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FY 2012 BASE DEFENSE BUDGET REPRESENTS A TURNING POINT

Todd Harrison

Summary

The Obama Administration today unveiled its defense budget request for FY 2012, which totals \$553 billion in discretionary funding for the peacetime costs of the Department of Defense (DoD) and \$5 billion in mandatory funding. In addition to the “base” budget, the administration also requests \$118 billion for Overseas Contingency Operations (OCO) and \$27 billion for national defense activities in the Department of Energy and other agencies. Altogether, the total national defense budget request is \$703 billion for FY 2012.

This request increases the base defense budget by 3.6 percent in real terms compared to the \$526 billion the Defense Department is currently funded at under the continuing resolution. It is, however, a 2.2 decrease, adjusting for changes in inflation assumptions, from the \$566 billion DoD projected it would need in FY 2012 in last year’s budget request. The cost of the wars in Iraq and Afghanistan is projected to decline by 27 percent in real terms from the \$159 billion requested in FY 2011, reflecting the administration’s current strategy to complete the drawdown of military forces in Iraq and begin a drawdown of the surge in Afghanistan.

Major Accounts

Within the base defense budget, the Military Personnel account appears to have fared the best. Funding for this account is 4.2 percent higher than is currently funded under the continuing resolution and 0.7 percent higher than had previously been forecasted for FY 2012.¹ The increase is due primarily to increases in cash compensation for the uniformed military: a 4.2 percent increase in the basic allowance for housing, a 3.4 percent increase in the basic allowance for subsistence, and a 1.6 percent increase in basic pay (figures not adjusted for inflation). In contrast, pay for DoD civilian employees, which is funded primarily from the Operations and Maintenance (O&M) account, is frozen in FY 2012. Procurement has been hit the hardest, down 1.3 percent in real terms from last year’s request and down 5.9 percent from what the Pentagon had previously projected for FY 2012. As expected,

¹ All percentages for growth or decline are adjusted for inflation using the GDP deflator unless otherwise noted. When comparing previous projections for FY 2012 funding to the FY 2012 request, each figure has been adjusted using the inflation assumptions used at the time each was prepared.

Military Construction declined significantly due to the planned completion of the 2005 Base Realignment and Closure program.

	FY 2010	FY 2011		FY 2012	
	Appropriated by Congress	Requested in FY 2011 Budget	Funded Under Current CR	Previously Projected	Requested in FY 2012 Budget
Military Personnel	\$135.7	\$138.5	\$135.2	\$142.0	\$142.8
Operation and Maintenance	\$183.9	\$200.2	\$184.5	\$212.2	\$204.4
Procurement	\$103.2	\$112.9	\$104.8	\$120.3	\$113.0
RDT&E	\$79.3	\$76.1	\$80.4	\$75.9	\$75.3
Construction, Housing, & Other	\$25.9	\$21.1	\$21.3	\$16.0	\$17.5
Total Discretionary Base Budget	\$528.0	\$548.8	\$526.2	\$566.4	\$553.0
Overseas Contingency Ops.	\$162.7	\$159.3	\$159.3	\$50.0	\$117.8
Mandatory Funding in Base Budget	\$5.2	\$4.5	\$4.5	\$4.1	\$5.1
Total DoD Budget	\$695.9	\$712.6	\$690.7	\$620.5	\$675.9

Budget Highlights

Below are some early highlights of the FY 2012 defense budget request.²

- Defense Health Program:** Totals \$32.2 billion in FY 2012, some \$700 million less than was previously projected.
- Evolved Expendable Launch Vehicle (EELV):** Requests \$1.7 billion in the budget request, compared to \$1.2 billion requested in FY 2011 and the previous projection of \$1.3 billion for FY 2012.
- Advanced Extremely High Frequency (AEHF) SATCOM:** Requests \$1.0 billion in the budget request, more than the \$0.6 billion requested in FY 2011 but significantly less than the \$1.6 billion previously projected for FY 2012.
- F-35 Joint Strike Fighter (JSF):** Requests \$9.7 billion in funding, less than the \$10.9 billion requested in FY 2011 but more than the previously projected level of \$8.5 billion in FY 2012. The increase from last year's projection reflects an increase in the development costs of the JSF, which is offset in part by a delay in aircraft procurement. Total funding for the JSF over the FYDP is \$6.9 billion less than previously projected.
- F/A-18E/F Super Hornet and E/A-18G Growler:** Requests \$2.7 billion in funding for the F/A-18E/F and \$1.1 billion for the E/A-18G, compared to the previous

² The use of the phrase "previous projection" in this section refers to the funding levels projected in the FY 2011 FYDP for the year FY 2012. While some of the difference between the previous projection for FY 2012 in the FY 2011 FYDP and the current request for FY 2012 can be attributed to differences in inflation assumptions, the examples highlighted here exceed, and by a substantial margin, adjustments for inflation.

projection of \$0.6 billion and \$2.4 billion for these aircraft, respectively. The shift in funding between the two variants and the overall rise in total funding is a result of an additional schedule slip in the F-35 program and the Navy’s desire to recapitalize its fleet of fighters sooner than the F-35 will be available.

- **Space Based Infrared System (SBIRS):** The funding request is roughly half of what was expected, falling to \$1.0 billion from a projected \$1.8 billion in the previous projection for FY 2012.
- **Terminal High Altitude Area Defense (THAAD):** Includes more funding than previously expected for THAAD, \$1.2 billion compared to \$0.8 billion in the previous projection for FY 2012.
- **Long Range Strike (Next Generation Bomber):** The previous budget request included a total of \$1.7 billion for long range strike, but the FY 2012 budget request—based on the materials released so far—does not include a dollar figure for this program. Secretary Gates identified the Next Generation Bomber as one of the areas in which the Department was investing greater resources. The absence of a specific dollar amount in the budget may indicate that funding for this program is classified.

Changes in the 2012 FYDP

The Future Year Defense Plan (FYDP) released with the FY 2012 budget projects a real annual decline in RDT&E funding of 3.0 percent through FY 2016. The greatest growth is projected to be in Procurement, which is slated to grow at a real annual rate of 2.6 percent through FY 2016. Military Personnel and O&M accounts are projected to grow at a more modest rate of 0.6 and 1.4 percent, respectively.

FY 2012 FYDP	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Real Annual Growth
Military Personnel	\$142.8	\$145.4	\$149.6	\$152.6	\$154.7	0.3%
Operation and Maintenance	\$204.4	\$215.0	\$221.2	\$228.9	\$233.2	1.3%
Procurement	\$113.0	\$117.6	\$125.9	\$129.7	\$137.2	2.6%
RDT&E	\$75.3	\$75.7	\$73.5	\$71.0	\$69.3	-3.0%
Construction, Housing, & Other	\$17.5	\$17.1	\$16.1	\$15.9	\$16.2	-2.8%
Total Discretionary Base Budget	\$553.0	\$570.7	\$586.4	\$598.2	\$610.6	0.6%

These figures differ considerably from what DoD proposed in the FY 2011 FYDP. When compared to the projections for FY 2012 to FY 2015 contained in the FY 2011 budget request, both Procurement and O&M are significantly less than previously stated while RDT&E is higher in most years. This appears to reflect Secretary Gates’ initiative to find greater efficiencies in the budget and rebalance the Department’s portfolio of programs and activities in order to accommodate a lower rate of growth in the topline defense budget

Difference Between FY 2012 FYDP and FY 2011 FYDP (adjusting for inflation)	FY 2012	FY 2013	FY 2014	FY 2015
Military Personnel	0.7%	-0.1%	0.0%	-0.8%
Operation and Maintenance	-3.5%	-2.6%	-3.9%	-4.2%
Procurement	-5.9%	-5.0%	-4.8%	-5.3%
RDT&E	-0.6%	4.2%	5.3%	2.8%
Construction, Housing, & Other	9.9%	-3.2%	15.3%	2.6%
Total Discretionary Base Budget	-2.2%	-1.6%	-1.6%	-2.6%

FY 2011 Budget Still Pending

The release of the FY 2012 budget request comes as the federal government is already 137 days into FY 2011 without acting on last year’s budget request—the longest delay in enacting a defense appropriations bill in 35 years. The continuing resolution currently in place funds DoD at \$526 billion (excluding war costs), which is \$23 billion less than requested for FY 2011. Today Secretary Gates made his most forceful statement yet against continuing to fund DoD at this lower level for the remainder of the year, citing \$540 billion as the minimum level of funding needed for DoD. The House Appropriations Committee also released its version of a full-year continuing resolution today that proposes \$14.7 billion in cuts below the FY 2011 request, some \$5 billion below the minimum level set by Secretary Gates.

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