medicaid spending, however, has fallen sharply since 2015, when it was 16 percent. Combined outlays for the three programs equaled 48 percent of federal spending and 9.8 percent of GDP in 2018, slightly below the peak of 10.1 percent of GDP in 2016.

These short-term pressures, however, are relatively minor compared to the growing long-term pressures on the budget caused by the steady growth of entitlements over time, and the gaps between projected federal revenues and spending – a gap that the CBO projects will be sharply increased by the 2018 tax cut.

The CBO has not yet fully marked the trends that will be generated by the FY2018 budget and the recent tax cut, but John McClelland, the CBO's Assistant Director for Tax Analysis, presented *An Overview of The 2018 Budget and Economic Outlook*, at the International Tax Policy Forum on October 4, 2018.

This estimate noted that, "The tax act is projected to increase the level of potential GDP by 0.7 percent, on average, over the 2018–2028 period. It does so mainly by promoting greater investment and potential labor supply." It also noted, however, that even if the positive impact of added economic growth was taken into account, the loss of revenues over the period from 2018 through 2028 would increase the deficit by \$1,272 billion excluding debt service costs, by another \$582 billion for these debt service costs, and reach a grand total of \$1.85 trillion dollars.

This rate of increase also led the CBO to project a long-term trend where, "deficits would rise from 3.9 percent of GDP in 2018 to 9.5 percent in 2048 as spending outpaces revenues... As a result, federal debt is projected to total 152 percent of GDP in 2048, nearly double what it is today. The prospect of a large and growing federal debt poses substantial risks for the nation and presents policymakers with significant challenges."

All of this projected increase in the burden added federal spending placed on the economy of came from the civil sector. The CBO overview showed that defense and national security would drop steadily as percentages of federal spending and the GDP while entitlements – especially medical ones – and the federal debt would grow massively overtime.

An earlier CBO estimate, issued in May and entitled *Analysis of the President's 2019 Budget*, made these trends all too clear. It projected that the deficit rose from 2.8% of the GDP in 1968, to 3.8% in 1993, 4.0% in 2018, and 5% in 2028. It did so even though defense spending was projected to drop from 9.1% of the GDP in 1968 to 4.3% in 1993, 3.1% in 2018, and 2.6% in 2028 – with similar decreases in other discretionary outlays.

The reasons for the sharp rise in the deficit were entitlements and mandatory outlays. Driven by health and social security, they rose from 5.5% of the GDP in 1968 to 9.8% in 1993, 12.7% in 2018, and 15.2% in 2028. This was also the reason that the net interest on the federal debt, which had dropped from 2.9% in 1993 to 1.6% in 2018, now rose back to 3.1% in 2028.

Like all future spending forecasts, such estimates become progressively more uncertain overtime and reality inevitably intervenes. It is also important to note that the CBO estimates make no allowance for major further defense build-up spending, or for wartime/contingency spending after 2018. Both CBO and GAO also raise serious questions about DoD claims to have made the cost estimates used in shaping the defense budget request more realistic. Defense now seems just as likely to undercost its future defense plans and budgets as in the past.

Nevertheless, the President had good reason to limit future defense spending beginning in FY2020. These contradictory trends in federal spending are already at the crisis level. They are almost certain to lead to bitter ongoing Congressional debates over civil versus military spending, and to one spending crisis after another until either spending is sharply cut or tax revenues are raised.

They also make it critical for the Department of Defense to develop more realistic plans, program and budgets. An annual defense liar's contest – and constant real-world cost escalation – is not the way to fund a stable and effective implementation of any strategy.

The FY2020 Budget Submission and the "Mattis Effect"

The end result of all these problems is to put immense pressure on the Department of Defense to use the FY2020 budget request – which is due in February 2019 – to define all of the elements of a credible strategy in realistic terms. It is time to recognize that U.S. national security planning has become a dysfunctional mess, and one where vague strategic goals are confused with an actual plan, and service-oriented annual budgets are confused with effective mission-oriented program budgets.

The good news is that Secretary Mattis seems to be focusing on creating the kind of FY2020 budget submission that could turn the concepts and goals in the NSS and NDS into actual programs, mission capabilities, and budgets. The bad news is that it is far from clear that even the best Secretary of Defense can fix the current failures in the defense planning, programing, and budget system in the time – and bureaucratic and political environment – in which the Secretary has to act.

The worse news is the lack of stability in the Administration's senior appointments. Defense and national security agencies badly need continuity for any coherent program to emerge and actually

be implemented. It is not clear that there is any substitute for Secretary Mattis that can ensure an effective program will emerge from the FY2020 budget request, or who could actually push such a program through the bureaucracy, the Congress, and the new realities that will emerge over the coming two years.

(NOTE: The figures and trends quoted in this commentary are explained in detail in graphic form in a new Burke Chair report *entitled **The National Security Political “Iceberg” in Late 2018*** on the CSIS web site at https://csis-prod.s3.amazonaws.com/s3fs-public/publication/181113_NATIONAL_SECURITY_Political_Iceberg.pdf?IdomTo24nB9UqKoXSoMsg9f6QZbtnire.)

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