



# PDA

## PROJECT ON DEFENSE ALTERNATIVES

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### Going for Broke The Budgetary Consequences of Current US Defense Strategy

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**Summary:** The sharp rise in the Pentagon's base budget since 1998 (46% in real terms) is substantially due to strategic choice, not "security requirements," *per se*. It reflects a refusal to set priorities as well as a move away from the traditional goals of military deterrence, containment, crisis response, and defense to more ambitious ends: threat prevention, control of the global commons, and the transformation of the global security environment, including troubled states. The geographic scope of routine US military activity also has expanded.

The effort to do more with a smaller military has led to a substantial growth in the pool of contract labor, driving up Operations and Maintenance (O&M) costs across the 1986-2010 period. In 2010, O&M costs per full-time person in uniform were 74% higher than in 1986, in real terms. The Pentagon's labor pool – military, civilian DoD, and contractor – is probably only 10% - 20% smaller today than in 1986. The Government Accountability Office reports service estimates of more than 766,000 contractors – perhaps much more. Estimates of contractor costs to DoD range between \$150 billion and \$200 billion per year.

The present defense strategy – which evolved over the course of four *Quadrennial Defense Reviews* – also has boosted modernization "requirements." Modernization efforts have been pegged to sustain the margin of global military superiority granted the United States by the circumstance of Soviet collapse. This is central to the conceit of dissuading military competition worldwide. And it has limited the past practice of trading off modernization spending for war spending. Instead, the period 1998-2010 saw enormous expenditures for both: \$1.8 trillion for military modernization and \$1.3 trillion for war. Not unexpectedly, the total rise in Pentagon spending between 1998 and 2010 (91%) is comparable to the rise in spending during the Vietnam war era and the Reagan years *combined*.

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A paradox haunts the current debate over defense spending and deficit reduction. In recent years the defense budget has rebounded to peak Cold War levels of spending despite the absence of any threat remotely comparable in magnitude to those of the Cold War era. This is the discordant backdrop to defense leaders' claims that catastrophe awaits should the Pentagon's base budget dip much below the average level of the Reagan years (which was about \$525 billion in 2011 USD).

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Deciding “how much is enough” requires more than threat assessment, of course. Among other things, the choice of security goals and strategy matter. And with the end of the Cold War, the United States began to adopt progressively more challenging goals for its armed forces:

- The Cold War emphasis on defense and deterrence gave way to increased emphasis on various forms of preventative action – not only preventative war and regime change, but also greater reliance on the military to “shape the strategic environment” and preclude the emergence of threats. Efforts to reshape nations internally gained prominence with the onset of wars in the Balkans and, especially, Afghanistan and Iraq.
- The emphasis on preparing against real and present military threats gave way to an increased emphasis on preparing against a broad array of lower probability and future possible threats. Preparing for the possible rise of a new peer military adversary also came to play a more central role.
- The geographical scope of significant routine US military activity grew wider step-by-step over 20 years – beginning with a stronger presence in the Persian Gulf and then spreading into Eastern Europe and the Balkans, South and Central Asia, the Horn of Africa, and sub-Saharan Africa. Along with this, the number of formal security co-operation agreements with countries other than long-standing US allies grew by more than 50%. Today the US military is cooperatively engaged with more than 150 nations.
- Military operational goals also grew more ambitious. These pertain to how America fights its wars and handles multiple contingencies.

How much force must we be able to deploy, how fast, and how far? How quickly must we “finish up” and prepare to redeploy? How much risk and uncertainty can we tolerate? “Requirements” vary greatly depending on how one answers these questions – with profound implications for force size, modernization, and readiness standards. US strategy for the pivotal two-war scenario has ambitiously assumed wars beginning just 45 days apart and has sought the capacity to deploy within 10 days, conclude the first war within the next 30, and redeploy in just 30 more.<sup>1</sup>

This evolution in US defense goals and strategy generated several force and posture requirements:

- First was a need to indefinitely sustain the historic margin of global military superiority bequeathed the United States by the circumstance of Soviet collapse. This meant restoring and maintaining a high pace of equipment modernization.
- Second was a need to sustain, extend, and diversify the global command structure, presence, and routine activity of the US armed forces, while also preparing for and conducting a wider range of ad hoc operations.

The latter requirement clearly argued against force reductions much below the 1.4 million active-component strength enunciated in 1993. Additionally, it argued for maintaining or enhancing those support assets needed to guarantee higher levels of readiness, flexibility, and operational tempo.

The next section explores how these requirements affected the change in budgeting between 1986 and 2010, eventually leading to a level of expenditure seriously at odds with other national goals.

## Budgeting for Strategy

Tables 1 and 2 show the change in base budget defense spending over two 12-year periods beginning in 1986. The first shows total spending in 2011 dollars. The second divides these sums by the total number of full-time active-component and full-time reserve personnel to give “per person” estimates in 2011 dollars. Doing this controls for changes in force size and provides a better sense of how spending priorities have changed. (Left out of the picture is that portion of DoD budgets allocated to Overseas Contingency Operations.)

**Table 1. Change in DoD Base Budget Accounts, 1986-2010**  
(Billions, 2011 USD)

	1986	1998	2010	Change 1986-1998	Change 1998-2010	Change 1986-2010
Personnel	154.6	107.5	140.8	-30.5%	31.0%	-8.9%
Modernization	213.5	103.8	188.1	-51.4%	81.2%	-11.9%
Operations & Maintenance	161.8	145.9	186.6	-9.8%	27.9%	15.3%
Military Construction & Housing	14.1	11.8	23.1	-16.3%	95.8%	63.8%
Total	544	369	538.6	-32.2%	46.0%	-1.0%

Source: *National Defense Budget Estimates for FY 2011 – “Green Book”* (Washington DC: Office of the Under Secretary of Defense Comptroller, March 2010); Amy Belasco, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11* (Washington DC: Congressional Research Service, 29 March 2011).

Note: Totals exclude sums from revolving funds, trusts, and receipts

Between 1998 (when the post-Cold War decline in defense spending ended) and 2010, the Pentagon’s base budget rose by 46% in real terms – a surge roughly comparable to that of the post-Vietnam Reagan era. Table 1 shows that about half of the post-1998 rise was due to increased spending on military modernization. Although lower in absolute real terms than at the peak of the Reagan spending spree, Table 2 shows that it is nearly one-third higher in per person terms.

Most of the 1990s saw a sharp decline in modernization spending, as the reduced military absorbed the fruits of the Reagan period. So, truly phenomenal growth had to occur between 1998 and 2010 to bring per person expenditures back to the Reagan level and above. All told, the Pentagon base budget absorbed \$1.8 trillion for research, development, and equipment procurement during the 1998-2010 period.

**Table 2. Change in Per Person Spending DoD Base Budget, 1986-2010**  
(Thousands, 2011 USD)

	1986	1998	2010	Change 1986 - 1998	Change 1998-2010	Change 1986-2010
Personnel	69.2	73.1	94.9	5.6%	29.8%	37.1%
Modernization	95.6	70.6	126.8	-26.1%	79.6%	32.7%
Operations & Maintenance	72.5	99.3	125.8	37.0%	26.8%	73.7%
Military Construction & Housing	6.3	8.0	15.6	27.1%	94.0%	146.7%
Total	243.6	251.0	363.2	3.0%	44.7%	49.1%
Full-time Active & Reserve Personnel (thousands)	2233	1470	1483			

Source: *National Defense Budget Estimates for FY 2011 – “Green Book”* (Washington DC: Office of the Under Secretary of Defense Comptroller, March 2010); Amy Belasco, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11* (Washington DC: Congressional Research Service, 29 March 2011).

Note: Per person figures based on Active Component end strength plus full-time Reservists.

The other half of the post-1998 rise in base budget spending went into personnel, military construction, and operations and maintenance (O&M). Increased health care costs, which have received a lot of attention in Congress and the media, fall into this set of categories.

Rising health care costs plus other military personnel costs account for about 30% of the total post-1998 increase in expenditure. This leaves about 20% due to increased military construction and O&M expenditures (apart from health care). These last two categories – construction and O&M – are especially relevant to efforts to maintain and enhance America’s routine global military presence and activity. However, it takes a longer-term view to gain a full appreciation of the rise in O&M spending.

Table 2 shows that, since 1986, O&M spending has risen a remarkable 74% in real, per person terms – more than twice as fast as per person expenditures on modernization and personnel. This growth is evenly divided between the two 12-year periods examined in the tables. During the more recent period, health care costs account for more than half of the growth in base budget O&M. Across the whole period, however, much of the rise is due to the Pentagon’s increased reliance on contract labor, which is paid largely out of the O&M account.

### **The Rise in Contract Labor (and what it means)**

Relevant to gauging the growth in contract labor, DoD purchases of outside goods and services grew as a budget slice from 45% to 57% between 1989 and 2009.<sup>2</sup> Within this, the purchase of services grew larger relative to "goods." According to one study of DoD contracts, "services" grew from about one-third of purchases in 1984 to 56% by 2003.<sup>3</sup>

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Today, by various estimates, DoD spends between \$150 billion and \$200 billion on service contracts yearly. A series of studies by Paul Light of NYU's Wagner Graduate School of Public Service suggest that the Pentagon's "shadow workforce" may have grown by 40% between 1990 and 2005, while the pool of military and DoD civilian personnel each declined by 32%.<sup>4</sup> And there has been substantial growth since 2005, especially for service in Iraq and Afghanistan.

How many contractors DoD employs today is anyone's guess. GAO cites armed services and DoD agency estimates of 766,000 full-time-equivalent contractors in 2009 – while also recognizing that this count may have missed a substantial number because many contractor services are recorded as "goods."<sup>5</sup> The expenditures for service contracts would suggest a higher number. At any rate, the current dependancy on contract labor is not in doubt. Well over 70,000 contract personnel support defense headquarters and combatant command staffs – double the number of ten years ago.<sup>6</sup> And they augment troops on the ground as well – obviously in Iraq and Afghanistan, but also in other areas. For instance, about 5,000 contractors (and 8,000 civilian DoD personnel) support the 28,500 uniform personnel in Korea.<sup>7</sup>

The growth in the contractor cohort of DoD employees countervails the impression that the Pentagon workforce has declined by 30% since the Cold War's end. Include contractors in the count and the decline is more likely in the 10% to 20% range. Another relevant countervailing factor is the increased reliance on reserve personnel. Whereas reserve personnel accounted for about 12% of the base budget for personnel in 1986, they account for 16% today. (This, apart from war costs.) Taken together, these two factors suggest that DoD's total labor pool is currently much closer to the Cold War standard than commonly assumed. This provides the essential foundation for pursuing a chosen set of goals and tasks nearly as demanding as those of the Cold War.

## **Getting to Broke**

The United States spent nearly \$900 billion less on defense during the 1990s than during the 1980s. The chief bill payers for this peace dividend were the modernization and personnel accounts, mostly the former. Both accounts receded as a consequence of force reductions, but weapon procurement did much more so. This, because the smaller force of the 1990s benefitted from Reagan's recapitalization of the larger military of the 1980s. The excess was simply cascaded forward, lowering the average age of combat equipment fleets without spending a penny. However, there was no question that modernization would need to rebound eventually.

As noted before, O&M spending during the 1990s declined only marginally in absolute terms and actually rose substantially in per person terms. This meant that once the "procurement surfeit" of the Reagan years ran out and a new phase of recapitalization began, it would substantially eat into the peace dividend. The hope for retaining the dividend lay in efforts to improve business practices, reduce excess infrastructure, and streamline support services. That is, it depended on rolling back O&M and infrastructure spending.

However, several developments converged to undermine efforts to hold the base budget in check:

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- Efforts to restore efficiencies in O&M and support, or find new ones, largely failed in achieving their savings targets.<sup>8</sup> Savings were only on the order of a few percent – hardly enough to fund recapitalization.
  - There was continuing pressure between 1998 and 2010 to add to the mission, training, and command load as strategic ambitions continued to grow. With this, upward pressures on O&M and construction accounts continued.
  - The rebound in modernization expenditures was significantly greater than anticipated. This, for several reasons:

First, modernization programs suffered significant cost growth due to long-standing dysfunctions in the acquisition system, made worse by weak oversight after 9/11.

Second, with insufficient incentives to set priorities, integrate programs, and economize, modernization proceeded in a disjointed or discordant way. The services simultaneously sought upgrades to legacy systems, the introduction of “interim systems,” and the exploration of networked and “revolutionary” systems.

- Personnel and health care costs rose more than anticipated, also for several reasons:

First, the payroll for reservists increased as they played a bigger role in taking up the growing military workload, even outside of war requirements.

Second, Congress granted larger than scheduled pay and benefit increases.

Finally, health care costs reflected the rise in American society as a whole, but recipient fees and co-payments did not.

Compounding the health care issue, more ex-service member families not yet eligible for Medicare chose to stay within the military health care system because it cost them less.

*Which of these factors is most responsible for the sharp rise in the per person cost of the US military?* O&M spending accounts for 45% of the rise; modernization, 26%; personnel, 21%. Most of the increase in O&M spending, much of the modernization increase, and some of the personnel increase can be traced to the augmentation of US defense goals, strategies, and missions. And much of this cost growth is a matter of bringing more hands – mostly contractors – to the expanded task list.

Our accounting of cost drivers so far has not taken into account the role of recent wars. Adding war costs to the ledger, shows the total rise in Pentagon spending between 1998 and 2010 to be 91%. Two relevant points about war spending are:

- The recent wars have proved uniquely expensive, averaging nearly twice the per-person/per-year cost of the Vietnam conflict (as measured in 2010 USD). A key reason is the expanded use of contractors. The ratio of contractors to military personnel in the recent wars has been nearly one-to-one, which is five times greater than the ratio in the

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Vietnam conflict. At their peak, today's wars involved 530,000 military and contractor personnel (including regional support). By comparison, the Vietnam conflict involved 600,000. As is the case with current US military activity generally, the actual scale of effort is much greater than apparent when looking only at military personnel numbers.

- Prior to the recent period, defense managers did not often choose to simultaneously wage significant wars and undertake major unrelated modernization programs. However, the current US defense strategy cannot forgo continuous, energetic equipment modernization. This is central to the stratagem of dissuading others from entering into military competition with the United States. So the stratagem precludes a trade-off between expenditures for war and modernization. As a result, the rise in total DoD spending between 1998 and 2010 is comparable to the increases during the Vietnam war period and the Reagan years combined.

## Notes

1. Remarks by Gordon England, Secretary of the Navy, Naval Institute Warfighter's Symposium, Virginia Beach, Virginia, 29 September 2004; General Michael Ryan, testimony before the Defense Subcommittee, US Senate Committee on Appropriations, 17 March 1999.
2. Derived from Federal Procurement Report (Washington DC: Procurement Data Center, 1989) and Consolidated Federal Funds Report FY 2008 (Washington DC: Census Bureau, July 2009).
3. Larry Makinson, *Outsourcing the Pentagon: Who benefits from the Politics and Economics of National Security?* (Washington DC: Center for Public Integrity, 29 September 2004).
4. Paul C. Light, "The New True Size of Government," Organizational Performance Initiative Research Brief #2 (New York NY: Wagner Graduate School, NYU, August 2006).
5. Government Accountability Office, *Further Action Needed to Better Implement Requirements for Conducting Inventory of Service Contract Activities* (Washington DC: GAO, Jan 2011).
6. Government Accountability Office, *Comprehensive Cost Information and Analysis of Alternatives Needed to Assess Military Posture in Asia* (Washington DC: GAO, May 2011).
7. Defense Business Board, *Reducing Overhead and Improving Business Operations: Initial Observations* (Washington DC: DBB, 22 July 2010).
8. Carl Conetta, "An Undisciplined Defense: Understanding the \$2 Trillion Surge in US Defense Spending," *PDA Briefing Report #20* (Cambridge MA: Commonwealth Institute, 18 January 2010), "Appendix C: More for less? The limits of revolution & reform."

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