



October 29, 2019

# **Prospects for DoD's Acquisition Budget Over the Next Decade**

Professional Services Council, Vision Conference 2019  
Panel on Platforms

David E. Mosher

Assistant Director for National Security

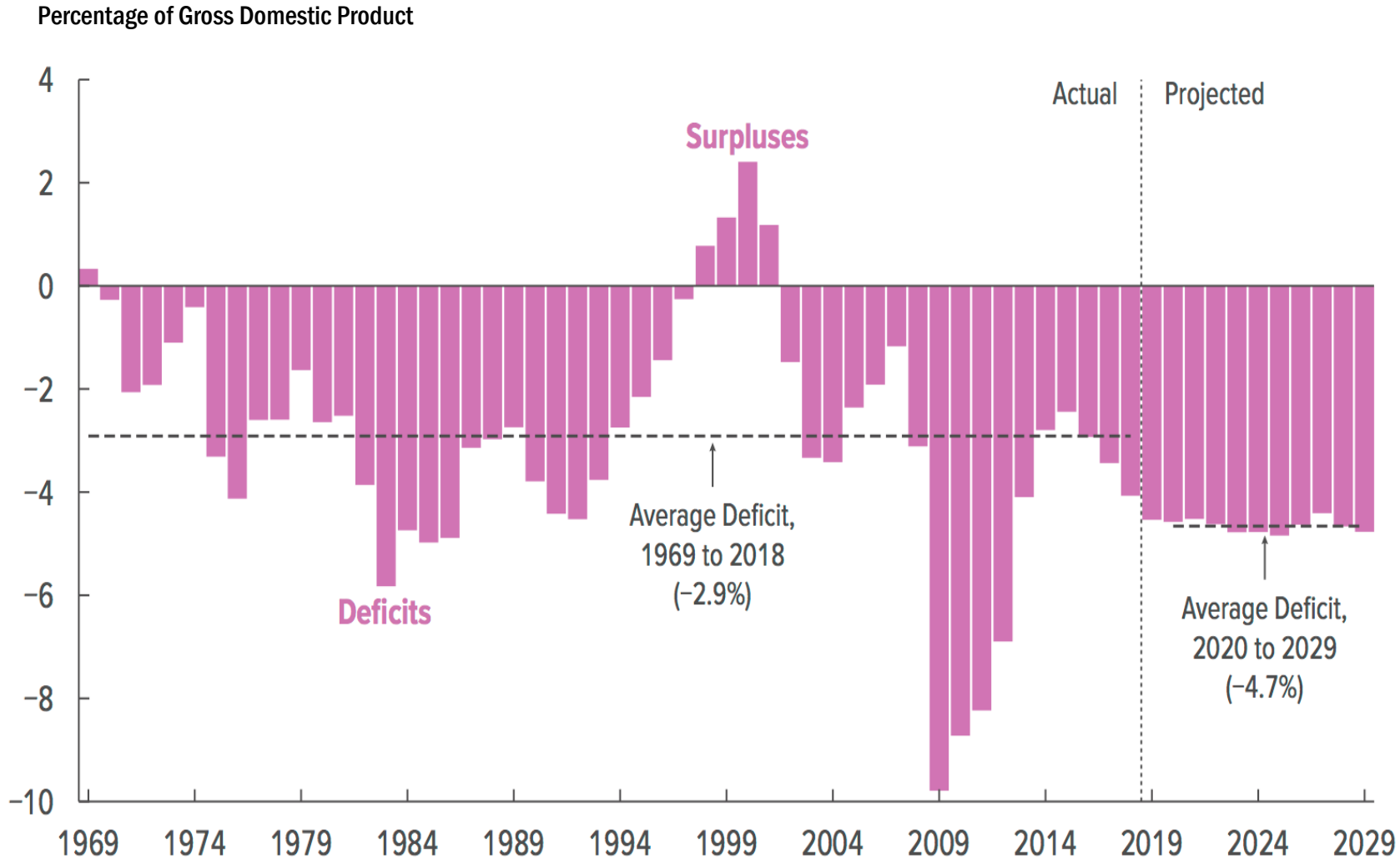
# Outline

**Fiscal  
Situation**

**Effect of  
2020 Plans  
on DoD's  
Budgets**

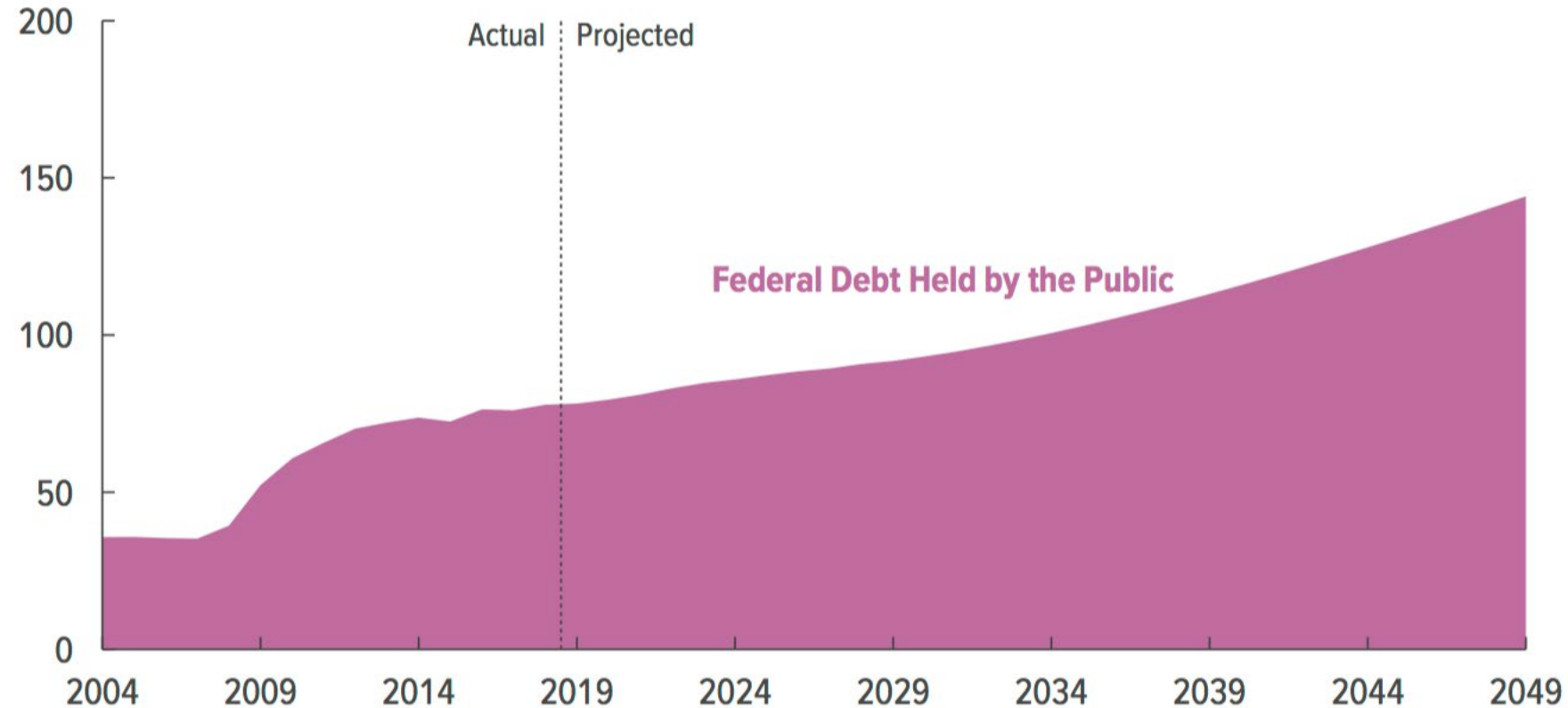
**Internal  
Pressures  
on DoD's  
Budget**

# Deficits Grew Rapidly Over the Past Three Years and Are Expected to Level Off Through 2029



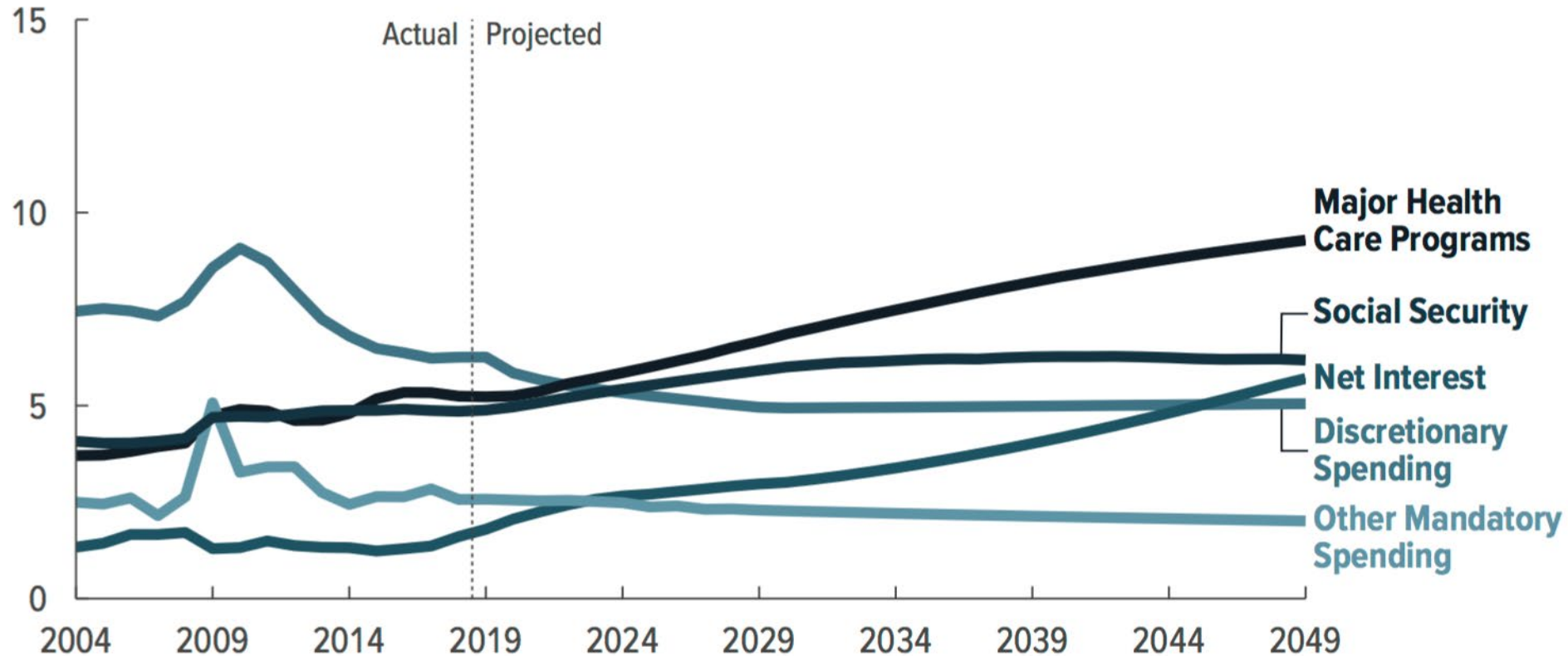
# In CBO's Projections, Debt Rises to 144 Percent of GDP by 2049

Percentage of Gross Domestic Product



# In CBO's Projections, Discretionary Spending Falls Over the Next Decade

Percentage of Gross Domestic Product



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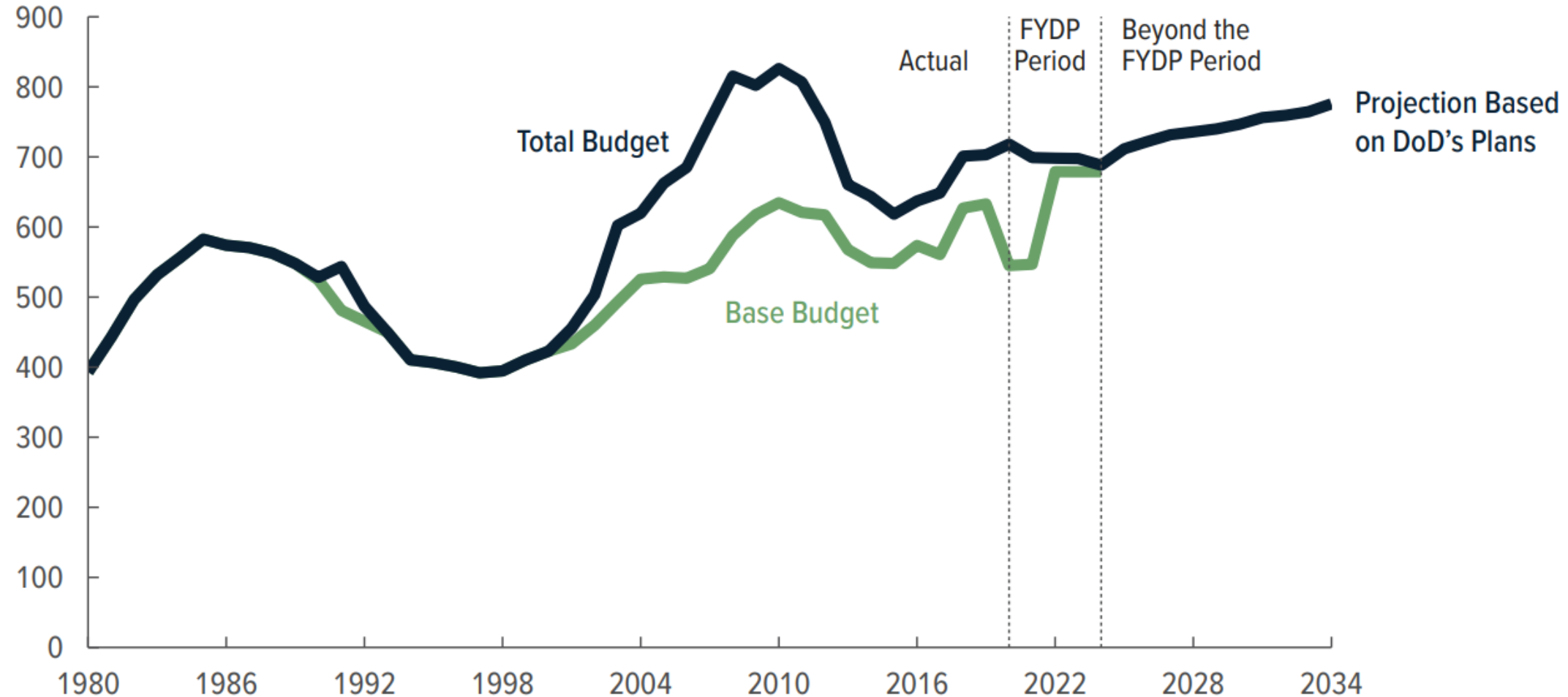
**Internal  
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# CBO Has Projected the Budgetary Effects of DoD's 2020 Budget Plan

- DoD's 2020 budget plan requests a total of \$718 billion for DoD in fiscal year 2020—2 percent more than in 2019.
- Total funding would be relatively flat through 2024, averaging about \$700 billion per year in 2020 dollars—3 percent less than in the previous plan.
  - That estimate assumes growth in military compensation, operation and maintenance costs, and acquisition costs that would be slower than the historical average.
- Using DoD's cost assumptions, CBO projects that the cost of DoD's plans would increase by about 13 percent (\$76 billion) in real terms from 2025 to 2034.
  - Costs could be 4 percent higher if DoD's Future Years Defense Program (FYDP) assumed historical average cost growth.

# In CBO's Projections for 2020, the Costs of DoD's Plan Grow by 13 Percent by 2034

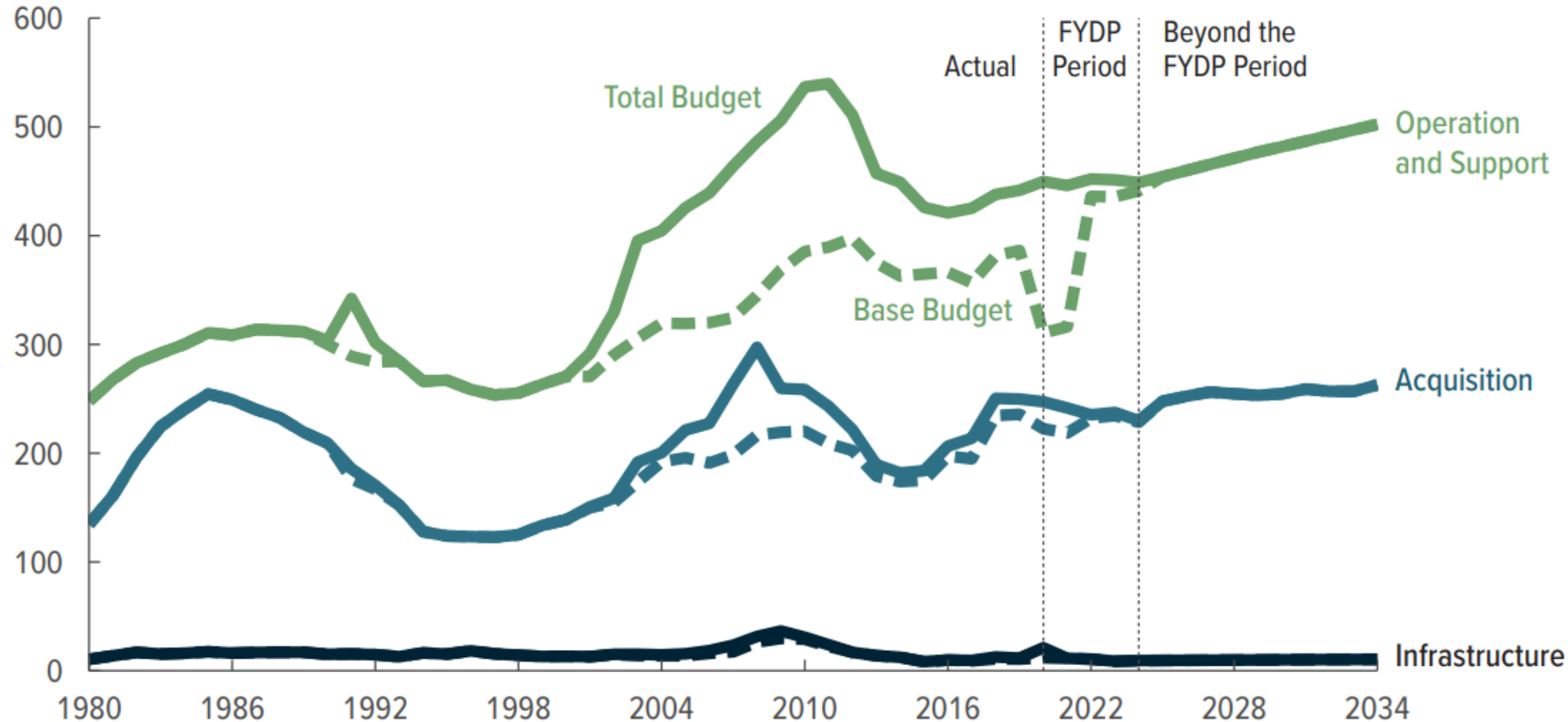
Billions of 2020 Dollars



Source: Congressional Budget Office, *Long-Term Implications of the 2020 Future Years Defense Program* (August 2019), [www.cbo.gov/publication/55500](https://www.cbo.gov/publication/55500).

# Most of the Increase in Costs of DoD's Plan Would Be in Operation and Support

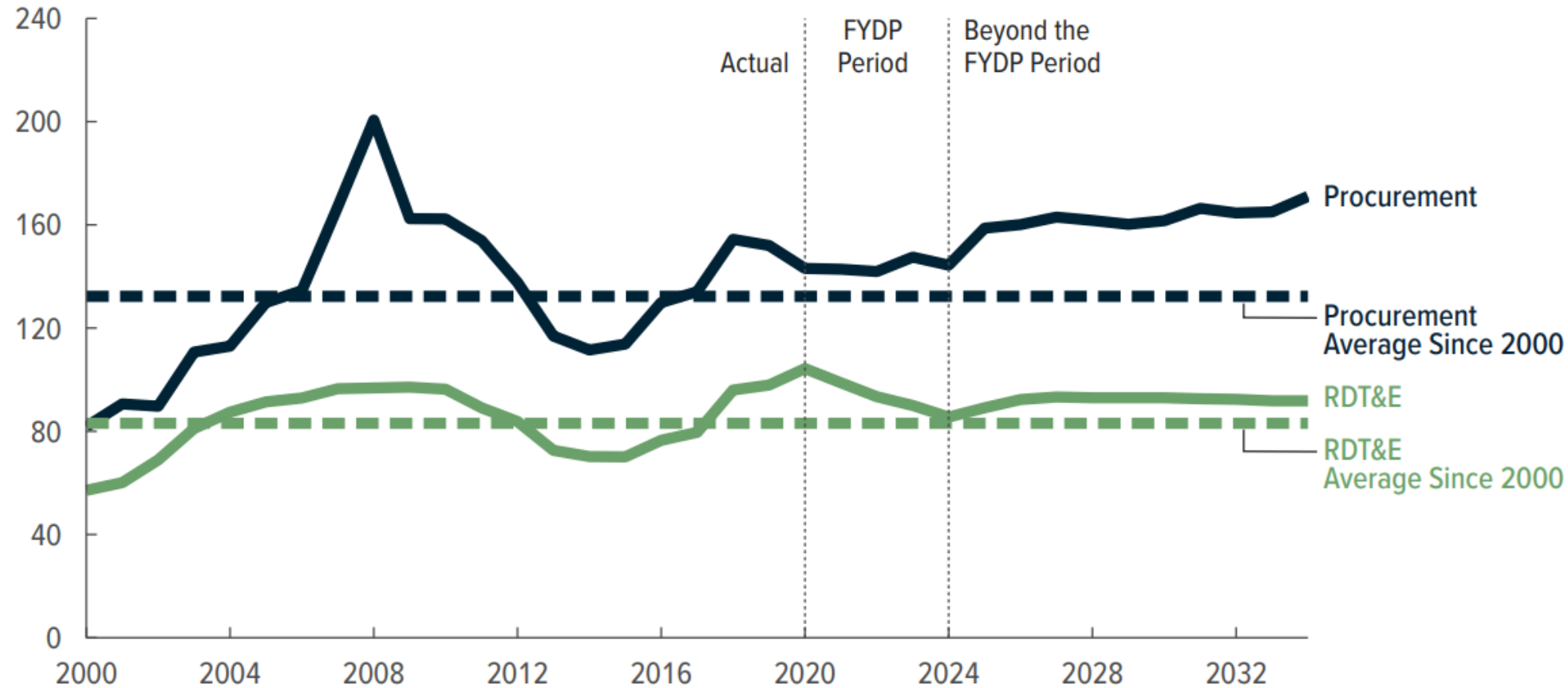
Billions of 2020 Dollars



Source: Congressional Budget Office, *Long-Term Implications of the 2020 Future Years Defense Program* (August 2019), [www.cbo.gov/publication/55500](https://www.cbo.gov/publication/55500).

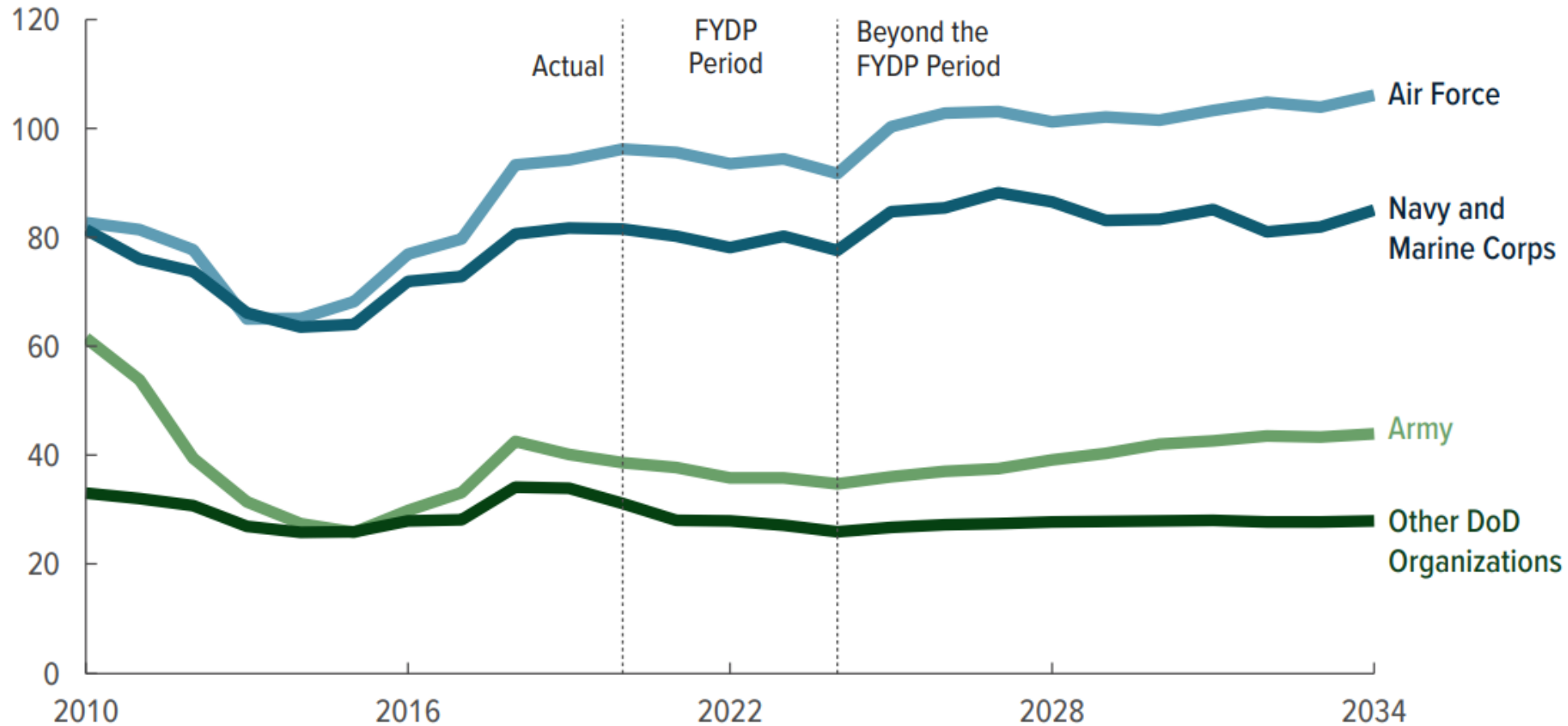
# Most of the Increase in Acquisition Costs Would Be in Procurement

Billions of 2020 Dollars



# The Air Force and the Navy Have the Greatest Increases in Acquisition Costs Beyond the FYDP Period

Billions of 2020 Dollars



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## Each of the Three Major Categories of the Defense Budget Has Its Own Momentum

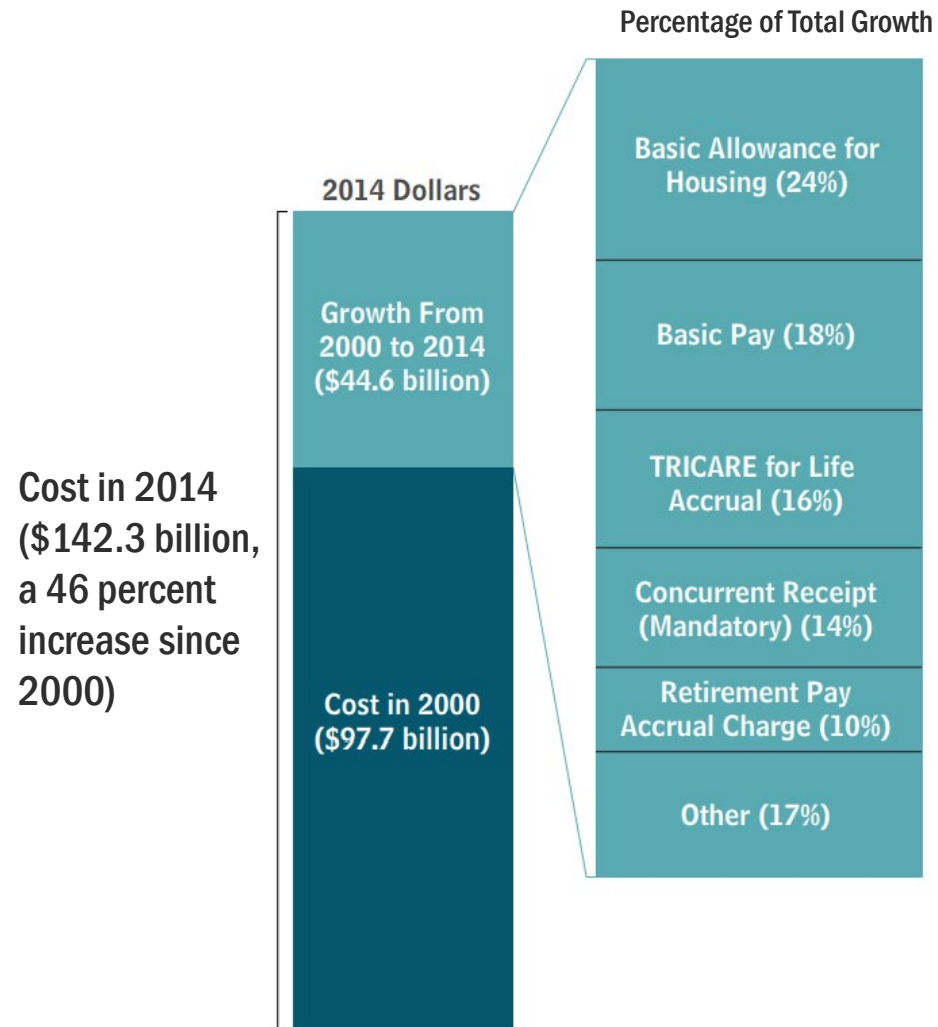
- Costs for the compensation of military personnel—including health care benefits for active and retired personnel—have been rapidly increasing since 2000.
- Costs of operation and maintenance per active-duty service member have been steadily increasing since at least 1980.
- Costs of developing and buying weapons have been, on average, 20 percent to 30 percent higher than DoD's initial estimates.

Those internal pressures in DoD's budget create mismatches between historical funding and the costs of DoD's plans.

## Pay and Benefits of Military Personnel Have Increased in Recent Years

- Between 2000 and 2014, military personnel costs increased 46 percent after the effects of inflation are removed.
  - Growth in housing allowances, basic pay, and TRICARE for Life were the largest drivers of that growth.
  
- DoD estimates that in many cases, cash compensation for enlisted military personnel exceeds cash compensation for 90 percent of workers with similar education and years of experience.
  - Noncash compensation (health care and other benefits) widens that gap.

# Sources of Growth in Military Personnel Costs, Fiscal Years 2000 to 2014

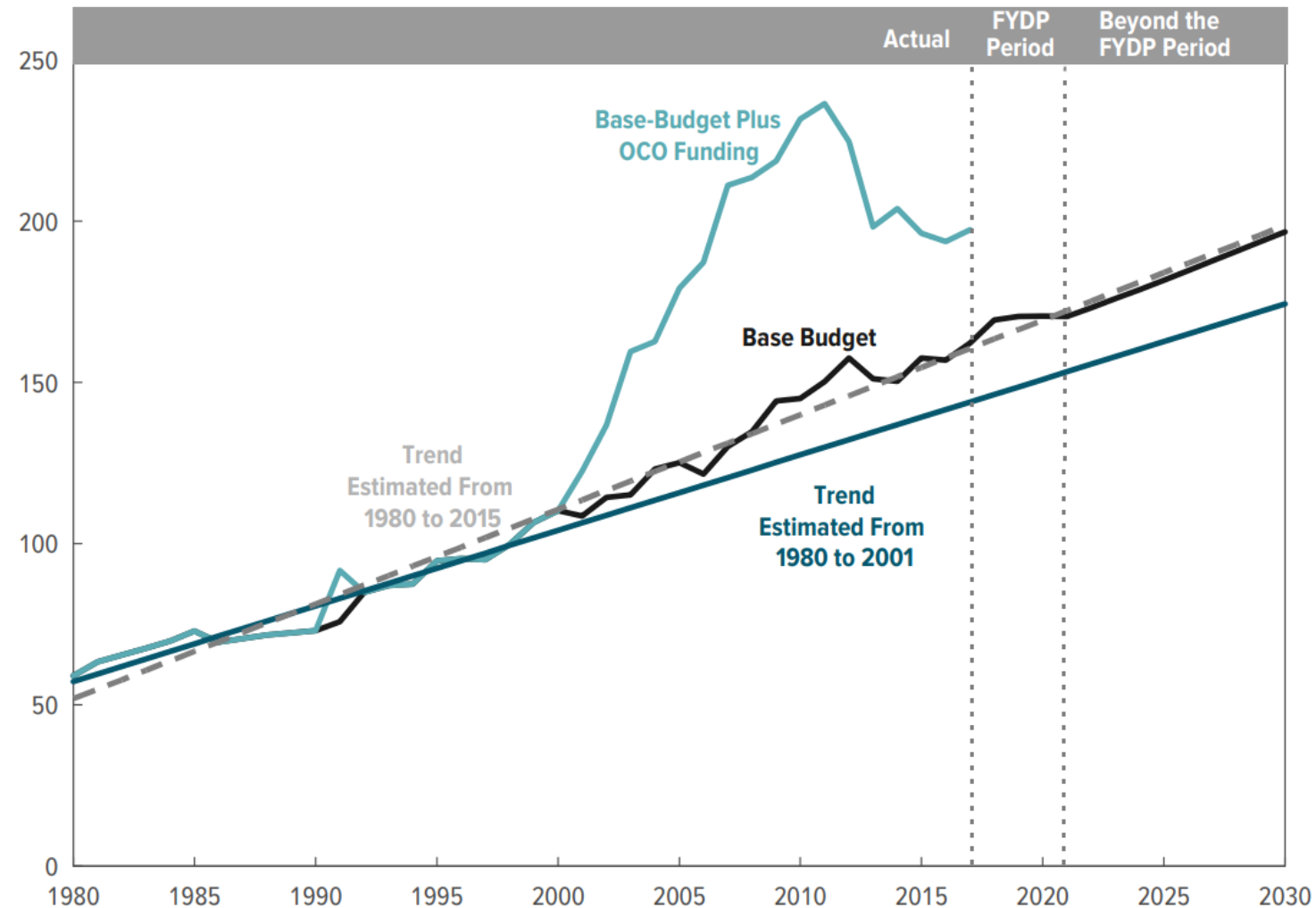


# Operation and Maintenance Costs per Active-Duty Service Member Keep Rising

- Operation and maintenance costs include the costs of most DoD civilians' salaries, goods and services (below procurement thresholds), fuel, maintenance, contractors' services, and other items.
- In DoD's 2017 FYDP, operation and maintenance costs rise more quickly than they did during the prewar (1980–2001) period.
  - The average increase per year is \$2,600, which is larger than the prewar average increase of \$2,300.
  - By 2020, the costs are \$20,000 per person (or about 15 percent) higher than they would have been if the prewar trend had continued.

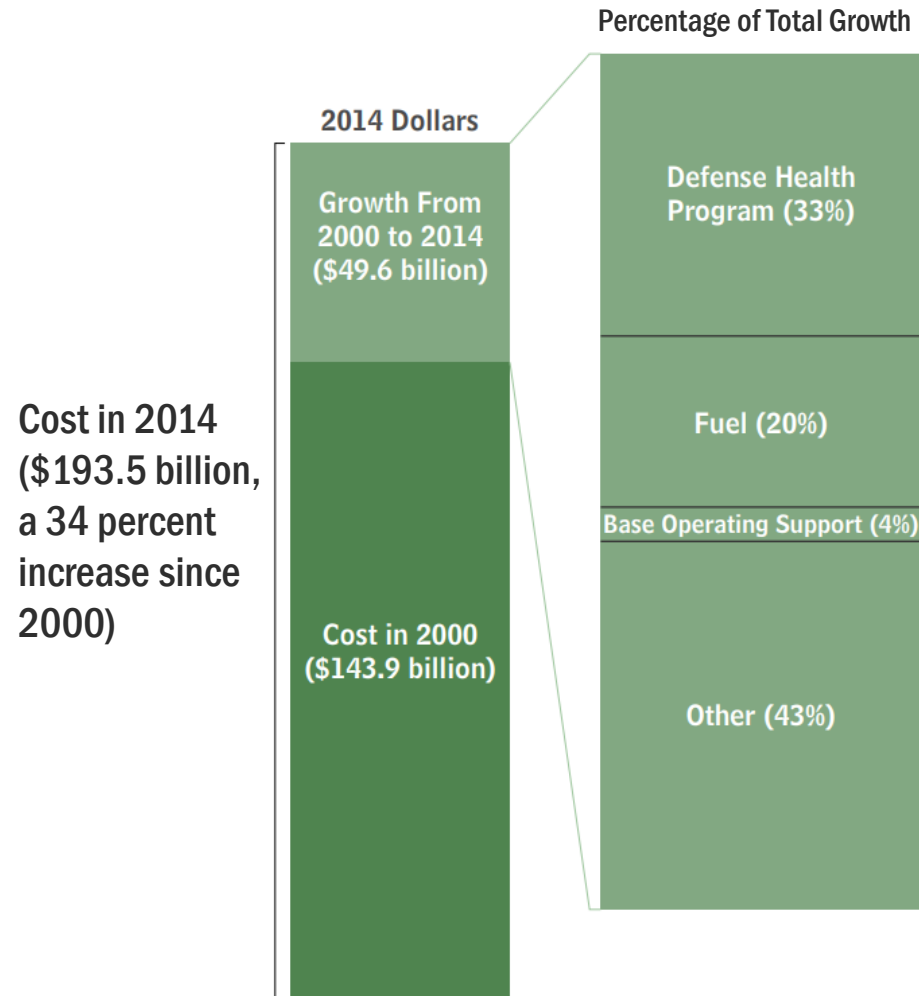
# Operation and Maintenance Costs per Active-Duty Service Member Keep Rising (Continued)

Thousands of 2017 Dollars



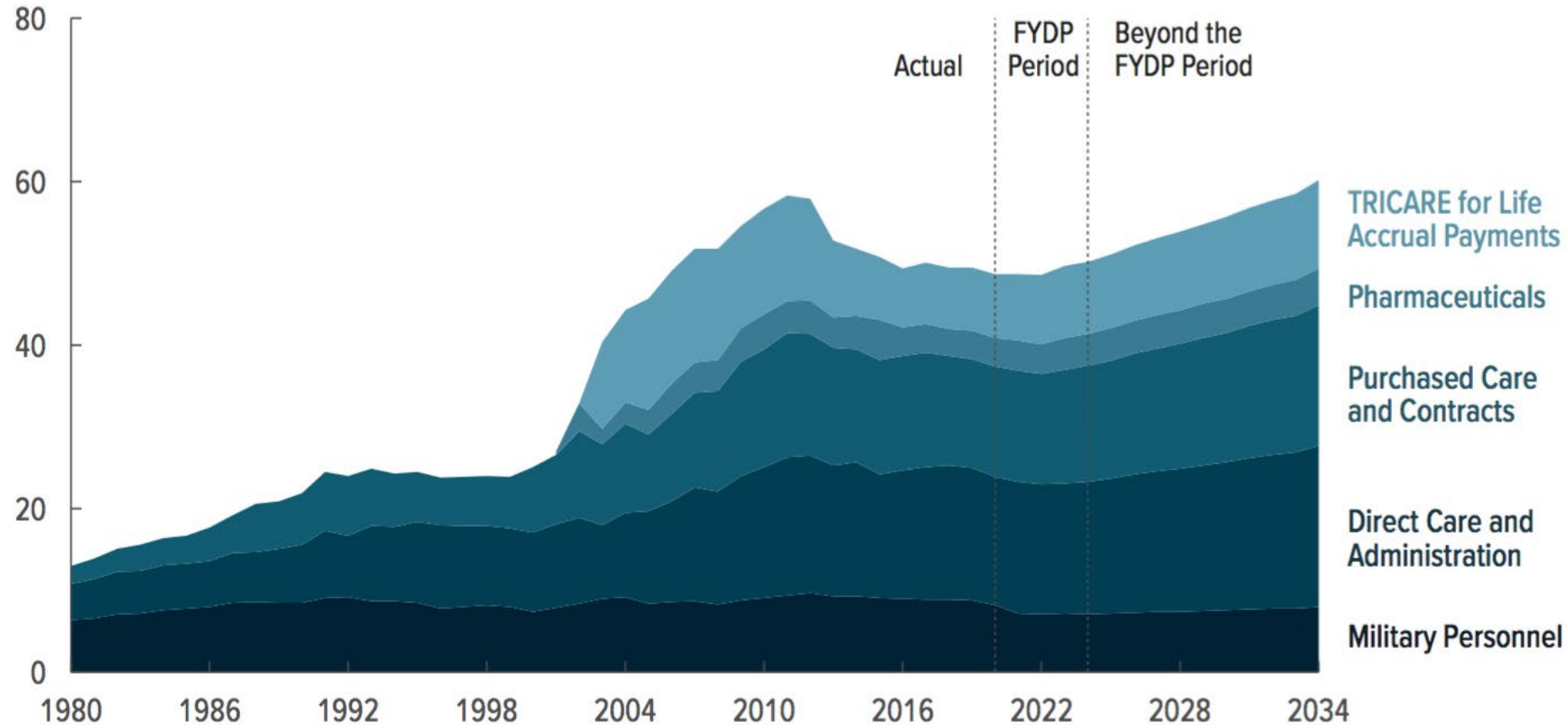
Source: Congressional Budget Office, *An Analysis of the Obama Administration's Final Future Years Defense Program* (April 2017), [www.cbo.gov/publication/52450](http://www.cbo.gov/publication/52450).

# Sources of Growth in Operation and Maintenance Costs, Fiscal Years 2000 to 2014



# Costs for the Military Health Care System Are Projected to Keep Rising

Billions of 2020 Dollars



# Despite Recent Budget Increases, DoD May Continue to Face Budget Pressure

- The U.S. deficit will remain large over the next decade and grow substantially after that.
- The end of the Budget Control Act may not reduce pressure on defense spending.
- If future defense budgets are constrained, internal pressures on DoD's budget from rising costs for operation and maintenance and military personnel could:
  - Reduce the buying power of defense dollars every year (after the effects of inflation are removed) and
  - Reduce the amount of procurement and research and development that can be done.