



Defense Budget Peaks in 2019, Underfunding the National Defense Strategy

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Key Points

- The \$700 billion in enacted defense spending for 2018 is a substantive increase over 2017 enacted and 2018 requested spending. However, the \$716 billion topline for 2019 just keeps pace with inflation.
- The administration's first five-year budget, the Future Years Defense Program, suggests the overall fiscal outlook for defense spending will flatline in 2020 and beyond.
- The president's 2019 budget allocates 87 percent of new funding above last year's appropriations to military personnel and operations and maintenance, with most of the remainder going toward research and development.
- For the second year in a row, the Trump administration's budget request underfunds procurement in favor of pursuing a capability-centric modernization program, imperiling the future health of the force by underresourcing capacity and the recapitalization of legacy systems.
- The three-year streak of defense increases was driven largely by Congress. Policymakers should work to ensure a balanced portfolio of investment to match the defense strategy.

In May 2017, the Department of Defense (DOD) outlined a three-stage approach to repairing and rebuilding the nation's armed forces. An additional request for \$30 billion in appropriations in fiscal year (FY) 2017 followed by an FY18 request for \$668 billion in national defense spending would resolve readiness shortfalls. Finally, the FY19 budget would begin to replenish the military's depleted resources after seven years of spending caps under the Budget Control Act.¹

It is now possible to profile President Donald Trump's defense buildup, and the conclusion is stark: No portion of the president's initial plan survived contact with reality. Trump secured approximately half of the additional appropriations he sought for defense spending in FY17. Conversely, Congress approved a record-breaking two-year budget deal in early 2018, paving the way for

\$700.9 billion in defense spending in FY18, including Overseas Contingency Operations (OCO). The FY19 defense topline of \$716 billion is higher still, resulting in a three-year defense spending increase of \$389 billion above the budgetary caps as they stood before Congress' most recent budget agreement and \$242 billion above Obama-era plans for FY17–19.² Nevertheless, the president's budget request for FY19 (PB19) fails in its central objective of adequately rebuilding the armed forces rather than merely repairing them (see Table 1).

This conclusion appears paradoxical, considering the ebullient reaction of some senior Pentagon leaders to the president's latest budget for 2019. After initial fears that the budget would not adequately reflect the National Defense Strategy because the two documents were developed in parallel, PB19 is now being fêted as the “child of

Table 1. 050 Budget Authority with OCO

Metric	FY17 Appropriations	FY18 Appropriations	FY19 Request
National Defense Topline Spending	\$634 Billion	\$701 Billion	\$716 Billion
Percent of GDP on Defense	3.3%	3.5%	3.4%
Real Spending Compared to Last Year	2.9%	8.8%	0.5%
Percent of Discretionary Budget Authority	52%	54%	54%

Source: Office of Management and Budget, “Historical Tables,” Tables 1.2 and 5.6, <https://www.whitehouse.gov/omb/historical-tables/>; Consolidated Appropriations Act, Pub. L. No. 115-141; Making Further Continuing Appropriations for Fiscal Year 2018, and for Other Purposes, Pub. L. No. 115-90; and US Department of Defense, Office of the Under Secretary of Defense (Comptroller), “DoD Budget Request, 2019,” February 2018, <http://comptroller.defense.gov/Budget-Materials/Budget2019/>.

the White House National Security Strategy and the National Defense Strategy.”³ Each military service’s list of unfunded requirement lists is at a nadir, signaling Joint Chiefs of Staff approval of PB19’s trajectory. Yet as House Armed Services Committee Chairman Mac Thornberry has cautioned, “Not everything is fixed because we have a substantial increase in one year. . . . The closer you look, the deeper the problems are.”⁴

The difference between the Pentagon’s unbridled enthusiasm and Congress’ cautious acceptance is best explained by their fundamentally different interpretations of the National Defense Strategy’s core mandate to increase the “lethality” of the force in preparation for resurgent great-power competition. For Secretary of Defense James Mattis, the budget pursues lethality by articulating a capability-based budget concentrated on advancing research, development, testing, and evaluation (RDT&E) for next-generation weapons systems. In comparison, the Armed Services Committees’ National Defense Authorization Act (NDAA) for Fiscal Year 2018 moderated additional RDT&E spending in favor of accelerating procurement of extant systems to immediately bolster the capacity and force structure of the armed forces (see Table 2).⁵

The PB19 request serves neither approach perfectly. Contrary to the administration’s rhetoric, procurement spending falls from FY18 appropriations, even as the overall topline increases.⁶ However, the PB19 increase to RDT&E unambiguously sets the conditions for a capability-based buildup

rather than the more balanced approach advanced by the most recent NDAA (see Figure 1).

No portion of the president’s initial plan survived contact with reality.

PB19’s approach is fraught with strategic, political, and economic risks. A capability-based budget demands sustained and steadily increasing funding. While official administration plans reflect modest nominal growth, even this trajectory is unlikely to materialize given the shrinking portion of the federal budget available for discretionary spending and congressional leaders’ mounting skepticism of the president’s plans.⁷ Where PB19 adds new money, it follows the same philosophy as the Obama administration, emphasizing development of next-generation weapons above immediate procurement or end-strength growth. The capability-based approach favored by the administration goes a step further than the Obama-era by presuming the military can meet its ballooning strategic objectives without significantly expanding existing force structure, further stressing readiness. Sustained underinvestment in procurement spending will leave the military vulnerable to the impending “bow wave of procurement” as older systems retire and must be replaced.⁸ Finally, higher defense spending, if improperly managed, can ironically

Table 2. O51 Summary (\$ Billions)

Including OCO

Public Law Title	FY17 Enacted*	Growth to FY18 Enacted	FY18 Enacted**	Growth to PB19	NDAA 18	Growth to PB19	PB19 Total
Military Personnel	139.4	+4.6%	145.8	+4.8%	146.2	+4.6%	152.9
O&M	264.7	+4.2%	275.9	+2.8%	276.5	+2.6%	283.5
Procurement	124.4	+18.8%	147.7	-2.3%	148.6	-2.9%	144.3
RDT&E	73.9	+22.6%	90.6	+2.0%	87.0	+6.2%	92.4
MILCON	7.2	+32.7%	9.5	+2.7%	9.3	+5.1%	9.8
RMF	1.9	-2.5%	1.9	-17.6%	2.3	-30.8%	1.6
Family Housing	1.3	+10.4%	1.4	+12.3%	1.4	+12.5%	1.6
O51 Total	606.6	+10.6%	671.0	+2.2%	671.2	+2.2%	686.1

Excluding OCO

Public Law Title	FY17 Enacted*	Growth to FY18 Enacted	FY18 Enacted**	Growth to PB19	NDAA 18	Growth to PB19	PB19 Total
Military Personnel	135.7	+4.3%	141.5	+4.7%	141.8	+4.5%	148.2
O&M	203.2	+8.7%	221.0	+6.0%	226.9	+3.2%	234.2
Procurement	109.0	+23.7%	134.8	-2.4%	138.3	-4.9%	131.6
RDT&E	72.3	+26.1%	91.2	-0.1%	86.3	+5.5%	91.1
MILCON	6.8	+17.0%	7.9	+12.3%	8.6	+3.3%	8.9
RMF	1.5	+14.5%	1.7	-10.9%	2.1	-26.6%	1.5
Family Housing	1.3	+10.4%	1.4	+12.3%	1.4	+13.0%	1.6
O51 Total	523.8	+14.4%	599.3	+3.1%	605.5	+2.0%	617.7

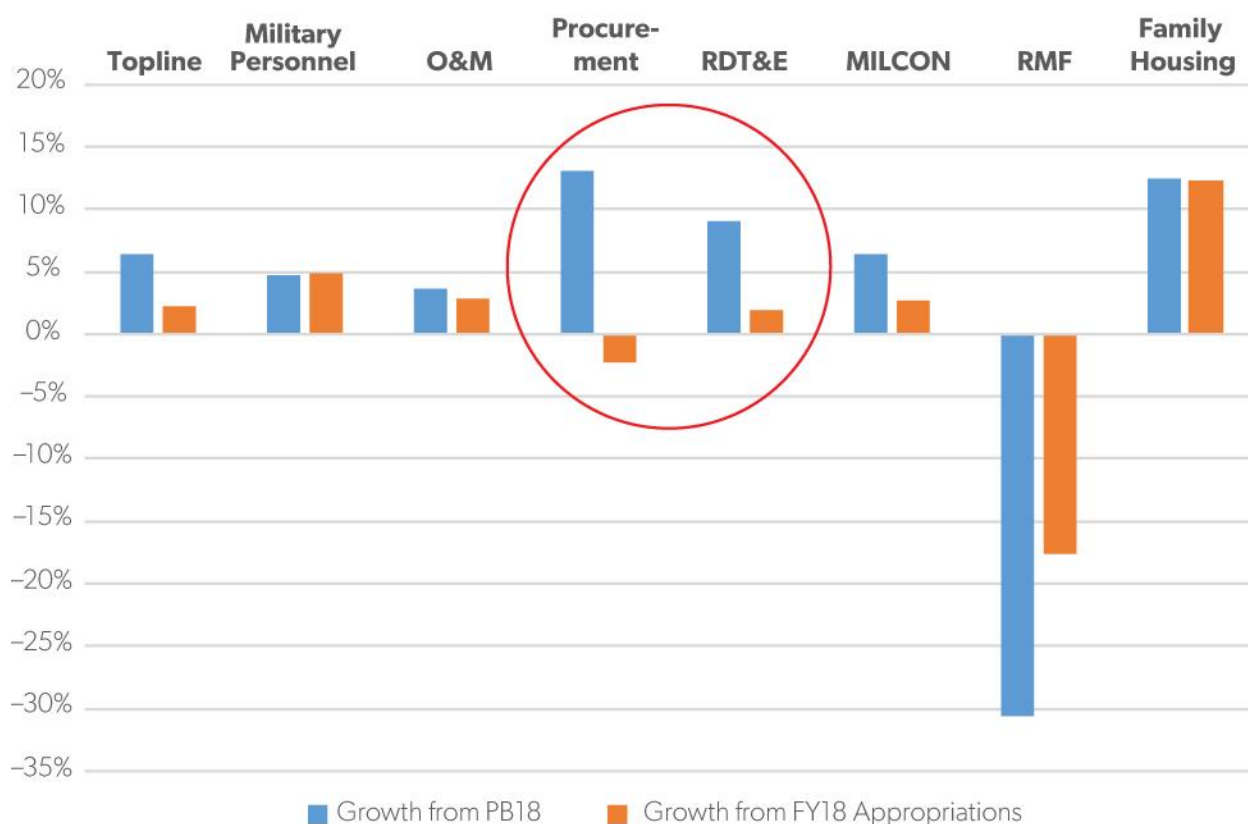
* FY17 accounts do not reflect \$6.1 billion (\$5.9 billion excluding OCO) in general provisions for Department of Defense and Military Construction Budget Authority; these adjustments are reflected in the O51 total.

** FY18 accounts do not reflect \$1.8 billion (\$182 million excluding OCO) in general provisions of Department of Defense and Military Construction Budget Authority; these adjustments are reflected in the O51 total.

Note: Contrary to appropriators, the NDAA classified emergency supplemental funding for missile defense as base needs rather than OCO. This difference accounts for \$4.7 billion of the difference between FY18 appropriations and the NDAA. Numbers may not add due to rounding.

Source: Consolidated Appropriations Act, Pub. L. No. 115-31; Further Continuing and Security Assistance Appropriations Act, 2017, Pub. L. No. 114-254; Consolidated Appropriations Act, 2018, Pub. L. No. 115-141; National Defense Authorization Act for Fiscal Year 2018, Pub. L. No. 115-91; and US Department of Defense, Office of the Under Secretary of Defense (Comptroller), "DoD Budget Request, 2019," February 2018, <http://comptroller.defense.gov/Budget-Materials/Budget2019/>.

Figure 1. Nominal O51 Budget Growth by Title, Including OCO, 2018–19



Source: US Department of Defense, Office of the Under Secretary of Defense (Comptroller), "DoD Budget Request, 2018," February 2017, <http://comptroller.defense.gov/Budget-Materials/Budget2018/>; Bipartisan Budget Act of 2018, Pub. L. No. 115-123; and US Department of Defense, Office of the Under Secretary of Defense (Comptroller), "DoD Budget Request, 2019," February 2018, <http://comptroller.defense.gov/Budget-Materials/Budget2019/>.

make the United States less secure by introducing a window of opportunity for foreign competitors and inducing them into aggression.

Congress, not the Pentagon, took the lead in managing the defense increases in FY17 and FY18. While analysts should not expect significant changes from the \$716 billion topline for FY19 defense spending set by the budget deal, the funding distribution is likely to change, in some ways dramatically, from the proposed PB19 allocation to favor increased readiness and modernization, particularly procurement.

Contextualizing the FY19 Defense Budget Request

This report uses two metrics to measure changes in the DOD budget request: (1) the difference between the current request (PB19) and the projections for that year made in the previous year's request (PB18)

and (2) the change from the previous year's (FY18) enacted spending to the current request (PB19). Idiosyncrasies of the FY18 appropriations process frustrate both methodologies.

Like many administrations in their inaugural year, Trump's national security team did not produce a Future Years Defense Program (FYDP) in FY18, but it did complete such a plan as part of PB19. The FYDP outlines the administration's plans for defense spending over the next five years. Due to its absence, the only reliable information on future plans from FY18 was budget justification materials for select line items, especially modernization programs.

Even if the administration had completed a FYDP in FY18, the bipartisan budget agreement reached by lawmakers on Capitol Hill would have rendered it moot. Throughout the FY18 appropriations process, Congress consistently disregarded the administration's budget requests to chart its own course on defense.

Table 3. Changes to Discretionary Funding Through Budget Deals, 2013–18 (\$ Billions)

	2013 Budget Deal		2015 Budget Deal		2018 Budget Deal	
Fiscal Year	FY14	FY15	FY16	FY17	FY18	FY19
Original Defense Cap	498.1	512	523.1	536.1	549	562
Amended Defense Cap	520.5	521.3	548.1	551.1	629	647
Addition	22.4	9.3	25	15	80	85
Original Nondefense Cap	469.4	483.1	493.5	503.5	515.7	529.2
Amended Nondefense Cap	491.8	492.4	518.5	518.5	579	597
Addition	22.4	9.3	25	15	63.3	67.8
Annual Changes Due to Budget Deals	44.8	18.6	50	30	143.3	152.8
Two-Year Changes Due to Budget Deals	63.4		80 (plus OCO)		296.1 (plus OCO)	

Source: Mackenzie Eaglen, “Budget Deal: It’s Beginning to Look a Lot Like Christmas (. . . 2013),” *Breaking Defense*, December 19, 2017, <http://www.aei.org/publication/budget-deal-its-beginning-to-look-a-lot-like-christmas-2013/>; and Bipartisan Budget Act of 2018, Pub. L. No. 115-123.

This became apparent shortly after the release of PB18, when congressional pressure caused the administration to increase its shipbuilding request from one to two littoral combat ships.⁹ In January 2018, Congress responded to the White House’s November 2017 request for \$5.9 billion in additional funding to increase end strength in Afghanistan, repair the USS *John S. McCain* and USS *Fitzgerald*, and augment ballistic missile defense capabilities by appropriating all of the requested \$4.7 billion for emergency funding to resource the latter two objectives.¹⁰ The remaining \$1.2 billion for additional troops in Afghanistan was appropriated in the eventual omnibus spending deal passed in March. In the meantime, President Trump’s overall requests for tens of billions in hurricane relief were met with congressional skepticism for being an underestimate, and the DOD received its request for \$1.2 billion—and no additional increase—as part of February’s Bipartisan Budget Act of 2018 (BBA18).¹¹ This two-year budget agreement revised the defense and nondefense spending caps to enable Congress to significantly exceed the PB18 request for discretionary spending,

paving the way for 2018 appropriations in March (see Table 3).

Congressional Republicans celebrated BBA18 for breaking with previous two-year budget deals by raising defense discretionary spending more than the discretionary nondefense programs. Previous deals resulted in the Pentagon receiving more OCO funding than nondefense agencies did, but the base budget increases had always been identical.

However, the 2018 deal maintained the spirit of parity if only discretionary spending is considered. As Table 4 indicates, BBA18 first reversed the defense sequester for both defense and nondefense spending and then added a flat amount (\$26 billion in FY18 and \$31 billion in FY19) to each budgetary cap. Sequestration adjustments to the spending caps disproportionately impacted *discretionary defense* spending and, if they had been consistently enforced, *mandatory nondefense* spending. Thus, reversing only the discretionary sequester artificially inflates the topline for discretionary defense spending. The true parity break is achieved by imposing the long-awaited spending cuts in certain mandatory accounts that disproportionately

Table 4. Effects of the Bipartisan Budget Act of 2018 (\$ Billions)

Account and Activity	FY18 Defense	FY18 Nondefense	FY19 Defense	FY19 Nondefense
Pre-BBA Cap	549	516	562	529
Cancel Discretionary Sequester	54	37	54	37
Additional Discretionary Spending	26	26	31	31
Amended Caps	629	579	647	597
OCO and Emergency Spending	71	12	69	8
Total Discretionary Spending	700	591	716	605
Mandatory Spending Cuts	0.7	17.4	0.7	17.8

Source: Mackenzie Eaglen, “Budget Deal: It’s Beginning to Look a Lot Like Christmas (. . . 2013),” *Breaking Defense*, December 19, 2017, <http://www.aei.org/publication/budget-deal-its-beginning-to-look-a-lot-like-christmas-2013/>; and Bipartisan Budget Act of 2018, Pub. L. No. 115-123.

affect nondefense programs and by extending such mandatory sequestration to 2027.

BBA18 paved the way for the \$700.9 billion in defense spending for FY18, which was appropriated over a month after the release of PB19. Although Pentagon policymakers did not have access to the final FY18 appropriations while constructing their budget, analysis in this report compares PB19 to FY18. Even the amended PB18 was supplanted by Congress’ higher topline. This methodological decision acknowledges the obvious: Congress, not the White House or the Pentagon, is firmly in the driver’s seat of recent defense topline increases.

How Historic Is This “Buildup”?

News reports have highlighted that FY18 appropriations and PB19 represent the “biggest budget the Pentagon has ever seen.”¹² However, these specious claims disintegrate upon further investigation.

Examination of the 050 topline for national defense reveals that the PB19 request for \$647 billion in base spending and \$69 billion in OCO results in the largest ever base and overall requests in nominal dollars. However, the picture is strikingly different when the totals are adjusted for inflation at Office of Management and Budget (OMB) levels. Placed in proper context, the budget represents a real budget authority below 1985 levels for base spending and below 2012 levels if OCO is included.

Yet this comparison is misguided because overall national defense spending includes many

accounts that are not administered by the Pentagon. Examining only the 051 portion of the budget directly controlled by the DOD clarifies that in nominal spending terms, the Pentagon has been here before. In then-year dollars the Pentagon had a larger budget in 2011, and in real dollars DOD’s base budget was higher in 1986 (see Figure 2).

These historical touchstones lend themselves to an analysis of the distribution of Pentagon spending by public law title over time. The results clearly indicate that President Trump’s budget matches Reagan-era topline in form, but not in substance (see Figure 3).

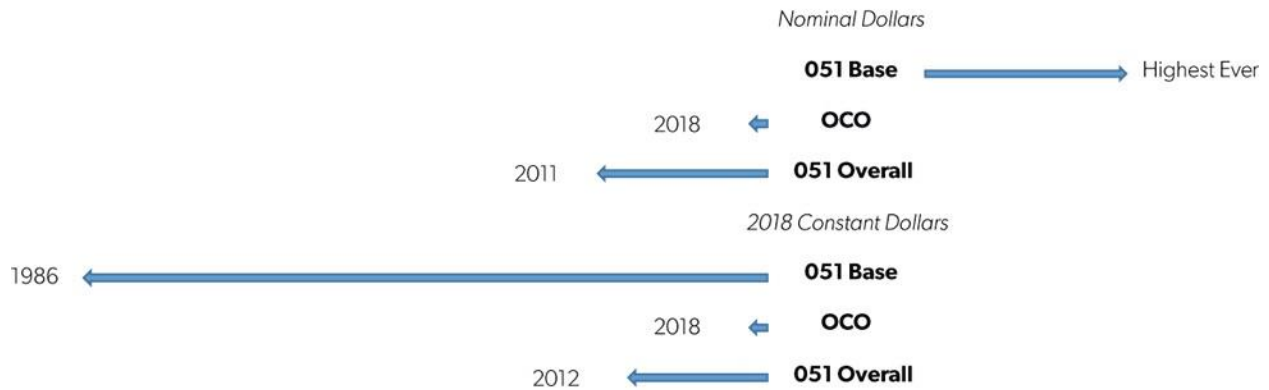
Put simply, the Pentagon is paying more for less.

The percentage of the budget spent on military personnel in 1986 and 2019 is nearly identical, even though active end strength in 1986 was 895,000 personnel higher than the PB19 projected force of 1,338,100, and 1986 reserve end strength likewise exceeds FY19 projected levels by over 273,000.¹³

Similarly, operations and maintenance spending increased from 27 percent of total expenditures in 1986 to 38 percent of the PB19 request. These extra dollars support a much-diminished force structure. In 1986, the United States had 583 active battle force ships, 10,559 Air Force aircraft, and 1,492,928 Army personnel including reservists and guardsmen. In 2019, the proposed force will field half as many ships (299) and aircraft (5,426) and a total army of 1,030,500—approximately two-thirds of its 1986 size.

Figure 2. How Historic Is the Trump Budget?

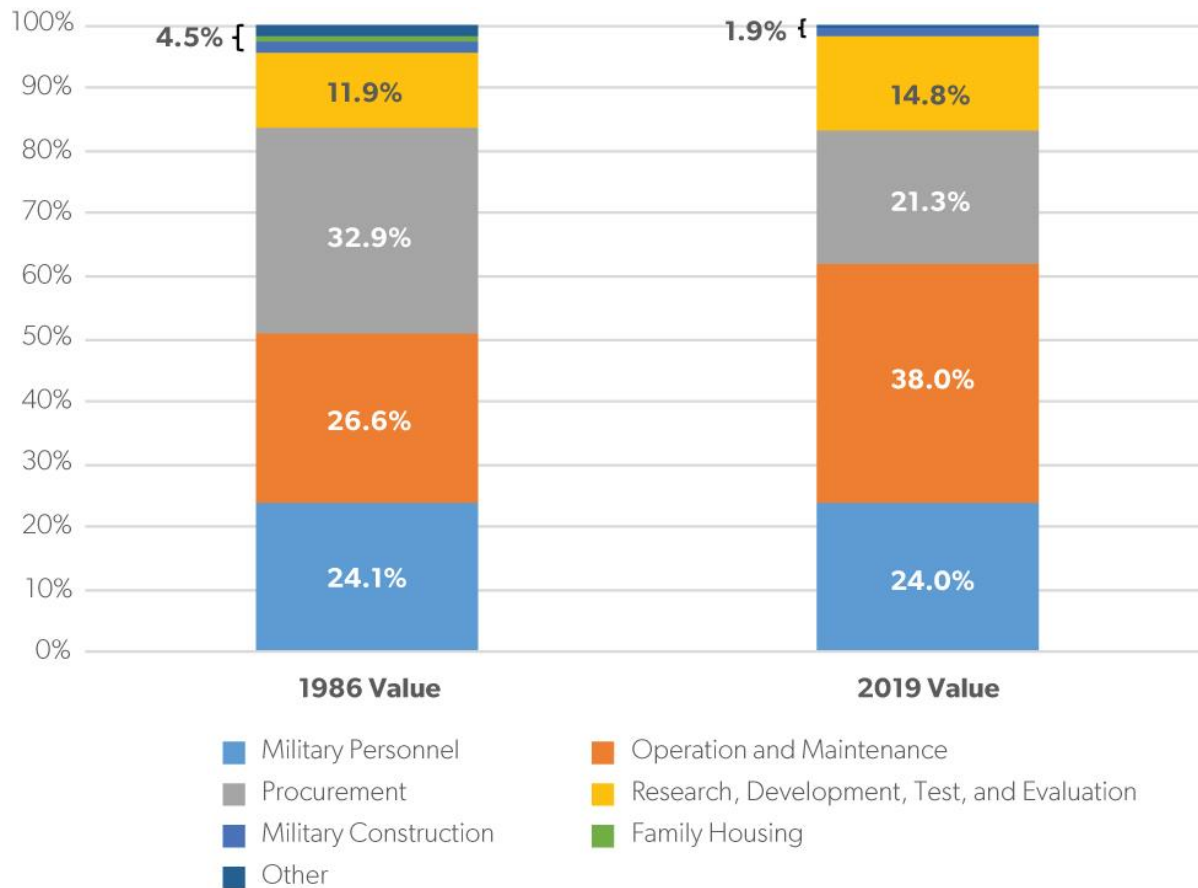
President Trump's PB19 request is the highest since . . .



Trump's budget matches Reagan-era topline in form, but not in substance.

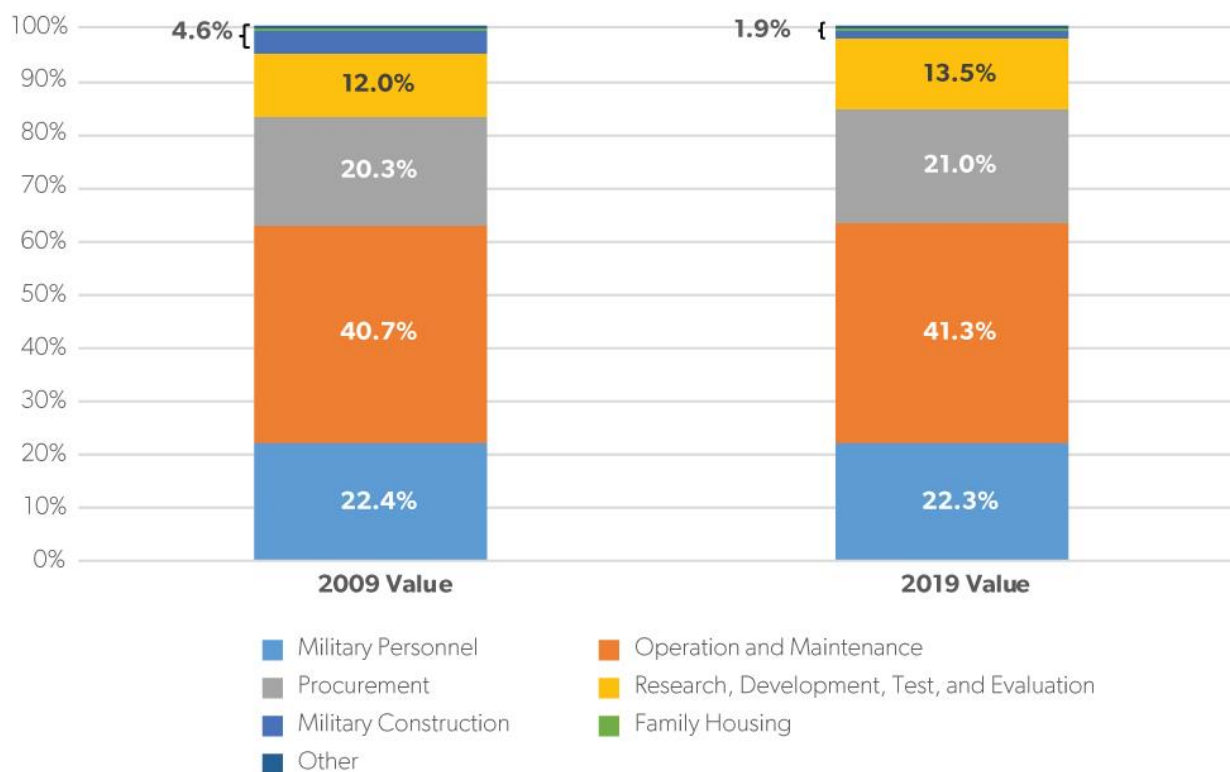
Source: Office of Management and Budget, "Historical Tables," Table 5.6, <https://www.whitehouse.gov/omb/historical-tables/>; and US Department of Defense, Office of the Under Secretary of Defense (Comptroller), "DoD Budget Request, 2019," February 2018, <http://comptroller.defense.gov/Budget-Materials/Budget2019/>.

Figure 3. In Comparison: Trump and Reagan Defense Budgets



Source: Office of Management and Budget, "Historical Tables," Table 5.6, <https://www.whitehouse.gov/omb/historical-tables/>; and US Department of Defense, Office of the Under Secretary of Defense (Comptroller), "DoD Budget Request, 2019," February 2018, <http://comptroller.defense.gov/Budget-Materials/Budget2019/>.

Figure 4. In Comparison: FY09 and FY19 Defense Budgets



Source: Office of Management and Budget, "Historical Tables," Table 5.6, <https://www.whitehouse.gov/omb/historical-tables/>; and US Department of Defense, Office of the Under Secretary of Defense (Comptroller), "DoD Budget Request, 2019," February 2018, <http://comptroller.defense.gov/Budget-Materials/Budget2019/>.

This increase to operations and maintenance spending comes at the expense of procurement spending, down from one-third of the FY86 appropriations to one-fifth of the PB19 request. While procurement is the clear loser in 2019, RDT&E spending grows by 24 percent compared to FY86 expenditures.

Distressingly, these comparisons exclude the PB19 request for \$69 billion in OCO, 71 percent of which is operations and maintenance spending. To understand OCO's effects on the budget, consider the PB19 request compared to appropriations a decade ago at the pinnacle of deployments to Iraq and Afghanistan (see Figure 4).

What is most striking about this comparison is the similarity of the two budgets. Despite the decreases to force structure and the tenfold decline in troops deployed to Iraq and Afghanistan from 2009 to 2019, the distribution of funding is virtually identical. Even as the administration considers a possible reduction in effort in the counter-ISIS

fight, operations and maintenance spending is proportionally higher in PB19 than in FY09. In a further signal of the emphasis on capability-based spending, the PB19 request allocates less money to procurement and more for RDT&E compared to FY09.¹⁴

PB19's approach to the defense increase is also not reflected by historical attempts to plan for FY19. Secretary of Defense Robert Gates' FY12 FYDP, the last such plan completed before the Budget Control Act was enacted, projected spending 3.4 percent less of the Pentagon's base budget on RDT&E. Instead, this funding would have been distributed roughly evenly between procurement and military personnel spending in FY19 to support an expanded force structure.¹⁵

End-Strength Additions Disappoint

President Trump's PB19 budget allocates 87 percent of its new dollars above FY18 appropriations to

Table 5. Enacted 2018 End Strength Comports with NDAA

Service	Component	2017 Enacted	PB18	2018 NDAA	PB19	Change
Army	Active	476,245	476,000	483,500	487,500	+4,000
Army	National Guard	343,603	343,000	343,500	343,500	0
Army	Reserve	194,318	199,000	199,500	199,500	0
Navy	Active	323,944	327,900	327,900	335,400	+7,500
Navy	Reserve	57,824	59,000	59,000	59,100	+100
Marines	Active	184,514	185,000	186,000	186,100	+100
Marines	Reserve	38,682	38,500	38,500	38,500	0
Air Force	Active	322,787	325,100	325,100	329,100	+4,000
Air Force	National Guard	105,670	106,600	106,600	107,100	+500
Air Force	Reserve	68,798	69,800	69,800	70,000	+200
Total		2,116,385	2,129,900	2,139,400	2,155,800	+16,400

Source: Consolidated Appropriations Act, Pub. L. No. 115-31; Further Continuing and Security Assistance Appropriations Act, 2017, Pub. L. No. 114-254; Consolidated Appropriations Act, 2018, Pub. L. No. 115-141; US Department of Defense, Office of the Under Secretary of Defense (Comptroller), "DoD Budget Request, 2018," February 2017, <http://comptroller.defense.gov/Budget-Materials/Budget2018/>; National Defense Authorization Act for Fiscal Year 2018, Pub. L. No. 115-91; and US Department of Defense, Office of the Under Secretary of Defense (Comptroller), "DoD Budget Request, 2019," February 2018, <http://comptroller.defense.gov/Budget-Materials/Budget2019/>.

military personnel and operations and maintenance, with the vast majority of the remainder going toward RDT&E.¹⁶ Rather than supporting a significant expansion in force structure, this funding instead backfills readiness, training, and manpower shortages engendered by sequestration.

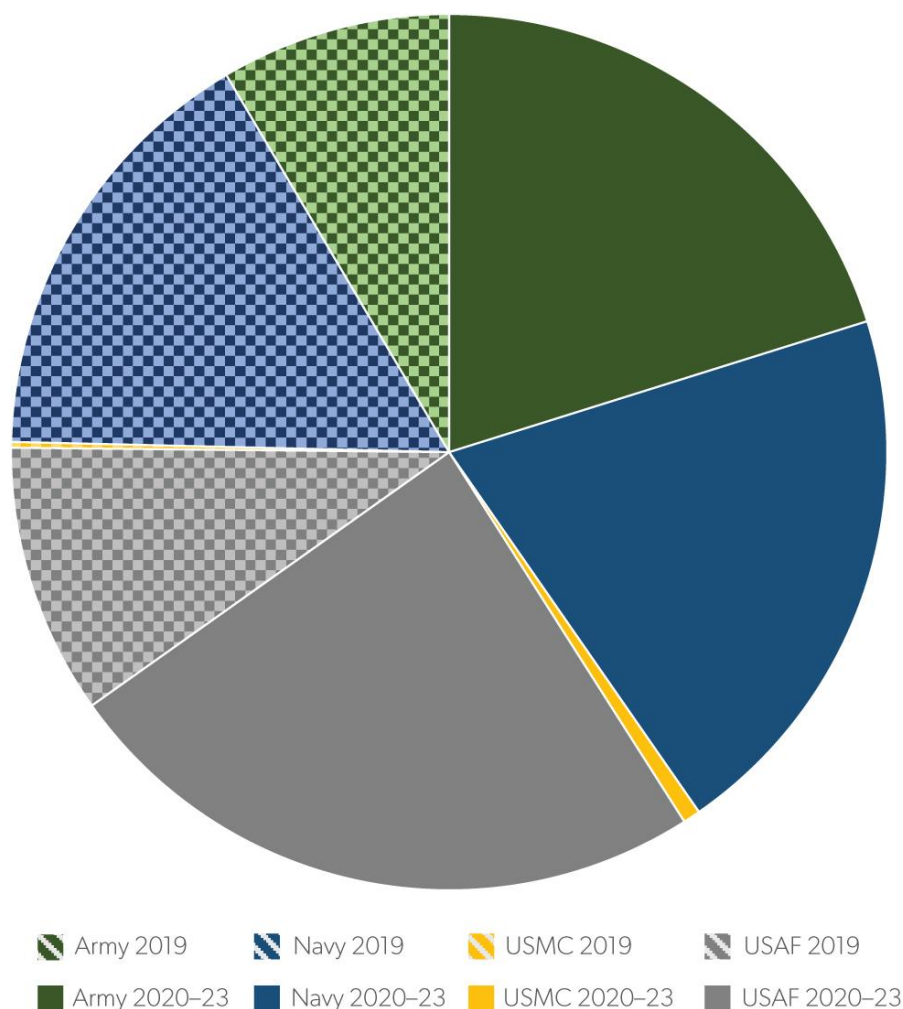
In total, PB19 adds 16,400 new service members above FY18 enacted levels. For the second year in a row, the administration has tried to inflate its end-strength addition by selecting an inappropriate baseline—in this case, PB18. While the Pentagon claims to be adding 25,900 new service members by selecting PB18 as its point of reference, the actual increase is less than two-thirds of that figure (see Table 5).¹⁷

Of the new servicemembers, three-quarters are destined for the Navy and the Air Force. Leaders have identified these additions as principally ending shortages in pilots and maintainers for the Air Force and bringing crews of naval vessels back

up to optimal strength.¹⁸ This is borne out by the budget justification material, which requests no new active Army brigade combat teams, a net increase of one Air Force fighter squadron, and seven new ships.¹⁹ Requested procurement for ships and aircraft in all services is also down significantly from FY18 appropriation levels.

The administration included end-strength targets for FY23 in its FYDP, which suggest more of the same in the years ahead (see Figure 5). Between FY20 and FY23, the Navy and Army plan to grow by 9,500 active and reserve personnel each, while the Air Force will add 11,400 and the Marines a mere 300. Consequently, 35 percent of all growth over the FYDP is front-loaded into FY19. The lack of significant investment in land forces will leave the active Army's end strength at 495,500 by FY23. This is 19,255 soldiers above levels during the last year of Obama's presidency and significantly less than the 540,000-soldier

Figure 5. FYDP End Strength Additions Emphasize Readiness



Source: US Department of Defense, Office of the Under Secretary of Defense (Comptroller), "DoD Budget Request, 2019," February 2018, <http://comptroller.defense.gov/Budget-Materials/Budget2019/>.

active army promised by candidate Trump on the campaign trail. Across all the services, the FYDP force is 70,000 active and reserve personnel below end-strength recommendations set forth in AEI's *Repair and Rebuild*.²⁰

Listing into the Bow Wave of Procurement

If the force will not be significantly expanding above its current size, making it more lethal will require investments in its striking power. FY18 set a positive tone by increasing procurement by \$20 billion above 2017 levels. However, PB19 fails to follow that success in favor of advancing research and development.

This year's budget request for procurement fails to keep pace with growth in military personnel or operations and maintenance spending, and it falls by nearly \$3.3 billion relative to FY18 appropriations. In real terms, procurement spending suffers a 3.9 percent year-over-year decline despite the increase in national defense spending from \$700 to \$716 billion.

This shortfall comes at a particularly risky time as the looming bow wave of procurement arrives, due to the increasing age of and wear and tear on many of the Pentagon's core weapons systems, from aircraft to tanks to ships. Because of the "procurement holiday" taken by the United States during the 1990s and the exigent needs of the

subsequent wars in Iraq and Afghanistan, the US military still heavily relies on systems first acquired in the waning years of the Cold War.²¹

Throughout the 2020s, these systems will generally age past the point of obsolescence and require near-simultaneous replacement en masse. The clearest example of this phenomenon emerges from Navy shipbuilding. Over the course of the FYDP, the Navy will deliver an average of 12 battle force ships a year, reaching a strength of 326 vessels by the end of FY23. Yet as retirement rates for older vessels spike, the size of the fleet will fall, even as new construction remains relatively constant. The Navy will not exceed its FY23 strength until 2036, despite adding an average of 11 new ships to the fleet each intervening year. Similarly, senior Army and Air Force leaders have testified that unless replacements arrive soon, venerable platforms such as the M1 Abrams tank and the U-2 spy plane may both be in service for a century or more.²²

Navy Procurement

While several smaller functions see serious increases, the Navy's two principal procurement accounts—shipbuilding and aircraft procurement—are facing year-over-year declines (see Figure 6 and Table 6). Whereas FY18 appropriated 14 ships, PB19 would fund only 10: three destroyers, two attack submarines, one expeditionary sea base, two oilers, one salvage ship, and one littoral combat ship (LCS). The National Defense Authorization Act for FY18 likewise attempted to accelerate destroyer production to three ships a year in FY18, but appropriators overturned this. The administration initially requested just one LCS for FY18, although Congress ultimately supported three. Similar adjustments to shipbuilding in FY19 are likely, both to more quickly increase the size of the fleet and to preserve the two LCS shipyards in preparation for the forthcoming transition to a new frigate.

While PB19 aircraft procurement has dropped from FY18 appropriations, it tracks closely to PB18 procurement plans for FY19. Congress intervened to speed up procurement of F-35Bs, KC-130Js, and V-22s in particular. Relative to FY18 appropriations levels, these three programs are collectively down by \$1.6 billion, although they are \$56 million above planned requests. The decrease reflects a

reduction of four F-35Bs (from 24 in FY18), four KC-130Js (from six), and seven V-22s (from 14). Some lawmakers have indicated their desire to keep manufacturing rates of these aircraft high, and changes in funding to that effect are possible throughout the FY19 appropriations process.²³

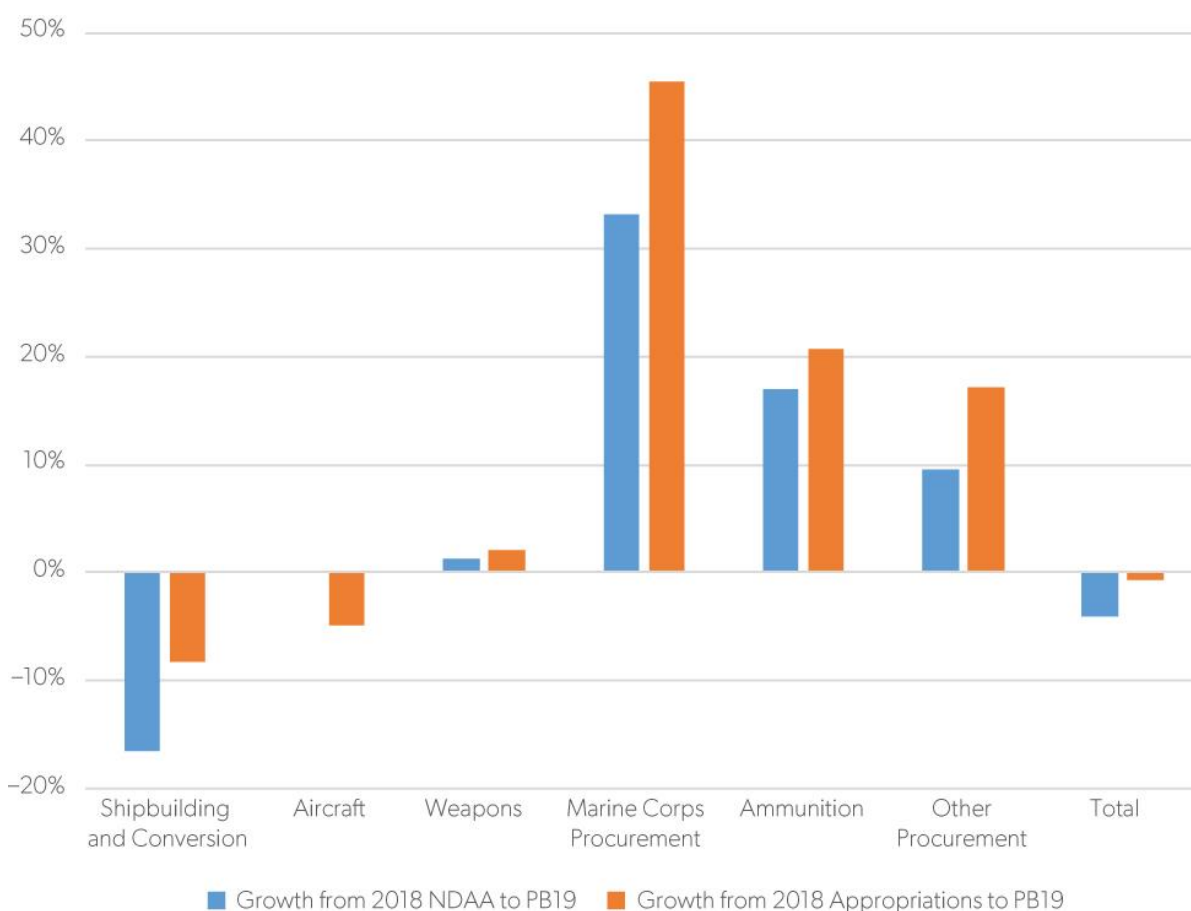
Conversely, the Marine Corps procurement picture is relatively positive and illustrates its efficient use of readily available systems to prepare for great-power competition. Relative to PB18 plans for 2019, the Corps netted an extra \$191 million for new radio and communications equipment, \$94 million above FY18 plans, to procure 24 new high-mobility artillery rocket systems.

Army Procurement

Amid the Army's establishment of a new "big six modernization priorities" and the creation of Army Futures Command, the service is keeping procurement artificially low to leap a generation ahead. Consequently, overall procurement is down, almost wholly due to the significant decrease in Army aviation in preparation for the Future Vertical Lift program (see Figure 7 and Table 7). Procurement of utility fixed-wing aircraft and every major helicopter program—UH-60, CH-47, and AH-64—are among the Army's biggest losers, with a collective reduction exceeding \$1.1 billion compared to FY18 appropriations. The other major decrease comes from the cancellation of the WIN-T network, removing \$405 million in planned procurement spending for FY19.

While the overall value of Weapons and Tracked Combat Vehicles spending is largely unchanged, this obscures significant reprioritization among the constituent programs. This reprioritization is best observed by examining changes at the line-item level between PB18's proposed spending for 2019 and this year's PB19. Under this metric, the M1 Abrams upgrade and modification programs increase by \$2.0 billion. This will put 115 additional tanks through the Abrams improvement program and procure enough Trophy active protection systems to outfit 261 vehicles—enough for three brigades.²⁴ Furthermore, production of the new AMPV armored personnel carrier is likewise up by \$313 million for 90 more vehicles. To fund these

Figure 6. Navy Procurement Growth, 2018–19



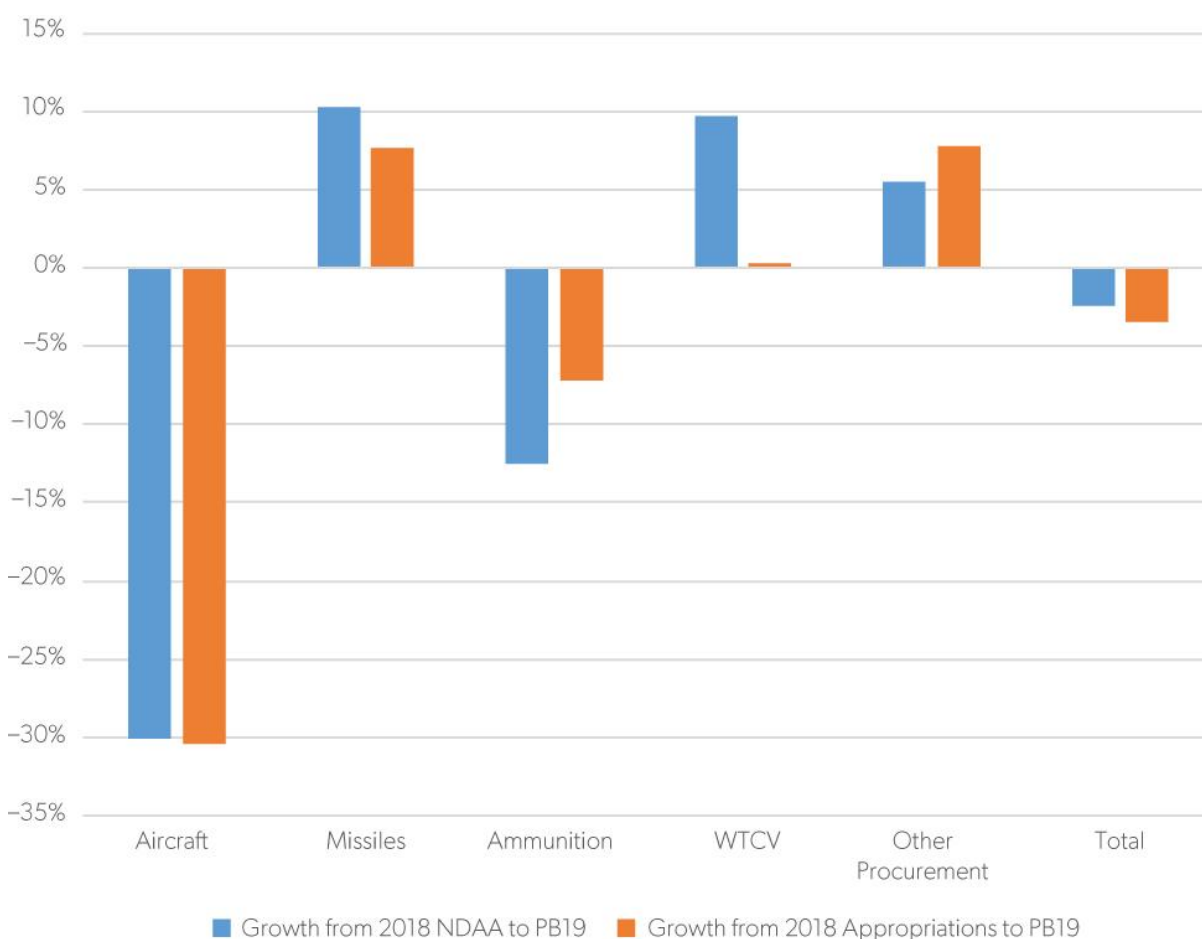
Source: Consolidated Appropriations Act, Pub. L. No. 115-141; National Defense Authorization Act for Fiscal Year 2018, Pub. L. No. 115-91; and US Department of Defense, Office of the Under Secretary of Defense (Comptroller), “DoD Budget Request, 2019,” February 2018, <http://comptroller.defense.gov/Budget-Materials/Budget2019/>.

Table 6. Navy Procurement Growth (\$ Billions)

Budget Request	NDAA Total	Growth to PB19	Change NDAA–PB19	FY18 Total	Growth to PB19	Change FY18–PB19	PB19 Total
Shipbuilding and Conversion	26.2	–16.5%	–4.3	23.8	–8.2%	–2.0	21.9
Aircraft	19.1	+0.1%	+0.0	20.1	–4.9%	–1.0	19.1
Weapons	3.7	+1.3%	+0.0	3.6	+2.1%	+0.1	3.7
Marine Corps Procurement	2.2	+33.1%	+0.7	2.0	+45.4%	+0.9	2.9
Ammunition	1.1	+16.9%	+0.2	1.0	+20.7%	+0.2	1.3
Other Procurement	8.8	+9.5%	+0.8	8.2	+17.1%	+1.4	9.6
Total	61.0	–4.1%	–2.5	58.8	–0.6%	–0.3	58.5

Source: Consolidated Appropriations Act, Pub. L. No. 115-141; National Defense Authorization Act for Fiscal Year 2018, Pub. L. No. 115-91; and US Department of Defense, Office of the Under Secretary of Defense (Comptroller), “DoD Budget Request, 2019,” February 2018, <http://comptroller.defense.gov/Budget-Materials/Budget2019/>.

Figure 7. Army Procurement Growth, 2018–19



Source: Consolidated Appropriations Act, Pub. L. No. 115-141; National Defense Authorization Act for Fiscal Year 2018, Pub. L. No. 115-91; and US Department of Defense, Office of the Under Secretary of Defense (Comptroller), “DoD Budget Request, 2019,” February 2018, <http://comptroller.defense.gov/Budget-Materials/Budget2019/>.

Table 7. Army Procurement Growth (\$ Billions)

Budget Request	NDAA Total	Growth to PB19	Change NDAA–PB19	FY18 Total	Growth to PB19	Change FY18–PB19	PB19 Total
Aircraft	5.9	–30.0%	–1.8	6.0	–30.4%	–1.8	4.1
Missiles	4.7	+10.2%	+0.5	4.8	+7.7%	+0.4	5.2
Ammunition	2.9	–12.5%	–0.4	2.7	–7.2%	–0.2	2.5
WTCV	5.1	+9.7%	+0.5	5.6	+0.2%	+0.0	5.6
Other Procurement	8.9	+5.5%	+0.5	8.7	+7.8%	+0.7	9.4
Total	27.5	–2.5%	–0.7	27.8	–3.4%	–0.9	26.8

Source: Consolidated Appropriations Act, Pub. L. No. 115-141; National Defense Authorization Act for Fiscal Year 2018, Pub. L. No. 115-91; and US Department of Defense, Office of the Under Secretary of Defense (Comptroller), “DoD Budget Request, 2019,” February 2018, <http://comptroller.defense.gov/Budget-Materials/Budget2019/>.

programs, reductions were distributed elsewhere throughout the account. For example, Stryker upgrades slowed by \$97 million relative to prior year planning as research and development for a new 40 mm armament continues.²⁵

While the overall procurement outlook is dim, not every account is passively waiting to develop new capabilities before fielding capacity. Even as development of the Long Range Precision Fires artillery system continues as part of the Army's big six priorities, the service is accelerating procurement of existing missile systems. Relative to FY18 plans for 2019, artillery modifications for ATACMS and MLRS systems are up \$812 million, procurement of new MLRS missiles is up \$804 million and 1,401 projectiles, and Patriot missile segment enhancement acquisition is up by \$631 million for 206 additional missiles.

Air Force Procurement

Of the services, the Air Force is the most committed to skipping a generation of planned procurements. The best encapsulation of this is space procurement, down 29 percent relative to last year (see Figure 8 and Table 8). GPS-III procurement, anticipated in FY18 to reach \$784 million this year, is instead budgeted at a mere \$69 million. All told, space procurement falls \$1.2 billion relative to 2018 plans as the Air Force slashes satellite acquisition plans to develop a next-generation architecture.

However, this figure is inflated by Congress' contentious decision to add two unsolicited Wideband Global SATCOM (WGS11 and 12) to FY18 space appropriations. Altogether this maneuver resulted in a \$595 million increase to space procurement for FY18, about 17 percent of all space procurement.²⁶ Discounting this addition, space procurement still falls by over \$600 million dollars.

Aircraft procurement is the biggest net loser, particularly due to the cancellation of the JSTARS aircraft recapitalization program in favor of developmental systems still in the RDT&E phase. Beyond the \$600 million in reductions from the JSTARS cancellation, delays in KC-46A tanker production result in another \$151 million in lost procurement. F-35A procurement is slightly up relative to PB18 plans, although down \$856 million relative to FY18

appropriations—and even more if advanced procurement for future years is factored in. Overall, PB19 would support 48 F-35As compared to FY18's 56 aircraft. A rare standout in the aircraft account is the MC-130J, which is up three airframes and \$453 million relative to last year's planning, but down \$179 million relative to FY18 appropriations.

Lopsided Research and Development Funding Erratically Advances Capability

Growth in RDT&E spending is up 2 percent from FY18 appropriations, roughly matching the overall increase to the national defense topline and the rate of inflation. However, not every account benefits from stable growth. In fact, the steady rise in the topline belies significant programmatic turbulence in RDT&E spending (see Table 9).

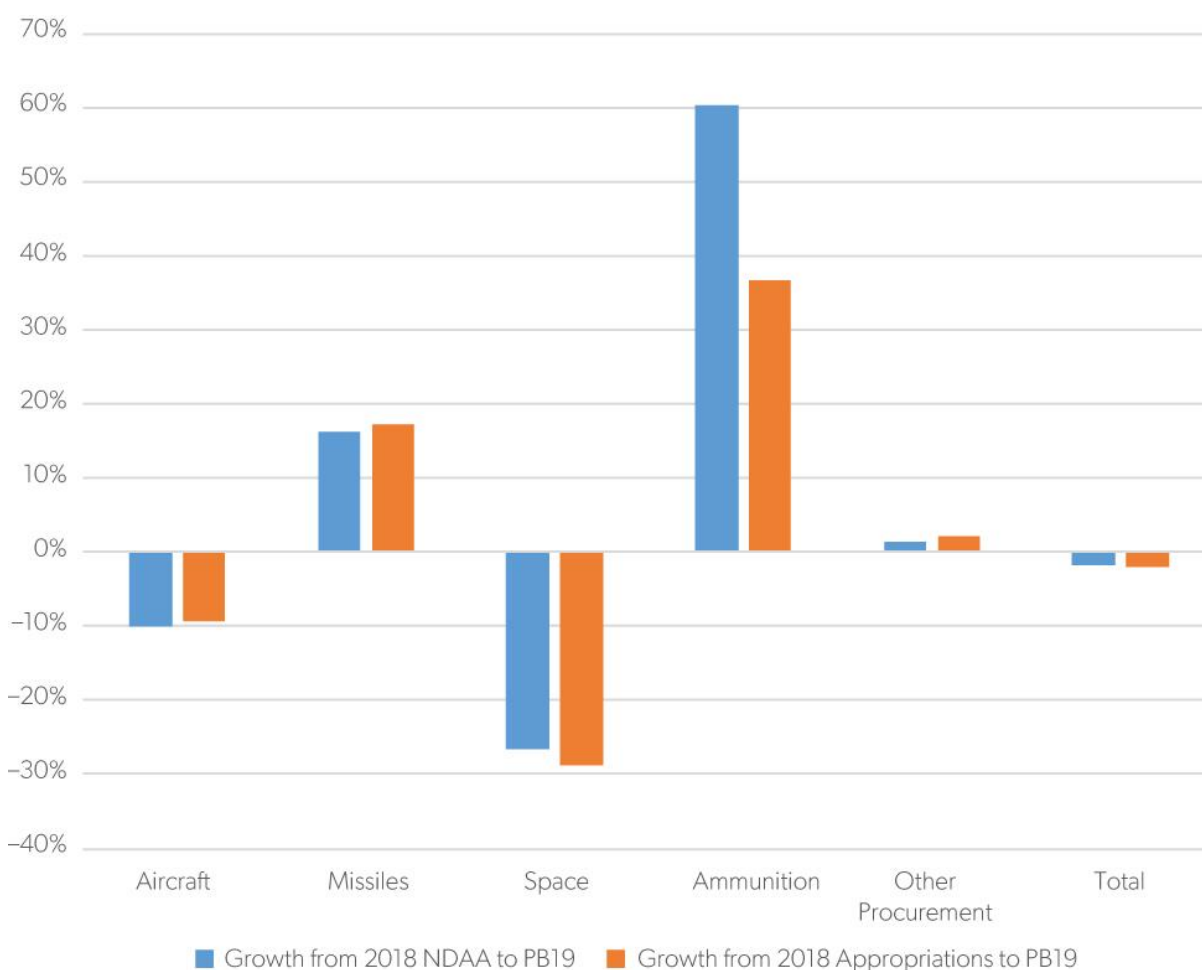
Relative to FY18 appropriations, the Air Force captures 87 percent (\$2.7 billion) of all new RDT&E dollars. Critically, this increase is to core Air Force accounts rather than to the classified funding that is administratively passed through the service. There is zero nominal growth between the PB19 request and FY18 appropriations for these secretive programs, resulting in a spending decline in real terms.

Relative to FY18 appropriations, the Air Force captures 87 percent (\$2.7 billion) of all new RDT&E dollars.

Space initiatives are the biggest benefactor in new Air Force research and development spending. Four programs—Evolved Space-Based Infrared Radar System missile warning satellites, Navstar GPS satellites, Evolved Expendable Launch Vehicles, and general research into “operationally responsive space”—together account for a \$1.55 billion increase above planned RDT&E expenditures in FY18. Testimony by the secretary of the Air Force implied that a reshuffle in classified spending further emphasized space-based capabilities.²⁷

Curiously, aircraft research is a grab bag. JSTARS is the obvious loser, falling to zero from a projected

Figure 8. Air Force Procurement Growth, 2018–19



Source: Consolidated Appropriations Act, Pub. L. No. 115-141; National Defense Authorization Act for Fiscal Year 2018, Pub. L. No. 115-91; and US Department of Defense, Office of the Under Secretary of Defense (Comptroller), "DoD Budget Request, 2019," February 2018, <http://comptroller.defense.gov/Budget-Materials/Budget2019/>.

Table 8. Air Force Procurement Growth (\$ Billions)

Budget Request	NDAA Total	Growth to PB19	Change NDAA–PB19	FY18 Total	Growth to PB19	Change FY18–PB19	PB19 Total
Aircraft	19.2	–10.1%	–1.9	19.0	–9.4%	–1.8	17.2
Missiles	2.7	+16.3%	+0.4	2.7	+17.1%	+0.5	3.2
Space	3.4	–26.7%	–0.9	3.6	–28.9%	–1.0	2.5
Ammunition	1.9	+60.2%	+1.1	2.2	+36.5%	+0.8	3.0
Other Procurement	24.3	+1.4%	+0.3	24.1	+2.1%	+0.5	24.6
Total	51.5	–1.8%	–0.9	51.6	–2.0	–1.0	50.5

Source: Consolidated Appropriations Act, Pub. L. No. 115-141; National Defense Authorization Act for Fiscal Year 2018, Pub. L. No. 115-91; and US Department of Defense, Office of the Under Secretary of Defense (Comptroller), "DoD Budget Request, 2019," February 2018, <http://comptroller.defense.gov/Budget-Materials/Budget2019/>.

Table 9. RDT&E Summary (\$ Billions)

Service	NDA Total	Growth to PB19	Change NDA— PB19	FY18 Total	Growth to PB19	Change FY18— PB19	PB19 Total
Army	10.1	+3.4%	+0.3	10.9	−3.8%	−0.4	10.5
Navy	18.2	+2.4%	+0.4	18.2	+2.3%	+0.4	18.6
Air Force (Unclassified)	20.9	+13.5%	+4.5	21.0	+12.7%	+2.7	23.7
Air Force (Classified)	15.1	+11.2%	+1.7	16.8	+0.0%	+0.0	16.8
Defense-Wide	22.6	+0.4%	+0.1	23.6	−3.8%	−0.9	22.7
Total	87.0	+6.2%	+5.4	90.6	+2.0%	+1.8	92.4

Source: Consolidated Appropriations Act, Pub. L. No. 115-141; National Defense Authorization Act for Fiscal Year 2018, Pub. L. No. 115-91; and US Department of Defense, Office of the Under Secretary of Defense (Comptroller), “DoD Budget Request, 2019,” February 2018, <http://comptroller.defense.gov/Budget-Materials/Budget2019/>.

\$623 million in expenditures. The second-largest line-item decrease is the B-21 bomber with the FY19 request set at \$348 million below planned levels. While service leaders have testified that some of this decrease is due to newfound efficiencies, the program has reportedly suffered from technical hiccups in the preceding months.²⁸

While the Army’s efforts to reimagine modernization through the new Futures Command is laudatory, the scope of its RDT&E shift has been exaggerated.

Two bright spots for aircraft research include additional investments of \$150 million for B-52 squadrons and \$224 million for development of the new HH-60W combat rescue helicopter. The B-52 investment will assist in reengining the bomber force and otherwise improving its systems to extend service life, while additional HH-60W funding supports production of several experimental helicopters sooner than anticipated.

There are few notable changes to unclassified naval research programs. Nevertheless, the major standouts reinforce the general pattern of investing in early research into next-generation capabilities

versus support for existing systems. For example, directed energy and electric weapons systems are boosted \$105 million relative to FY18 plans, and follow-on modernization for the F-35B and F-35C programs falls \$452 million by the same metric.

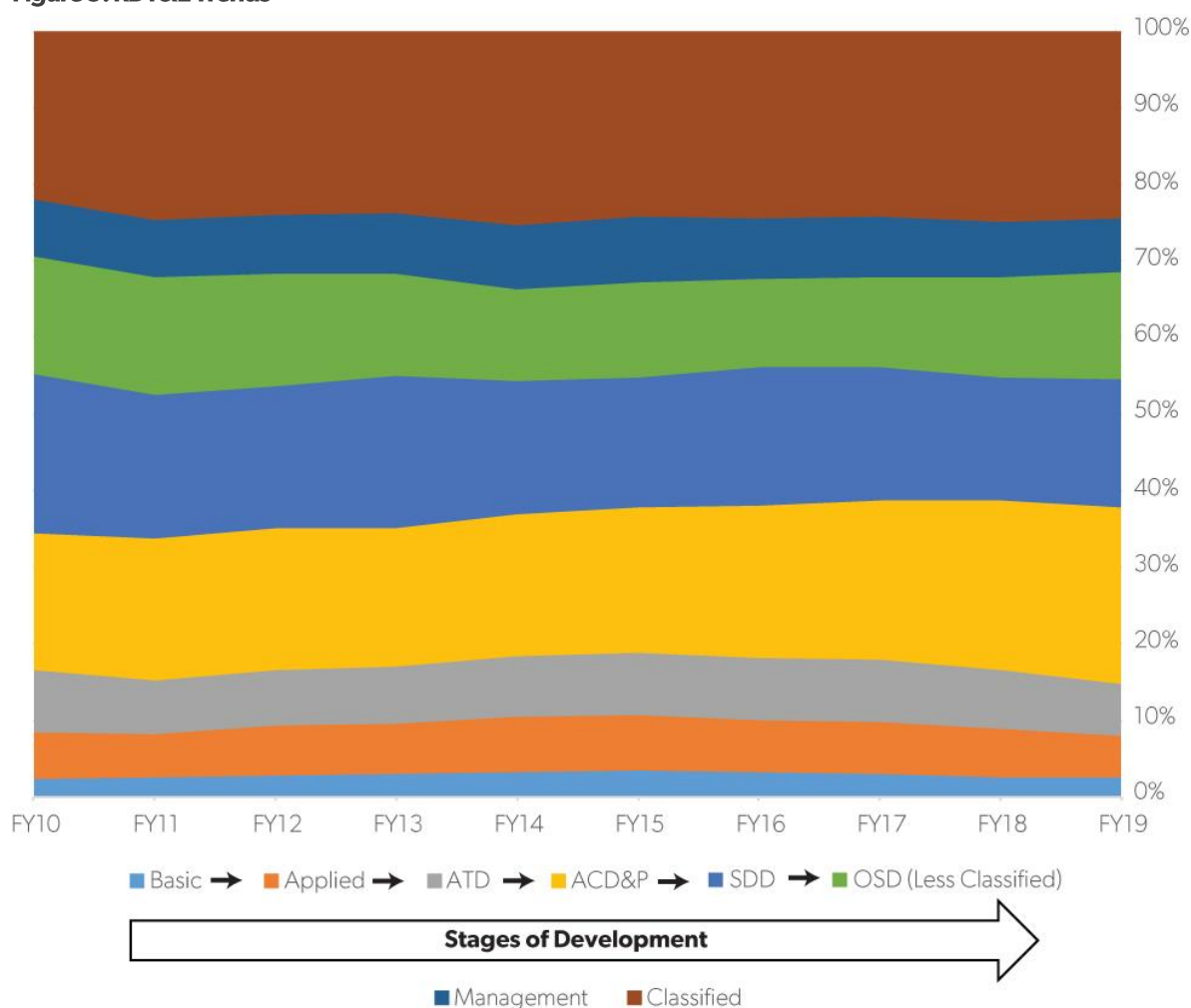
While the Army’s efforts to reimagine modernization through the new Futures Command is laudatory, the scope of its RDT&E shift has been exaggerated. Commentators clamor that the Army has realigned 80 percent of RDT&E spending toward its big six modernization priorities. It has indeed made significant shifts to achieve this objective, but only in the science and technology (S&T) portion of its portfolio. S&T comprises just 22 percent (\$2.4 billion) of overall Army RDT&E.²⁹

The Army RDT&E topline actually decreases due to a series of small cuts to programs throughout the account, particularly to S&T funding. A notable standout is the PB19 request for an additional \$303 million above FY18 plans to accelerate engineering development of armored systems, principally experimentation surrounding the Mobile Protected Firepower light tank competition.

The Diminishing Returns of Elevated RDT&E Spending

Whether praising Navy directed energy weapons or the Army Futures Command, senior uniformed and civilian leaders have emphasized their heightened contributions to S&T spending. This spending

Figure 9. RDT&ETrends



Source: Consolidated Appropriations Act, Pub. L. No. 115-141; and US Department of Defense, Office of the Under Secretary of Defense (Comptroller), "Defense Budget Materials," FY2012–FY2019, <http://comptroller.defense.gov/BudgetMaterials/>.

category comprises the first of three budget activities in which a technology receives funding on its route to production or integration into a functioning program: basic research, applied research, and advanced technology development. Such programs may take decades to yield deployable technologies.

However, some of the new RDT&E investments have more palatable time horizons. For example, all four of the Air Force's major space investments fall into later research phases, and operational systems development—research to improve existing platforms and systems—is a big winner for the Army.

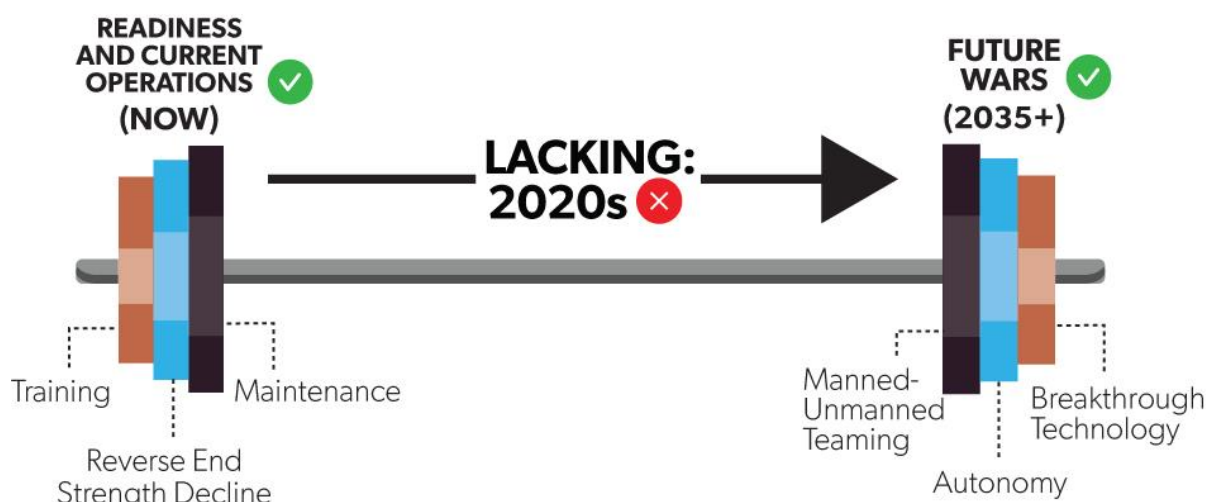
On balance, an analysis of spending trends by RDT&E budget activity title reveals that PB19's

changes are more evolutionary than revolutionary (see Figure 9).

These stable trends show that even in a budget emphasizing research and development, trade-offs abound. For example, basic research spending hovers around its average of 2 percent of total RDT&E expenditures as proposed in PB19, short of the aspirational 3 percent advocated by earlier unclassified national defense strategies.³⁰ The proportion of the budget allocated for S&T funding is down from FY17 levels.

More broadly, additional funding has not meaningfully accelerated programs en masse from one section of the pipeline to the next in the FY19 request. Although overall RDT&E spending has increased by 23 percent since FY17, the proportions

Figure 10. The Barbell Investment Strategy



Source: Author's concept.

directed to prototyping efforts and operational systems development have each increased by only 2 percent. Advocates of the capability-based approach to defense investments would be wise to remember that throwing more money at research programs does not always effectively translate into faster deployment times for operational systems.

Beyond this inefficiency, a capability-centric approach to modernization is laden with strategic, fiscal, and political risks, which should be carefully considered.

Strategic Risks of a Capability-Based Buildup: The Phasing Problem

The Trump administration's emphasis on alleviating near-term readiness needs and developing technologies that will mature in the 2030s under the auspices of a capability-based buildup means that for a second year in a row, the military is pursuing a barbell investment strategy (see Figure 10). As noted earlier, siphoning funds from procurement to buttress RDT&E and operations and maintenance will leave the force with a daunting procurement challenge in the mid-2020s, as substantial investments will be needed solely to keep the force at its current size.

Beyond fiscal concerns, the barbell approach results in a disturbing strategic quandary. A capability-based buildup sends an unambiguous signal to would-be competitors: The American

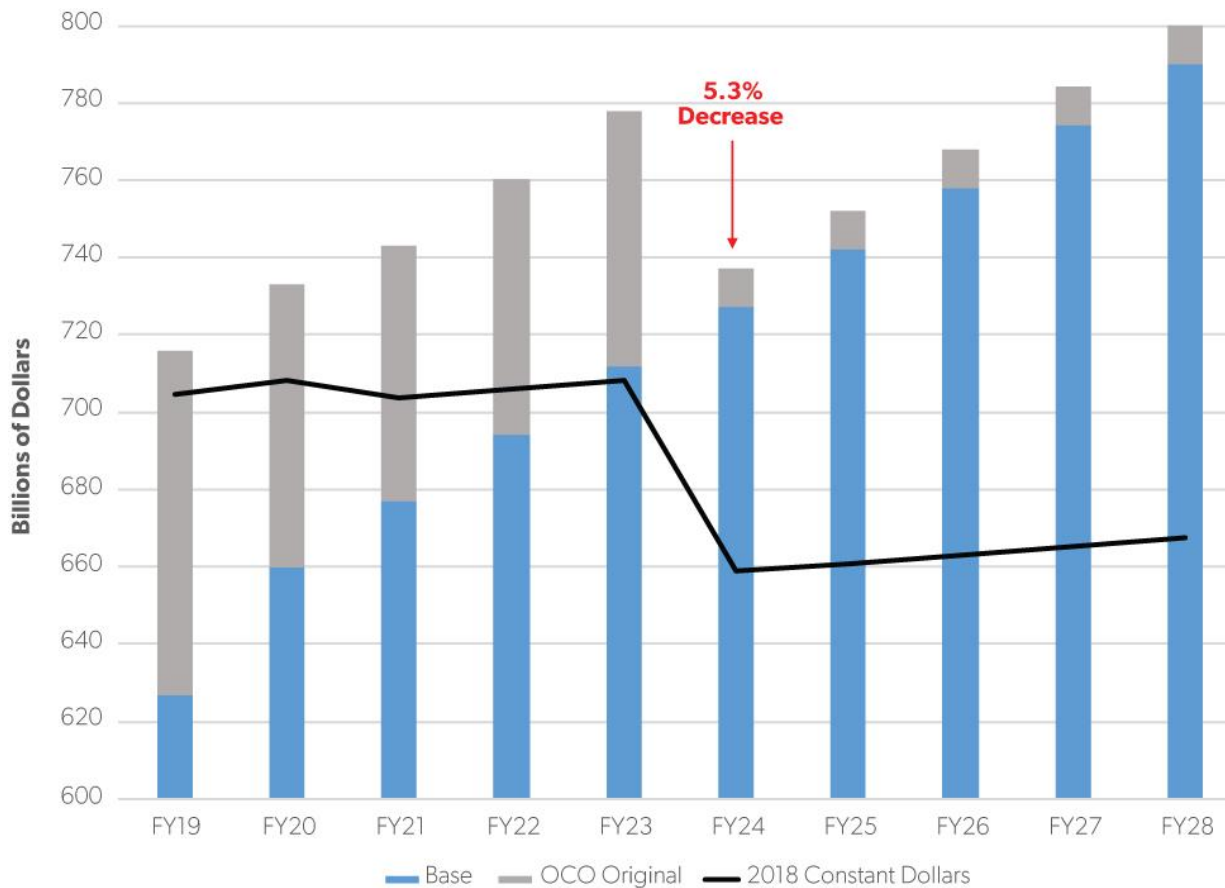
military will bottom out in the 2020s. After that period, deployment of newly developed technologies en masse would ensure American dominance on the battlefields of the 2030s and beyond.

PB19's changes are more evolutionary than revolutionary.

American adversaries will not remain idle and allow that transition to transpire. Unless the bow wave of procurement can be successfully mitigated, competitors will realize that the Americans are weak today but will be strong tomorrow—and it is better to act now than later. The Pentagon will never have the chance to use the weapons it is developing for the 2030s if it is preempted by a failure of deterrence in the 2020s, rendering the RDT&E expenditures for those systems irrelevant.

An expanding defense budget will worsen this phasing problem if RDT&E spending drives increases to the modernization topline. Each modernization dollar spent on research is one less available for procurement in the zero-sum world of budget caps that will return come 2020. Additionally, every additional RDT&E expenditure magnifies the anticipated credibility of American forces in the 2030s when these new technologies will come to fruition, further highlighting the relative weakness of the United States in the 2020s.

Figure 11. PB19 O50 Defense Sending Projections



Source: US Department of Defense, Office of the Under Secretary of Defense (Comptroller), "Defense Budget Overview," February 2018, http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2019/FY2019_Budget_Request_Overview_Book.pdf.

In contrast to the phasing problem posed by the barbell approach, a more even distribution of procurement spending throughout the years leading up to the arrival of the bow wave would mitigate strategic risks.

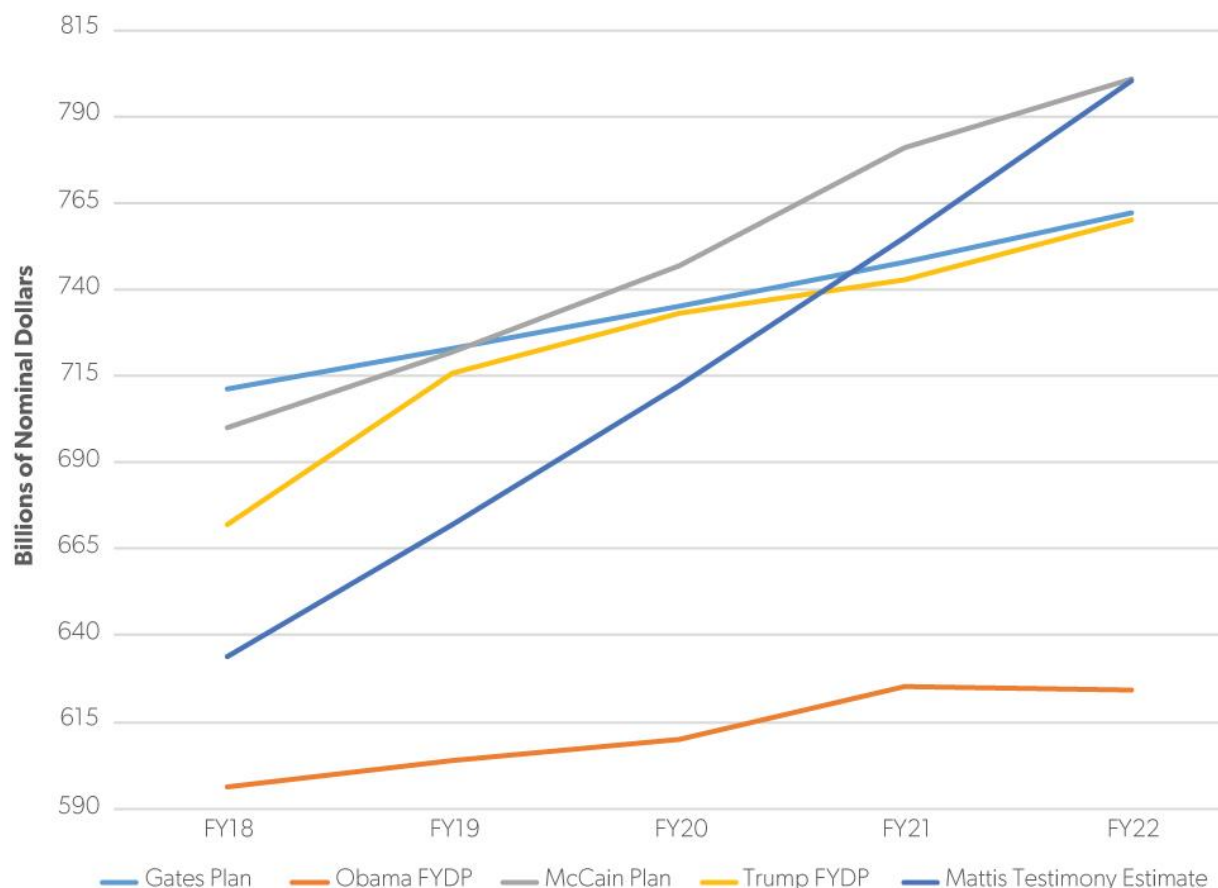
Trump's FYDP Proposes Future Growth Only in Line with Inflation

Relative to a capacity-centric budget, a capability-based approach carries additional costs and risks. Under the latter strategy, defense budgets must not only rise to accommodate the increases RDT&E costs, but also eventually increase procurement to buy the new systems that have been developed. Without a sustained defense buildup, the DOD is writing checks that industrial base suppliers will not be able to cash in future years.

The decade between 2001 and 2011 is a poignant example of the risks of frontloading RDT&E spending. Even before sequestration, the Pentagon canceled capabilities it had already invested \$75 billion into developing—from the Comanche helicopter to the Expeditionary Fighting Vehicle—in part to resource the wars in Iraq and Afghanistan. Due to unforeseen needs, programs intended for high-intensity conflicts were abortively ended and ultimately yielded little to nothing.³¹

The distribution of funding in PB19 coupled with lethargic growth over the FYDP sets the stage for a repeat performance. The ratio of procurement to RDT&E spending reflected in PB19 is consistent with the underinvestment in procurement during FY02–FY12. The FYDP presents little opportunity for change: Growth from FY18 through FY23 annualizes to 2.1 percent. This sclerotic increase barely keeps pace with inflation, causing real

Figure 12. O50 Defense Sending Projections in Perspective



Source: US Department of Defense, Office of the Under Secretary of Defense (Comptroller), "DoD Budget Request, 2019," February 2018, <http://comptroller.defense.gov/Budget-Materials/Budget2019/>; US Department of Defense, Office of the Under Secretary of Defense (Comptroller), "Defense Budget Materials," FY2012 and FY2017, <http://comptroller.defense.gov/Budget-Materials/>; James Mattis, "FY18 National Defense Authorization Budget Request from the DOD," testimony before the Committee on Armed Services, US House of Representatives, June 12, 2017, <https://www.youtube.com/watch?v=v52hmeoF9v8&feature=youtu.be>; and John McCain, "Restoring American Power: Recommendations for the FY 2018–FY 2022 Defense Budget," US Senate, Committee on Armed Services Committee, January 2017, <https://www.mccain.senate.gov/public/index.cfm/2017/1/restoring-american-power-sasc-chairman-john-mccain-releases-defense-budget-white-paper>.

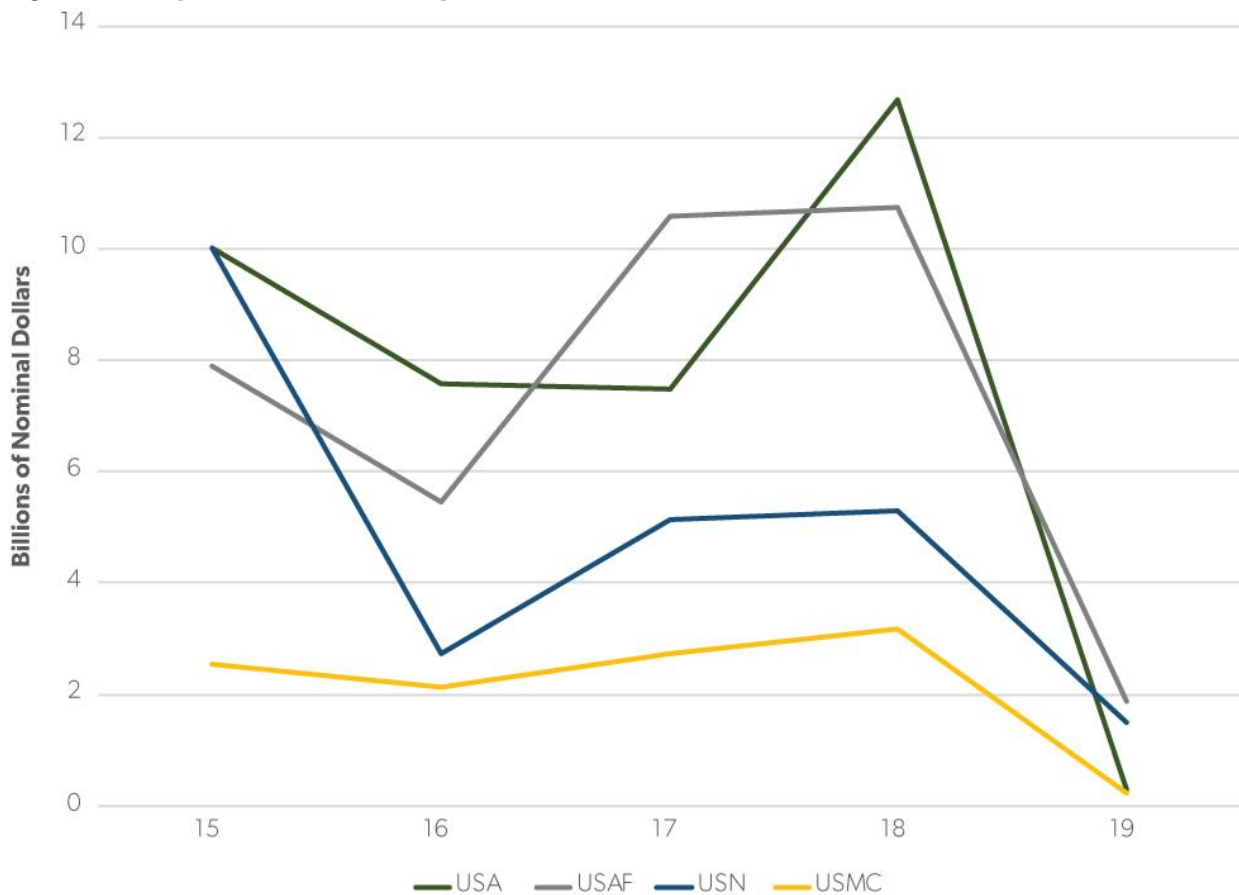
defense spending to flatline in the out-years. The president's 10-year budget plan would reinforce this trend by increasing defense spending at inflationary levels to keep real spending constant. There is no plan to introduce real growth in defense spending to compensate for the bow wave's arrival. In fact, expenditures are projected to decline after the conclusion of the FYDP (see Figure 11).

The Trump approach to the FYDP—large increases in FY18 and FY19 appropriations, followed by steady inflationary growth in the out-years—contrasts with an approach requested by Secretary Mattis in a summer 2017 hearing before the House Armed Services Committee. Alongside the chairman of the Joint Chiefs of Staff, Mattis called for 3–5 percent annual real growth over FY17 appropriations in the coming years.³²

Neither Trump nor Mattis picked their growth rates at random. The administration's FYDP sought to quickly return defense spending to levels outlined by Secretary of Defense Robert Gates in the final 10-year budget plan completed before the imposition of sequestration.³³ Likewise, Mattis' plan would gradually increase defense spending to eventually comport with the topline proposed by Senate Armed Services Committee Chairman John McCain in his January 2017 shadow budget (see Figure 12).³⁴

Factoring in congressional additions to his FY18 proposal, Trump's approach results in \$79 billion in additional national defense funding above Mattis' plan between FY18 and FY22. However, the president's proposal leaves the long-term future of the defense budget comparatively worse off than it would have been under the Mattis plan owing to its lower topline.

Figure 13. Collapse of the Unfunded Requirements List



Service	FY15	FY16	FY17	FY18	FY19
Army	35.5%	28.0%	32.6%	38.6%	80.8%
Navy	51.6%	100.0%	60.9%	71.8%	95.1%
Marine Corps	61.1%	88.4%	72.1%	79.9%	0%
Air Force	49.1%	68.1%	47.0%	62.5%	74.0%
Servicewide Average	45.7%	58.4%	48.1%	56.3%	78.2%

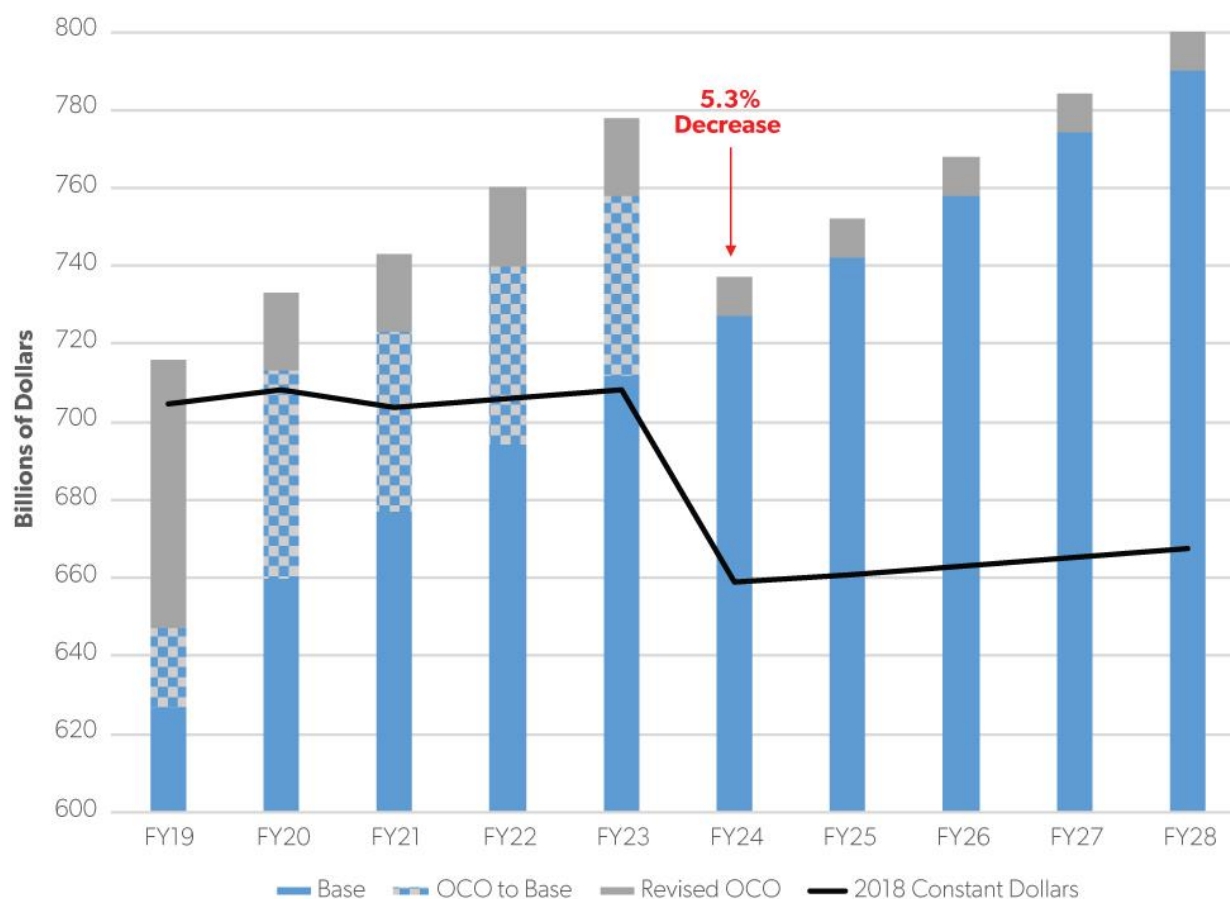
Source: Jen Judson, "Asking For Just \$308m, Army Submits Modest Wish List to Congress," Defense News, March 11, 2018, <https://www.defensenews.com/land/2018/03/11/asking-for-just-308m-army-submits-modest-wish-list-to-congress/>; Inside Defense, "Air Force's FY-19 Unfunded Priorities List," March 2, 2018, <https://insidedefense.com/document/air-forces-fy-19-unfunded-priorities-list>; and USNI News, "Navy and Marine Corps FY 2019 Unfunded Priorities List," February 27, 2018, <https://news.usni.org/2018/02/27/navy-marine-corps-fy-2019-unfunded-priorities-list>. For more details, see endnote 35.

Unfunded Requirements Lists Show Pentagon Support for the Administration's Priorities

Rather than resist the Trump approach, Secretary Mattis and the service chiefs have acquiesced to the administration's plan. As evidence, analysts

should consider the service's unfunded requirements lists (UFRs) submitted to Congress shortly after the release of PB19. These are uniformed leaders' most significant opportunity to advocate for congressional changes to defense spending in advance of markups to the National Defense Authorization Act.

Figure 14. Flat FYDP Casts Doubt on Future Growth



Source: Executive Office of the President of the United States, Office of Management and Budget, "Addendum to the FY2019 Budget," February 2018; and US Department of Defense, Office of the Under Secretary of Defense (Comptroller), "Defense Budget Overview," February 13, 2018, http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2019/FY2019_Budget_Request_Overview_Book.pdf.

No service used their submission to suggest a change in approach. Conversely, the unfunded requirements list for each service reached its lowest respective level since the reintroduction of the lists in FY15.³⁵

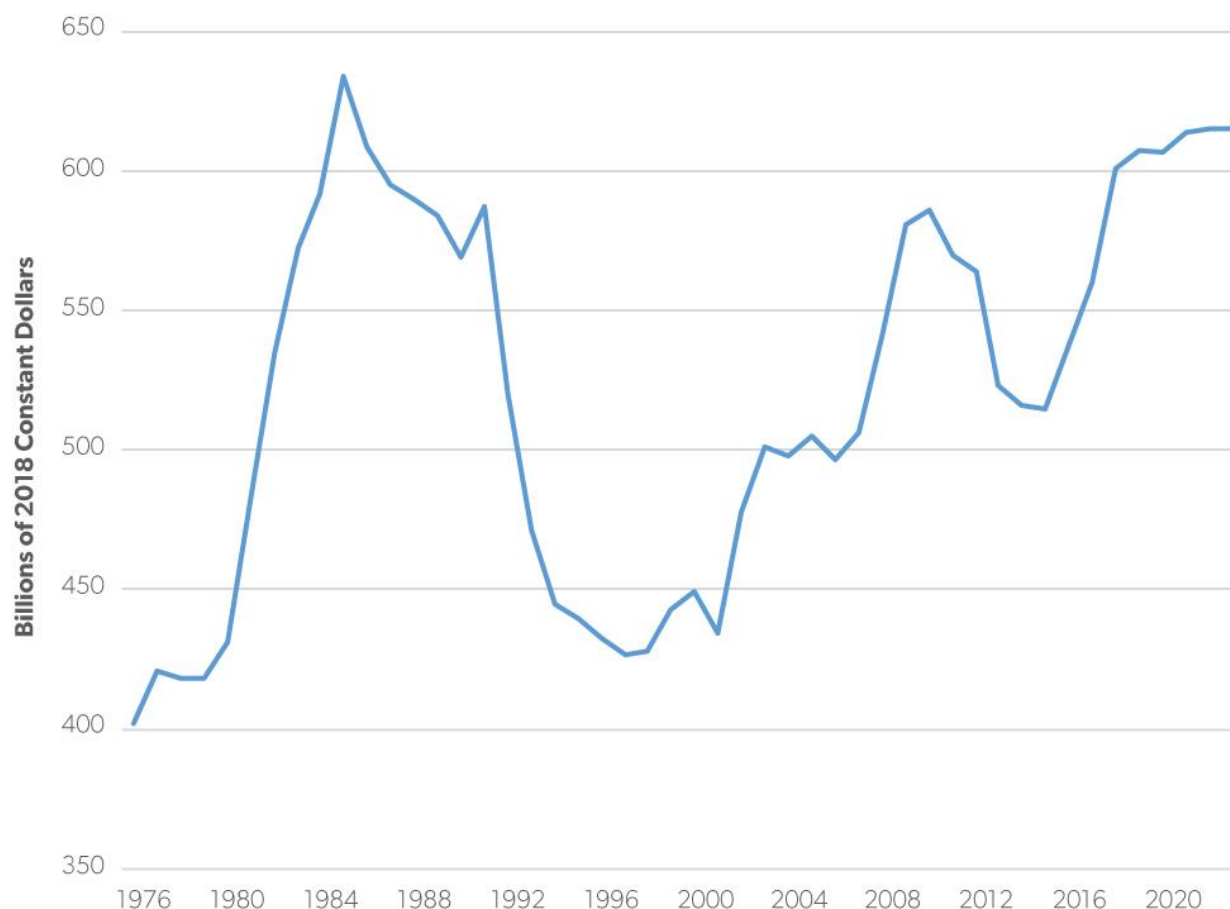
Nevertheless, an analysis of each list reveals a telling trend. While individual services have requested more for modernization in prior years, the ratio of overall dollars requested for modernization versus all other functions reached an all-time high in FY19. Thus, while the size of the unfunded requirements lists is at a historic low, the percentage of spending requested for modernization is at a historic high (see Figure 13). Of the new dollars requested for modernization, roughly half are for procurement and half for RDT&E.

Three conclusions can be drawn from these data. First, service leaders are satisfied with the size of the FY19 budget request. Second, their lingering

concerns revolve around the rate of modernization spending. Finally, the even ratio between procurement and RDT&E requests implies that they support the current allocation of resources and thus the capability-based approach to the three-year defense increase between 2017 and 2019.

Confirming uniformed leaders' appetite for a capability-based approach, Vice Admiral William Merz, deputy chief of Naval Operations for Warfare Systems, recently remarked, "We caution everybody that 355 [ships] is a target. . . . Capability is where we would really like to put most of our energy."³⁶ In a more far-ranging defense of the administration's decision to allocate most new dollars to military personnel and operations and maintenance, the chairman of the Joint Chiefs testified that readiness and modernization have now become a "distinction without a difference."³⁷

Figure 15. Historical Funding Trends, Excluding OCO



Source: Office of Management and Budget, “Historical Tables,” Table 5.6, <https://www.whitehouse.gov/omb/historical-tables/>; Consolidated Appropriations Act, Pub. L. No. 115-31; Consolidated Appropriations Act, Pub. L. No. 115-141; and US Department of Defense, Office of the Under Secretary of Defense (Comptroller), “DoD Budget Request, 2019,” February 2018, <http://comptroller.defense.gov/Budget-Materials/Budget2019/>.

Pentagon and White House Align to Curb OCO Spending

Beyond the unfunded requirements list, PB19 is remarkable for the synchronization between the White House and the Pentagon to curtail the scope of the OCO account. While eliminating OCO is a long-standing objective of OMB Director Mick Mulvaney, the push to accelerate its removal is attributable to Secretary of Defense Mattis and his team.³⁸

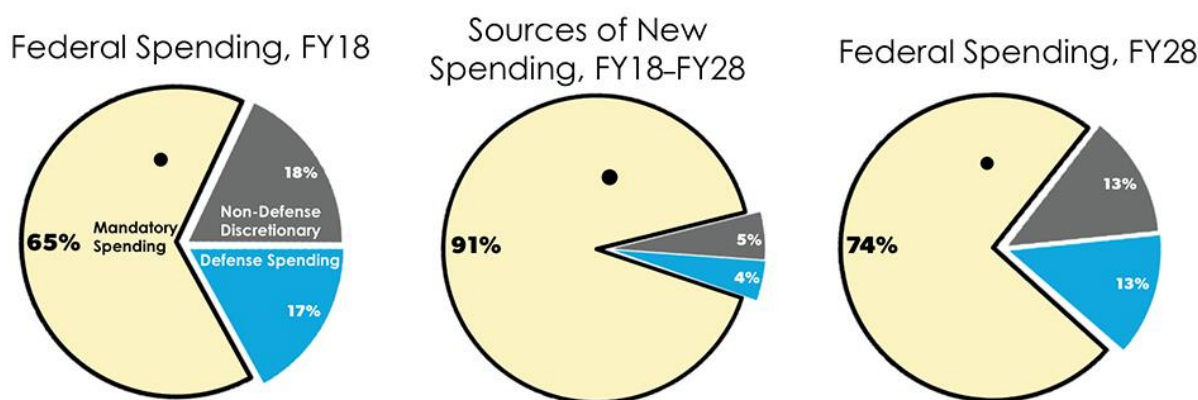
The White House’s budget originally requested \$410 billion in OCO spending over its 10-year plan. Department of Defense OCO would gradually draw down from \$89 billion in FY19 to \$73 billion in FY20 before leveling out at \$66 billion over the remaining

years of the FYDP. Beginning in FY24, the plan incorporated a placeholder of \$10 billion a year.

OMB’s plan contrasted with DOD budget materials. Mattis’ proposal requests \$69 billion in OCO for FY19, reflecting the change to the base budget secured by Congress as part of BBA18. All other years of the FYDP receive \$20 billion, and beyond FY23 the \$10 billion in annual OCO spending remains unchanged. The total request was for \$199 billion in OCO—less than half the White House request—with the difference transferred to base spending.

In a submission to Congress, OMB clarified that the Pentagon plan, not the White House one, is the official FYDP figure (see Figure 14). The shift of \$211 billion from OCO to base spending brings projections of nonemergency Pentagon spending

Figure 16. Will Buildup Continue? Compounding Fiscal Risks



Source: Congressional Budget Office, "The Budget and Economic Outlook: 2018 to 2028," April 2018, <https://www.cbo.gov/publication/53651>.

over the next decade in line with historical highs in defense spending since the conclusion of the Vietnam War, although less than peak expenditures in the 1980s (see Figure 15).

Looming Fiscal Risks to Defense Toplines

While the five- and 10-year projections provide stable outlooks for defense spending, significant obstacles may impede even the modest-to-flat growth rates proposed in the administration's plans. The Budget Control Act remains in effect through FY21, meaning one final two-year budget agreement is plausible. Without such an agreement, base defense spending will fall from \$647 billion in FY19 to \$576 billion in FY20.

A budget deal to achieve the level of spending proposed for FY20 would need to be even larger than BBA18.

The immediate rather than gradual transition away from OCO spending on counterterrorism contingencies primarily reflects the National Defense Strategy's mandate to reemphasize great-power competition, but this approach will magnify the effects of the budget caps come FY20. Factoring in the shift of \$53 billion in planned OCO spending to base accounts, the FY20 proposal for base national

defense spending is \$137 billion above the FY20 budget cap. A budget deal to achieve the level of spending proposed for FY20 would need to be even larger than BBA18.

Trends in the wider federal budget will likely preclude such a deal. Congressional Budget Office (CBO) data from June 2017 projected that growth in defense and nondefense spending would account for 7 percent and 4 percent, respectively, of all new federal spending over the next decade.³⁹ However, the subsequent passage of the Tax Cuts and Jobs Act and BBA18 dramatically changed CBO's projections, especially for defense.

According to the most recent CBO data, mandatory accounts will drive 91 percent of new spending over the next decade.⁴⁰ The continued growth of mandatory spending in all categories, coupled with declining revenues, will increase pressure to slash discretionary expenditures, including defense, as the federal budget is increasingly eaten by entitlements (see Figure 16).

Political Risks Generate Uncertainty for Future Defense Spending

Passing the Bipartisan Budget Act of 2018 required an unusual coalition of not only Republicans and Democrats but also fiscal and defense hawks. Spurred on by escalating tensions (particularly with Russia and North Korea) and a tragic litany of aviation and naval mishaps, political realities enabled defense hawks to secure the funding increases they had long sought.

With the worsening debt environment, the future of that coalition is uncertain. Contradicting the Pentagon's FYDP, Rep. Adam Smith (D-WA), the ranking member of the House Armed Services Committee (HASC), has said that "this is the largest the defense budget is going to be for, probably, about the next decade" and "we bought ourselves 18 months of 'certainty' . . . then what? . . . [We are] on a trajectory to have trillion-dollar deficits for as far as the eye can see."⁴¹ Sharing these fiscal concerns, Sen. Rand Paul (R-KY) forced the government into a brief shutdown over increases to the national debt brought about by BBA18.⁴² Opposition from deficit-minded members of Congress will only intensify in negotiations for the next deal.

While there is broad agreement on the topline for defense spending in FY19, some members of Congress have voiced their disapproval of certain aspects of the plan. Critiquing the capability-based approach, Rep. Rob Wittman (R-VA), chairman of the HASC Subcommittee on Seapower and Projection Forces, criticized the decision to move from procuring 14 ships a year in FY18 to 10 ships in FY19 and vowed to redirect funding toward shipbuilding in the forthcoming National Defense Authorization Act.⁴³ Concurrently, Rep. Smith has asked that further funding be shifted from nuclear modernization to resolving readiness shortfalls.⁴⁴ Beyond FY19, Rep. Mike Rogers (R-AL) and Rep. Jim Cooper (D-TN) of the Strategic Forces Subcommittee will continue to push their plan to construct a distinct Space Corps as a new military service based on the shortfalls in Air Force space procurement.

Forthcoming changes to the composition of Congress render predictions about the future of the defense spending topline unhelpful. Sen. Richard Shelby (R-AL) has ascended to lead the Senate Appropriations Committee and its Defense Subcommittee.⁴⁵ Likewise, the House Appropriations Committee will receive a new chair in the forthcoming months. The legislative priorities of Shelby and his House counterpart will play a critical role in shaping the future of defense spending. Beyond that, the 2018 midterm elections could drastically change the composition of Congress and unseat leading forces in the coalition that orchestrated the latest two-year budget deal.

For their part, service leaders have reacted to this uncertainty with stoicism. While welcoming

the higher topline, Secretary of the Air Force Heather Wilson has noted that "we can't expect that this rate of increase will continue."⁴⁶ Asked to speculate about the future, Secretary of the Army Mark Esper defended his decision to cut programs to fund the big six modernization priorities, noting that "you fix your roof when it's sunny out, and right now it appears to be sunny for the next couple of years."⁴⁷ The secretary's sanguine remarks carry an unmistakably pragmatic undertone: The sunshine is invariably followed by the storm.

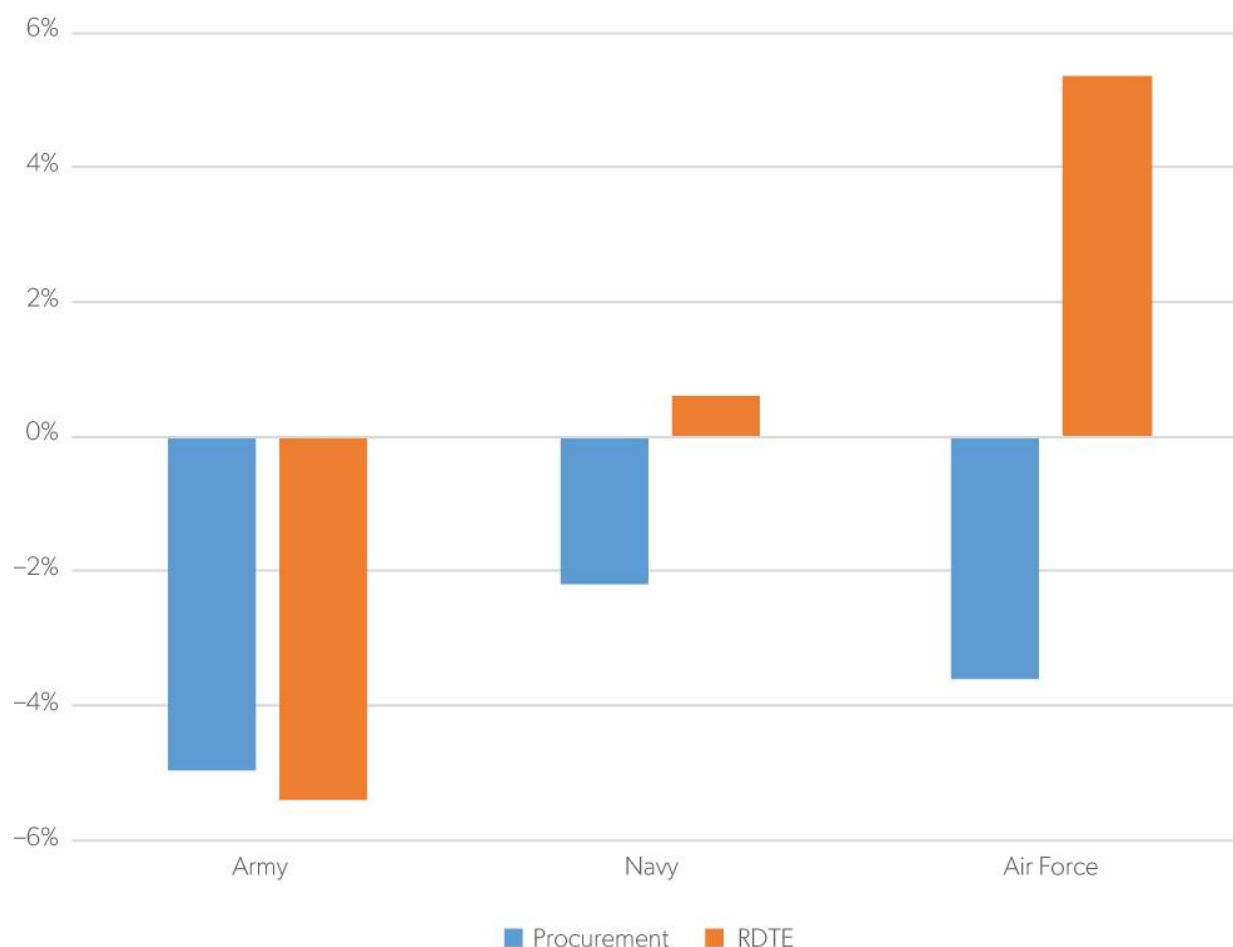
Conclusion: The Administration's Drive Toward a Capability-Centric Definition of Lethality

The administration's budget request for FY19 articulates a steady increase in defense spending to rectify current readiness shortfalls and spur research and development spending in next-generation capabilities as the primary means of modernizing the force. While uniformed and civilian leaders in the Pentagon are enthusiastic about this approach, fiscal and political realities will likely impede the increasing topline that such a strategy will require.

With topline unlikely to increase after this year, congressional leaders must act now to alter the distribution of modernization spending to balance the requirement to develop new capabilities with the need to procure replacements for existing ones (see Figure 17). While the forthcoming changes to congressional leadership could pose challenges to the recent increases in defense spending, they might also provide opportunities to build consensus around the need for a genuine modernization of the armed forces and an investment portfolio that better balances readiness, capacity, and capability.

Overinvestments in research and development to achieve dominance in the fights of the far future will not prepare the military for the significant acquisition challenge cresting just over the horizon. Conversely, these additions may actually increase risks for American forces by amplifying the potential that programs will be delayed or cancelled before they produce operational systems and by goading adversaries into aggressive action. As Chief of Staff of the Army General Mark Milley has remarked

Figure 17. Real Modernization Growth, FY18–PB19



Source: Office of Management and Budget, “Historical Tables,” Table 5.6, <https://www.whitehouse.gov/omb/historical-tables/>; Consolidated Appropriations Act, Pub. L. No. 115-141; and US Department of Defense, Office of the Under Secretary of Defense (Comptroller), “DoD Budget Request, 2019,” February 2018, <http://comptroller.defense.gov/Budget-Materials/Budget2019/>.

about forthcoming technologies, “None of that’s going to matter if you’re dead.”⁴⁸

To best prepare for future contractions of defense spending, the Pentagon cannot remain passive. One of Secretary Mattis’ three objectives for 2018 was incorporating business reforms into the DOD to get the most from every dollar spent. The ongoing audit of the Pentagon is a laudable initiative to improve the long-term financial health of the institution, and Pentagon Comptroller David Norquist is right to begin it now when the budget is best prepared to absorb the large upfront costs. Likewise, the Pentagon’s reform initiatives—from modernizing the defense travel system to improving information technology efficiency—are steps in the right direction.

But none of these programs could generate the immediate and significant savings promised by another round of base realignment and closure (BRAC), the lynchpin of an effective cost-savings plan for the Pentagon. Disappointingly, proposals for a BRAC plan were conspicuously absent from this year’s budget request.

Yet beyond any budgetary or programmatic decision, the Pentagon can best serve the national interest by articulating a clear definition of the “lethality” that lies at the heart of the National Defense Strategy—and discussing how to enhance it. Attempts to define this deceptively simple term rise above typical semantic debates about a bit of Pentagonese, for the meaning of this phrase has serious national security ramifications. It is clearly not synonymous with either “capacity” or “capability”

as typically used in strategic contexts—for if that is what the strategy intended, then why not frame it in familiar ways?

Instead, lethality must imply some mixture of modernization spending of all sorts. As evidenced by the 2018 National Defense Authorization Act, Congress interpreted this term to entail significantly more procurement spending than the approach

suggested by the administration’s budget request for 2019. As the authorization and appropriations cycles for FY19 reach their crescendo, Congress can best hedge against future geostrategic and budgetary risks facing the US military by normalizing a budgetary definition of lethality that strikes a balance among the Pentagon’s near-, medium-, and long-term needs.

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