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GATES SUBMITS 'REFORM' BUDGET FOR FY 2010

By Todd S. Harrison

Secretary Gates termed the FY 2010 defense budget a “reform budget.” With today’s release of the detailed budget request, we begin to see what shape that reform will take and where he intends to lead the Department. This budget is a departure from the previous administration’s budgets in several ways:

- It moves items that were previously funded through supplemental appropriations, specifically items that were not directly related to the cost of the wars, into the base budget.
- It begins to rebalance acquisition programs, shifting funds away from programs focused on high-end conventional threats and adding to programs that support irregular warfare.
- It alters the Service’s share of the base budget from what has been traditionally allocated.
- It includes projections for the future costs of the wars in Iraq and Afghanistan as part of the budget request.

The budget for FY 2010 requests a total of \$664 billion for defense, including \$533.8 billion for the base DoD budget and \$130 billion for ongoing military operations around the world. The base DoD budget represents a \$20.5 billion increase over last year’s budget. The \$130 billion requested for the ongoing wars in Iraq and Afghanistan is a slight decrease from the \$141 billion¹ requested and appropriated in FY 2009. The total DoD budget for FY 2009 was \$662 billion².

From 2001 to 2009 the base defense budget grew at an average real rate of 4.6 percent annually. This budget slows the real rate of growth to 2.9 percent. Overall defense spending grew by 76 percent in real terms from FY 2001 to FY 2008, or an average annual rate of 8.4 percent, much of which was due to the cost of the wars in Iraq and Afghanistan. In FY 2009, total defense spending is projected to decline in real terms by 2.5 percent (barring any changes to the supplemental request before Congress), and the budget for FY 2010 would continue that trend with a decrease of 0.8 percent in real terms³.

¹ Includes the \$75.8 billion supplemental request for FY 2009 pending before Congress. Accessed at http://www.whitehouse.gov/omb/assets/budget_amendments/supplemental_04_09_09.pdf

² Includes \$7.4 billion appropriated for Defense in the [American Recovery and Reinvestment Act](#), as well as the \$75.8 billion supplemental request pending before Congress.

³ All real values shown are calculated using the GDP deflators as provided in the Office of Management and Budget’s [FY 2009 Historical Tables, Table 10.1](#) (for years 2007 and earlier) and [A New Era of Responsibility Summary Table S-8](#) (for years 2008 and beyond).

Moving Items into the Base Budget

In a departure from the previous administration, the Obama Administration has begun moving items previously funded through supplemental appropriations for the wars in Iraq and Afghanistan into the base defense budget. According to Secretary Gates, the amount of this transfer totals \$13 billion⁴. Examples of costs that are being moved into the base budget are:

- Increasing the end-strength of the Army and Marine Corps above their pre-war levels, including personnel, equipment, and infrastructure costs⁵
- Procurement of additional UAVs and ISR assets
- Funding for additional helicopter aircrews and other helicopter support

Funding these and others items through supplemental appropriations meant that they were not subject to the same congressional budget enforcement mechanisms as other appropriation bills, and they did not have long-term plans for future funding. Moving them into the base budget has the effect of giving these programs a “seat at the table” in the annual budget process within DoD and subjects them to greater scrutiny by Congress. This shift in funding is one reason the base defense budget is increasing this year and the cost of the wars is decreasing.

Rebalancing Weapon System Procurements

On April 6, 2009 Secretary Gates announced changes to a number of high-profile weapons programs, which are reflected in this budget. While several programs were scaled back or terminated, others were accelerated and received additional funding. Overall, procurement funding in the base budget is a net increase in real dollars of \$4.6 billion (Figure 1). Personnel and Operations and Maintenance accounts also increased in this budget, due in part to the movement of items, such as the cost of increasing the end-strength of the Army and Marine Corps, into the base budget.

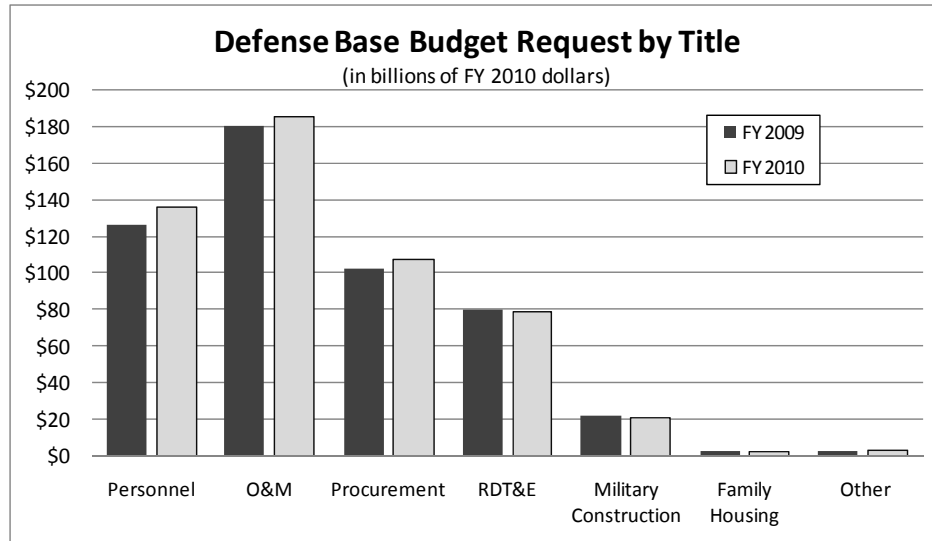


Figure 1

⁴ Robert Gates, *Defense Budget Recommendation Statement*, (Arlington, VA, April 6, 2009). Accessed at <http://www.defenselink.mil/speeches/speech.aspx?speechid=1341>

⁵ Amy Belasco, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, Congressional Research Service Report for Congress, RL33110. (October 15, 2008), p. 29. Accessed at <http://www.fas.org/sgp/crs/natsec/RL33110.pdf>

Changing the Allocation of Funding Across the Services

Since the early 1990's, the Services have maintained remarkably consistent shares of the DoD budget, with the Air Force and Navy at roughly 30 percent each, the Army at 25 percent, and the remaining 15 percent for defense-wide costs. This trend held true until the beginning of the wars in Iraq and Afghanistan, when supplemental appropriations directed more funding to the Army than the other Services, bringing its share to more than 36% in FY 2007. However, during that time the Services' shares of the base defense budget did not change as significantly.

While each of the Services increased their overall level of funding in the base budget, the Navy appears to have come out on top with the greatest increase (Table 1). The net increase for the Navy is \$7.4 billion (5.0%) in real terms. This increase includes over \$4 billion for procurement of additional Navy aircraft, such as the F/A-18, and a net increase of \$1 billion for Navy shipbuilding and conversion. Defense-wide funding also increased in real terms by \$4.4 billion in this budget, despite cuts to some high-profile missile defense programs funded through this component. The budget reduces funding for the Airborne Laser and Multiple Kill Vehicle programs by a combined \$0.5 billion from FY 2009 levels, while increasing funding for the Terminal High Altitude Area Defense (THAAD) and Aegis Ballistic Missile Defense programs.

Budget Year	Army	Navy	Air Force	Defense-Wide
FY 2009	\$ 140.7	\$149.0	\$142.8	\$86.4
FY 2010	\$142.1	\$156.4	\$144.5	\$90.8

(in billions of FY 2010 dollars)

Table 1

Planning for Future Years

Projections for future years indicate moderate to flat growth through FY 2019 for the base defense budget, averaging 0.5 percent real growth annually from FY 2011 to FY 2019. In a break from the previous administration, the Obama Administration has laid out a projection for the cost of the wars in Iraq and Afghanistan over the coming years as part of the budget request. These projections reveal a significant decrease in funding for the wars, falling from \$130 billion in FY 2010 to just \$50 billion each year thereafter. While this is consistent with the administration's stated goal of pulling combat forces out of Iraq in FY 2011 and is somewhat in line with CBO estimates of future war costs⁶, further escalation of the war in Afghanistan or a change in the situation in Iraq would almost certainly require these estimates to be revised upward.

One issue not addressed in the President's budget request is the lagging pace of recapitalization for some types of equipment. For example, the average age of aircraft in the Air Force inventory is 24 years and is projected to climb to 27 years by 2020.⁷ As Secretary Gates has noted, DoD modernization initiatives have been plagued by the piling on of "exquisite" requirements, which has driven up costs and stretched out procurement schedules.⁸ As a result, lower quantities of equipment are being procured, and a bow wave

⁶ See footnotes (a) and (c) in Table 1-8, p. 21 in CBO report, *The Budget and Economic Outlook: An Update, September 2008*; (<http://www.cbo.gov/doc.cfm?index=9706>).

⁷ Norton A. Schwartz, Answers to Advance Questions from Senate Armed Services Committee (Washington, DC, July 22, 2008). Accessed at http://armed-services.senate.gov/statemnt/2008/July/Schwartz_percent2007-22-08.pdf

⁸ Robert Gates, *Defense Budget Recommendation Statement*, (Arlington, VA, April 6, 2009). Accessed at <http://www.defenselink.mil/speeches/speech.aspx?speechid=1341>

of equipment needs is being pushed out year after year beyond the Future Years Defense Program. The sharp increase in defense spending since 2001 has not reversed this trend, and the increased usage rates of equipment in the harsh environments of Iraq and Afghanistan has only exacerbated the problem.

What It Means

The FY2010 budget represents less a shift in strategy than a refocusing of resources to better support the Defense Department's existing strategy. It shifts funding to programs and activities that support irregular warfare and raises the prominence of Special Operations Forces and the programs that support them. It also sends a strong message to the Services, defense contractors, and the public in general that poor performing programs will be held accountable and risk cancellation or major restructuring. While this budget attempts to address many issues that had been left unresolved, many tough decisions remain—including the future of the Next Generation Bomber, the Marine Expeditionary Fighting Vehicle, and the Next Generation Cruiser (CG-X). These issues and others may be resolved in the ongoing Quadrennial Defense Review, which is intended to set the foundation for the FY 2011 budget and inform the Future Years Defense Program.

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