Center for American Progress

The Fiscal Year 2013 Defense Budget: A Report Card

Grading the Pentagon's Latest Budget Request

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Introduction

The Obama administration's fiscal year 2013 defense budget halts the unrestrained growth in baseline military spending that has occurred over the last decade, essentially holding the budget steady in inflation-adjusted terms through FY 2017. But it does little to bring the baseline budget back down from its current level, which remains near historic highs.

If passed by Congress, the proposal would authorize $525.4 billion for the Pentagon's base budget for the fiscal year beginning in October, a $5.2 billion or 1 percent reduction from this year's spending level. The proposed budget recognizes that we can no longer afford the runaway growth in defense spending that has occurred since 1998.

Achieving the first real reduction in military spending in more than a decade is a welcome and major achievement. We applaud the administration for using the fiscal pressures facing the Pentagon to realign military priorities to reflect 21st century threats. And while we are encouraged by the $487 billion the Pentagon says it will cut over the next decade, much more work remains to be done. This plan still avoids many of the hard choices facing the Pentagon—on weapons systems, personnel benefits, and nuclear weapons, to name but a few.

The Obama administration has taken a small step toward a sustainable military stance with its latest defense budget. But throughout the debate surrounding the president's budget request it will be important to remember one fundamental reality: This country needs a comprehensive budget agreement. In order to restore our fiscal health, we need investment in research and development, infrastructure, education, and a jobs bill. These domestic issues are the most pressing national security challenges facing the country. The Department of Defense budget cannot and should not be formulated in a vacuum, without regard to domestic priorities. Keeping this in mind, here are the marks we're giving the U.S. Defense Department's budget request.

TABLE 1

Grading the Pentagon's FY 2013 budget request

One-year budget	For FY 2013, the Defense Department requested a baseline budget of $525 billion, $5 billion less than what it is authorized to spend this year. For a budget the size of the Pentagon's, a $5 billion cut is tiny, but the Obama administration deserves credit for requesting what will be the first real reduction in baseline defense spending since the late 1990s.	A-
10-year budget plan	The Pentagon also announced it will cut $487 billion from its budget over the next decade. This $487 billion number, however, is calculated from projected levels of defense spending. As a result, when one adjusts for inflation, these "reductions" essentially hold the defense budget steady at its current level. At a time when domestic programs such as the Women, Infant and Children's (WIC) program and the Low Income Home Energy Assistance Program are facing major cuts, real reductions in defense spending must be part of our budget solution. Freezing the Pentagon budget while cutting critical investments here at home is not good for U.S. security in the long-term.	D
Ground forces	With U.S. troops out of Iraq and on their way out of Afghanistan, the Department of Defense will return the size of the ground forces to near their pre-war levels. As the Center for American Progress has long advocated, shrinking the ground forces by 100,000 positions will yield savings of about $10 billion per year.	A+
Troops in Europe	The Army will also remove two brigades from Europe, a move that will cut the U.S. presence on the continent to about 70,000 troops. The United States cannot afford to continue subsidizing European defense, especially while many of our allies cut their defense budgets to deal with their own deficit woes. This is a step in the right direction, but much greater reductions are possible.	B
F-35 Joint Strike Fighter	The Department of Defense will wisely slow production of the F-35 program, which continues to be plagued by technical problems. But Secretary of Defense Leon Panetta took the most troubled version of the plane—the Marine Corps' F-35B variant—off probation in February. The management of the F-35 program has been a complete disaster. With the plane on track to be the most expensive weapons program ever, Secretary Panetta should seriously consider cancelling the Marine Corps and Navy versions of the F-35 in favor of the capable and less expensive F/A-18 E/F.	C
Nuclear weapons	The Pentagon's strategic guidance document, released in early January, states "It is possible that our deterrence goals can be achieved with a smaller nuclear force." Yet the FY 2013 budget makes no mention of reducing the size of the U.S. nuclear arsenal beyond New Strategic Arms Reduction Treaty, or New START, levels, instead reaffirming the Defense Department's commitment to building a new bomber and nuclear submarine. Our massive nuclear stockpile is a relic of the Cold War, expensive to maintain, and largely useless in combating the threats facing the nation today. As the Obama administration seeks to find responsible reductions in defense spending, our bloated nuclear stockpile presents a tremendous opportunity for savings, yet it remains oddly untouched in the FY 2013 budget.	F
Health care	The Pentagon will add new fees for working-age military retirees, based on their ability to pay, as well as an enrollment charge for Tricare-for-Life. These reforms are a strong step toward restoring the fiscal sustainability of the Tricare program, while also ensuring that all retirees and their dependents continue to have access to affordable health care.	A
Retirement	Secretary Panetta has asked Congress to establish an independent BRAC-like commission to review the military's retirement system, which has been plagued by unsustainable cost growth. Secretary Panetta is right to draw attention to the structural problems facing the retirement program. But the secretary has the authority to reform this system himself. Asking an outside group to make the hard choices to address this politically toxic issue seems like a surefire way to ensure nothing happens.	C
Pay	In recent years, Congress has repeatedly authorized pay raises above and beyond Pentagon requests. As a result, since 9/11, military salaries have grown far faster than the rate of inflation and now consume about one-fifth of the overall defense budget. To begin to address this issue, Secretary Panetta announced that the Pentagon will phase in more limited raises beginning in FY 2015.	B
Defense Base Closure and Realignment Commission, or BRAC	Trying to get a BRAC setup in an election year is a non-starter. Secretary Panetta wisely chose not to rely on a new round of BRAC closings to achieve his target of $487 billion in cuts (any cuts resulting from BRAC would come on top of the $487 billion total). But the announcement distracts the debate from cuts that would reduce excess spending while updating our national security strategy.	C
Investing in a 21st century military	The Pentagon requested $3.7 billion for drones, primarily the Predators and Reapers which have been so effective in Afghanistan and Pakistan. Additionally, the budget requests $3.4 billion for U.S. Cyber Command.	A
Overseas contingency operations	President Obama deserves a tremendous amount of credit for ending the war in Iraq and putting the U.S. on track to end the combat mission in Afghanistan by 2013. His budgetary reward—a $27 billion decline in the OCO budget (funding for the wars in Iraq and Afghanistan), which will fall to $88 billion in FY 2013. In the past, however, the OCO budget has been a slush fund for programs that should have been included in the baseline budget. In FY 2012, for example, about $10 billion in defense programs were transferred from the base budget to the OCO budget in order to help Congress stay within the caps set by the Budget Control Act. It is imperative that the Pentagon does not rely on such budget trickery again. As the troops leave, the OCO budget should be an arena for real savings.	TBD

$487 billion in "cuts"

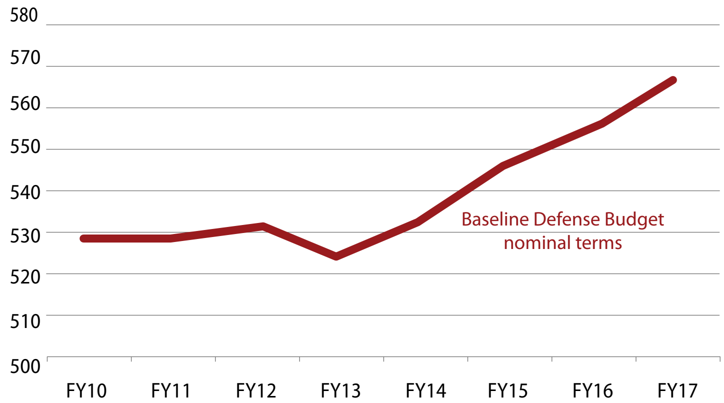
At first glance, nearly half a trillion dollars in reductions might sound like a huge cut. But in reality, if Secretary Panetta's reductions survive Congress, the baseline defense budget will fall by just 1 percent, or $5 billion, next year and resume its growth thereafter.

Because these "cuts" come from projected increases in defense spending, the Pentagon's budget will continue to grow at about the same rate as inflation, as shown in Figure 1. President Obama and Secretary Panetta are reducing the amount that the Department of Defense plans to spend, but not enough to bring the budget down significantly.

FIGURE 1

U.S. defense spending still on the rise

Continued budget growth, fiscal year 2010 to fiscal year 2017



Source: Department of Defense, "Fact Sheet: The Defense Budget" (2012), available at http://www.defense.gov/news/Fact_Sheet_Budget.pdf.

This stands in stark contrast with previous post-war defense drawdowns. President Dwight Eisenhower cut the budget by 27 percent after the Korean War, President Nixon reduced the budget by 29 percent after Vietnam, and the trifecta of president's Reagan, H.W. Bush, and Clinton slashed defense spending by 35 percent after the end of the Cold War.

Under the proposed reductions, in real terms, the Pentagon will spend about 8 percent less over the next decade than it originally projected. These cuts fall short of a number of bipartisan deficit-reduction proposals, including those of the presidentially appointed Deficit Reduction (Simpson-Bowles) Commission and the Gang of Six deficit-reductions plans. In fact, the Pentagon will still spend $2.73 trillion over the next five years, about $150 billion more than the $2.59 trillion spent over the last five years. This is not austerity.

A more nimble force

While the Defense Department's plan for the next decade shelters the department from the cuts facing domestic programs, Secretary Panetta has skillfully used the budgetary pressures facing the department to create an opportunity to update and improve U.S. national security strategy for the post-Iraq and Afghanistan era.

The cornerstone of the Pentagon's efforts to achieve $487 billion in savings over the next decade is a reduction in the size of the ground forces. The Army, which added 65,000 positions to carry out the wars in Iraq and Afghanistan, will return to its 2005 size of 490,000. The Marines will shrink from 202,000 to 182,000. With the United States unlikely to undertake extended nation-building operations in the foreseeable future, this shift will move the U.S. military to a more agile and sustainable posture focused on protecting U.S. interests in the Middle East and Pacific.

Similarly, the Obama administration's plan to remove two brigades from Europe will focus U.S. military resources where they are most needed. There is no reason for the United States to continue stationing 70,000 troops on a stable continent that has more than enough resources to provide for its own defense.

The 2010 Sustainable Defense Task Force found that given improved U.S. capabilities for long-range strikes and rapid troop transport, the United States can reduce its troop presence in Europe and Asia by one-third without harming American security or interests. Withdrawing 33,000 troops from Europe and 17,000 from Asia—far more than Panetta's proposed withdrawal of two brigades—would enable savings $80 billion over the next decade.

Personnel

In its budget briefing book, the Pentagon announces that while personnel costs account for one-third of the baseline defense budget, just one-ninth of the reductions in this year's budget plan come from military compensation or benefits. President Obama has demonstrated a deep and ongoing commitment to taking care of our men and women in uniform. But sheltering the Pentagon's personnel costs from immediate reductions ignores the serious, long-term challenges facing the military's retirement and health care systems, a problem that the Defense Department's internal task forces have identified time and time again over the past four years.

This fiscal year—FY 2012 ending in October 2012—the Pentagon will spend about $100 billion—20 percent of its baseline budget—on health care and pensions for military retirees, $52 billion on health care, and another $47 billion on retirement. These costs have more than doubled over the past decade and will continue to skyrocket and take an increasing share of the total budget unless significant changes are made.

Retirement

As noted above, the Obama administration is right to draw attention to the flaws in the military retirement system. Under current Defense Department policy, service members who spend 20 years in the military become eligible for a generous pension; those who serve less than 20 years leave with nothing.

There are two major flaws with this system. First, it leaves the vast majority of our men and women in uniform without any retirement savings when they leave or are forced to leave the force. Only 17 percent of service members serve the 20 years necessary to become eligible for retirement benefits; 83 percent do shorter stints in the armed forces and then leave. Additionally, no distinction is made between those who have served multiple combat tours and those who have not. As a result, young enlisted troops—who have borne the brunt of the burden of the wars in Iraq and Afghanistan but generally do not spend 20 years in the military—are the most likely to be left without retirement benefits.

Second, the current system provides little incentive for service members to remain in the service after they hit the 20-year mark. About 76 percent of men and women who reach 20 years in the service leave before their 25th year.

Inequitable and unsustainable, the current military retirement system is not serving the majority of our troops or the department as a whole. But a congressional commission may lack the political capital necessary to achieve meaningful change on such a divisive and politicized issue. Secretary Panetta should use his authority to work with Congress and guide the reform process himself.

Health care

The Defense Department's FY 2013 budget request includes $48.7 billion for the Tricare military medical insurance program, a 300 percent increase over its fiscal year 2001 budget. Due to this cost growth, nearly 10 percent of the baseline defense budget will go to providing health care to active duty service members, military retirees, and their dependents.

If these costs are allowed to continue to grow over the next decade, health care costs will consume an increasingly large percentage of the budget and draw funds away from other crucial national security initiatives.

To control costs in the Tricare military health care program without asking more of our active duty service members (who will continue to receive health care at no cost) or lower-income or disabled veterans (who receive health care through the Department of Veterans Affairs), the Center for American Progress has long recommended restoring the cost-sharing balance between military retirees and the American taxpayer.

Over the past 15 years, Congress has failed to adjust Tricare fees to keep up with skyrocketing increases in health care costs. In fact, the health care fees paid by military retirees have been raised just once since Tricare was created in the mid-1990s. As a result, working-age military retirees pay just $520 per year for health coverage for an entire family.

In its FY 2013 budget, the Obama administration notes that, "In 1996 … a working age retiree's family of three who used civilian care contributed on average roughly 27 percent of the total cost of its health care. Today that percentage has dropped to only 11 percent."

As a result, the administration has wisely announced new fees for working-age military retirees, based on their ability to pay, as well as an enrollment charge for retirees over

65 who enroll in Tricare-for-Life. Most significantly, after 2016, enrollment fees will be pegged to medical inflation, ensuring that Congressional inaction will not again imperil the military's health care system.

These reforms are a strong step towards restoring the fiscal sustainability of the Tricare program, while also ensuring that all retirees continue to have access to affordable health care. For the wealthiest working-age retirees, annual enrollment fees will quadruple to about $2,000—still far less than most civilian plans—while retirees with pensions of less than $22,589 will pay just $893 per year.

Going forward, to bring down costs more rapidly, the Obama administration should examine phasing in the changes by FY 2015—rather than waiting until FY 2017— and it should requiring working-age retirees who are eligible for civilian coverage to accept coverage from their private employer.

Next steps

Defense cut recommendations from left, right, and center

With the 10-year plan in their FY 2013 budget, President Obama and Secretary Panetta have halted the real growth in the baseline defense budget. But as our country struggles to confront its budget deficit problem over the next decade, there is much room in the Pentagon budget for additional cuts.

In recent months, four organizations from left, right, and center—the Center for American Progress, office of Sen. Tom Coburn (R-OK), bipartisan Bowles-Simpson fiscal commission, and nonpartisan Project on Government Oversight/Taxpayers for Common Sense—have all released reports outlining additional opportunities for controlling Pentagon spending. Despite the political differences among the authors, there is remarkable overlap in the recommendations for reducing defense spending to address the deficit. (see Table 2 on next page)

Implementing these bipartisan recommendations will allow the Pentagon to responsibly draw down its budget without negatively affecting American security.

TABLE 2

Bipartisan defense cuts

	Center for American Progress	Project on Government Oversight/TCS	Sen. Tom Coburn (R-OK)	Bowles-Simpson Deficit Commission
Reduce F-35 procurement	X	X	X	X
Reduce V-22 Osprey procurement	X	X	X	X
Reduce nuclear arsenal	X	X	X	
Reduce Carrier fleet	X	X	X	
Reduce Littoral Combat Ship procurement	X	X		

Reduce F-35 procurement

Since 2001, the cost of each F-35 has risen from $69 million to $159 million, and estimates of the lifetime operational costs of the F-35 warplane have more than doubled to $1 trillion. As a result, the F-35 is on track to be the most expensive weapons system in U.S. history. Last week, the Pentagon's acquisition chief, Frank Kendall, said the Pentagon's decision to rush production on the fighter before it had completed a successful test flight was "acquisition malpractice." Sens. John McCain (R-AZ) and Carl Levin (D-MI) have also released a letter publicly questioning Secretary Panetta's decision to take the Marine Corps' version of the plane off probation despite serious technical problems and massive cost overruns.

The Department of Defense is right to slow production of the fighter to allow time to fix the plane's design flaws. But time alone may not be enough to make the F-35 program a sensible investment in the long-term. Alternative fighter jets such as the F/A-18E/F Super Hornet continue to be effective for the Navy and the Marines, so cutting the F-35's Navy and Marine variants—while allowing the Air Force to keep its entire buy—would help control spiraling costs in the program without compromising American air superiority.

Cancel the V-22

The V-22 Osprey helicopter has long been hampered by cost overruns and technical problems. A May 2009 Government Accountability Office report found that "in Iraq, the V-22's mission-capability and full-mission-capability rates fell significantly below… rates achieved by legacy helicopters." Given the V-22's high price tag—it costs five times as much as other models—and lackluster performance, there is no reason for the Defense Department to continue sinking money into this program. Terminating the V-22 would save $2 billion in FY 2013 and at least $10-12 billion in the next decade.

Shrink the size of the nuclear arsenal

Our massive nuclear stockpile is a relic of the Cold War, expensive to maintain, and largely useless in combating the threats facing the nation today. According to strategists at the Air War College and the School of Advanced Air and Space Studies, the United States requires only 311 nuclear weapons to maintain a credible deterrent, rather than the 1,550 allowed under the New START treaty. Such a reduction would save at least $11 billion a year.

Reduce the carrier fleet from eleven to nine

The United States currently fields 11 aircraft carriers when no other country has even one of comparable size and power. Given this tremendous imbalance, the Pentagon could hold off building additional carriers, which cost $15 billion each, and consider retiring two of our existing carrier battle groups.

Reduce procurement of the Littoral Combat Ship

The U.S. Navy currently possesses more firepower than the next 20 largest navies combined—many of which are U.S. allies. With such an overwhelming advantage, the Pentagon can maintain U.S. military superiority while reducing procurement of the Littoral Combat Ship to two per year.

Conclusion

President Obama and Secretary Panetta have done well to regain control of defense spending in their FY 2013 budget plan. The budget halts the massive growth of the defense budget since 2001, holding the budget stable in inflation-adjusted terms. Moreover, the administration has used the fiscal pressure facing the Pentagon as an opportunity to achieve a much needed update to U.S. security strategy, moving the U.S. military away from Cold War tactics toward an agile and sustainable posture focused on protecting U.S. interests in the 21st century.

Nevertheless, much work remains to be done, and the FY 2013 budget leaves a number of underperforming, outdated, or unsustainable programs untouched.

Excess defense spending does not make our country safer—it adds to our debt and diverts resources away from key investments here at home. In these times of fiscal austerity, each dollar spent on defense pulls funds from critical investments in the American economy—the real foundation of the United States' global power. In the past decade, the United States squandered its power attempting to build nations overseas. In the coming decade, we must refocus our attention here at home.

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