

THE FEDERAL BUDGET

INTRODUCTION

The President's Budget for Fiscal Year (FY) 2006 proposes outlays of \$2.4 trillion that represents a 3 percent increase over FY 2005. In his budget message, President George W. Bush highlights a number of policy considerations that significantly influence the size and content of the budget:

Our Nation's most critical challenge since September 11, 2001, has been to protect the American people by fighting and winning the War on Terror. Overseas and at home, our troops and homeland security officials are receiving the funding needed to protect our homeland, bring terrorists to justice, eliminate terrorist safe havens and training camps, and shut down their financing. . . .

This Budget also promotes economic growth and opportunity. We must ensure that America remains the best place in the world to do business. . . .

It promotes programs that are effectively providing assistance to the most vulnerable among us. . . .

In every year of my Administration, we have brought down the growth in non-security related discretionary spending. This year, I propose to go further and reduce this category of spending by about one percent, and to hold the growth in overall discretionary spending, including defense and homeland security spending, to less than the rate of inflation. . . .

[W]e are measuring success not by good intentions, or by dollars spent, but rather by results achieved. And where circumstances warrant, the 2006 Budget recommends significant spending reductions or outright elimination of programs that are falling short. . . .

[O]ur goal [is] to cut the deficit in half by 2009.¹

These policy considerations provide the framework for the plans, programs and activities and the related resource requests in the budget. The President's Budget reflects these policies by:

- increasing defense funds by 4.8 percent between FY 2005 and FY 2006, which continues the trend and results in a 41 percent increase since 2001;
- increasing homeland security funds by 3 percent;
- holding the increase in overall discretionary spending to 2.1 percent, which is lower than the 2.3 percent expected rate of inflation, and actually reducing non-security discretionary funds by nearly 1 percent;
- proposing more than 150 reductions, reforms, and eliminations in non-defense discretionary programs, saving about \$20 billion in 2006 and more in the out years.

In the *Overview of The President's 2006 Budget*, the Office of Management and Budget (OMB) provides a specific list of enhancements to defense and homeland security. These include, with all dollar increases above the 2005 enacted levels:

- \$35 billion more between now and 2011 to reorganize the total Army force and increase the number of active Army combat brigades by 30 percent;
- \$3.5 billion more between 2006 and 2011 to implement the Global Posture Initiative, which will increase U.S. responsiveness and allow for the return of 70,000 U.S. troops from Cold War bases overseas;
- \$1.7 billion for unmanned vehicles, which perform hazardous tasks without risking the lives of Soldiers, Sailors, Airmen and Marines;
- \$3 billion, an increase of \$1.5 billion, to expand the Millennium Challenge Account for foreign assistance,

¹ President's Budget Message, 7 February 2005, available online at <http://www.whitehouse.gov/omb/budget/fy2006/pdf/budget/message.pdf>.

to encourage sound economic and governance policies in the developing world;

- \$4.2 billion for the Department of Health and Human Services (HHS), a \$154 million increase, to address the threat of bioterrorism;
- \$600 million for a Targeted Infrastructure Protection Program in the Department of Homeland Security (DHS) to assist state and local governments in reducing the vulnerability of critical infrastructure, such as chemical facilities, ports and transit systems;
- \$581 million, a 45 percent increase, for research and development of radiological and nuclear detection systems and countermeasures at DHS, the Department of Energy and HHS; and
- an increase of \$555 million for the Federal Bureau of Investigation (FBI), an 11 percent increase over 2005 levels and a 76 percent increase since 2001.

In addition to the specific program increases above, the defense budget for FY 2006 shows an increase of 4.8 percent. By contrast, the President's Budget for FY 2006, in total, grows 3 percent, i.e., 1.8 percent less than defense. The total increase of 3 percent is also down from the 4 percent increase in the President's Budget for FY 2005. In summary, the President's Budget for FY 2006 is growing more slowly than in FY 2005, but the defense share of the budget is growing more rapidly.

The budget achieves this overall lower rate of growth primarily by reducing the non-security discretionary funding by nearly 1 percent. This reduction adds to the dissatisfaction of members of Congress, the American people and public interest groups who believe domestic programs require more resource support, not less.

Dissatisfaction or concern with the President's Budget ripples to the Department of Defense (DoD) budget (which is more than half of the discretionary portion of the budget); and ultimately to the Army budget (23.4 percent of the DoD budget proposal). The President's Budget proposal is for \$2,547 billion in obligational authority; the DoD budget proposal is for \$421.1 billion; and the Army budget proposal is for \$98.5 billion.

The federal budget overall, as well as the individual budgets of the departments and agencies, supports the policies and fiscal guidance from the office of the President. However, many participants influence the ultimate

appropriations. A review of the basic process is important because it provides a context and significantly aids in understanding the federal, DoD and Army budgets. Therefore, this analysis begins with a review of the federal budget process and the President's Budget proposal.

PROCESS OVERVIEW

The President's Budget and all budgets are plans. Budgets propose courses of action for an organization at a specific time in the future and include an estimate of the funds to implement the plan. Budgets are the results of deliberate processes.

In the federal budget process, OMB provides funding control guidance to the Executive departments and other agencies. The agencies prepare and submit budget proposals to OMB.

For the Army, budgeting begins with issuing guidance to and collecting budget proposals from subordinate commands; integrating these requests with policy and fiscal guidance; and formulating, submitting and justifying its budget estimate to DoD and OMB jointly. After DoD accepts the Army budget, the Secretary of Defense submits the DoD budget proposal to OMB. OMB reviews and integrates the budget proposals from across the federal government and makes recommendations to the President.

With the approval of the President, OMB directs the departments to finalize their section of the President's Budget, and OMB submits the President's Budget to Congress. Various congressional committees review the proposal, conduct hearings and make recommendations to the entire House and the entire Senate. The two chambers establish a joint committee to reconcile their differences. Then, Congress passes and presents their appropriation and authorization acts to the President. The President approves and signs the acts into law.

The sum of the appropriation acts is the actual federal budget, subject to later supplemental acts and rescissions. The timeline for the congressional process begins with the President's Budget message to Congress in February and ends, ideally, with the appropriation acts before the beginning of the fiscal year on 1 October.

However, members of Congress and the President have different opinions about national priorities and related funding; if they are unable to reach a common agreement, acceptable to a majority of the members,

Congress may not send an act to the President by 1 October. When this happens—and it does happen—Congress almost always passes a Continuing Resolution Act (CRA) that provides funds with restrictions to keep the government open, i.e., to continue operations at a specified level for some period of time, until the permanent legislation is passed. (Without a CRA, the federal government closes and all but essential activities cease—and this, too, happens on occasion.)

After a fiscal year begins, the President may request supplemental funds for contingencies that were not included in the original budget proposal. Congress may provide supplemental funds and may also include rescissions to prior appropriations.

The discussion above provides a context for the subsequent review and analysis of the President's Budget for FY 2006, submitted to Congress in February 2005. In addition to the process, the reviewer needs to understand a few essential federal budget terms that appear in the budget.

ESSENTIAL BUDGET TERMS

The federal budget documents include budgetary terms that have very definite meanings. The three most important terms are the definitions of the categories of dollars: Budget Authority (BA), Total Obligational Authority (TOA) and outlays. Each term conveys different information for the same year, and all three are significant. In general, the BA or TOA provides government officials with the financial resources to implement decisions, i.e., these put the “money in the checking account.” The outlays reflect the subsequent drawing on the checking account.

- **Budget Authority (BA)** is the authority provided by law to incur financial obligations that will result in outlays.
- **Total Obligational Authority (TOA)** is the sum of (a) budget authority provided for a given fiscal year, plus (b) balances of budget authority brought forward from prior years that remain available for obligation and (c) amounts authorized to be credited to a specific fund or account during that year, including transfers between funds or accounts ($TOA = a + b + c$).
- **Outlays** are the amount of money the federal government actually spends in a given fiscal year. Outlays

occur when funds are transferred, checks are issued or cash is distributed to liquidate obligations. Outlays may be for payment of obligations incurred in the current year or prior years.

Clearly, these three definitions of dollars apply to the same fiscal year and have different dollar amounts for the same fiscal year. The President's Budget overall and the DoD and Army budgets all use these three definitions of dollars for the same year. Understanding these definitions is important to avoid confusion and to understand more clearly the meaning of the dollars. In the federal section of this budget analysis document, figures and tables generally display dollars in term of outlays and sometimes BA. In the DoD and Army sections, figures and tables generally display dollars in terms of BA or TOA.

The Glossary of Budget Terms (appendix I) provides an explanation of frequently used federal budget terms.

BALANCING THE BUDGET

The federal government—like other governments, corporations and individuals—requires income or revenue to finance spending. In the short term, income and spending may be out of balance; but in the long term, spending cannot exceed income or individuals, corporations and local governments will go bankrupt. For national governments, there is no “bankruptcy,” *per se*, but hard times for the nation, including declining government services, declining investments in infrastructure, falling standards of living and currency devaluation.

For the reasons outlined above, discussion of the federal budget always includes balancing the budget—achieving equilibrium between receipts (i.e., income) and outlays (i.e., spending). When receipts exceed outlays, the government is generating a surplus; conversely, when outlays exceed receipts, the government is operating at a deficit. The sum of annual deficits over any number of years is the Gross Federal Debt.

The need to balance the budget over some number of years, or at least reduce the size of the annual deficit, drives policies to stimulate the economy and to hold down total federal outlays. In his message, President Bush emphasized that the FY 2006 budget, focused on both of these strategies, “promotes economic growth and opportunity” and “recommends significant spending reductions or outright elimination.”

The President's Budget estimates receipts of \$2.205 trillion and proposes outlays of \$2.473 trillion for FY 2006—the fifth annual deficit in a row. The FY 2006 deficit estimate is more than \$0.2 trillion, i.e., \$268 billion. The good news is that the deficit estimate is down for the third year in a row.

The United States Gross Federal Debt at the end of FY 2004, the last year for actual data, is \$7.486 trillion. With the addition of deficit estimates for FY 2005 (\$.4 trillion) and FY 2006 (\$.2 trillion), the Gross Federal Debt rises to \$8.7 trillion by the end of FY 2006.

Federal statute requires receipt and outlay forecasts for the four years beyond the budget year. The President's Budget forecasts deficits in each year from FY 2007 to FY 2010; however, the amount decreases each year. The cumulative result is a Gross Federal Debt estimate of \$11.1 trillion by the end of FY 2010—a 93 percent increase since the last surplus year, FY 2001.

At the national level, the annual deficit is a concern because the government (a) borrows money to cover the difference between spending and receipts, and (b) pays interest on the Gross Federal Debt from prior years. The Gross Federal Debt hurts the economy by diverting capital from productive uses to servicing debt.

Growth in the economy produces a larger tax base and greater revenues, with the potential for reducing or eliminating the annual deficit. The Gross Domestic Product (GDP) is the measure of the health and growth from year to year of the U.S. economy. GDP is the total market value or output of the goods and services produced by labor and capital located within the United States, regardless of nationality, during a year. The Bureau of Economic Analysis (BEA) has produced the GDP figures since GDP became the unit of measure in 1991.

The President's Budget forecasts a decrease in the annual deficit for each year from FY 2005 to FY 2010, but that still leaves a deficit that will increase the Gross Federal Debt to \$11.1 trillion by FY 2010. The President's Budget forecasts growth in the GDP to \$15.6 trillion by FY 2010. From FY 2006 to FY 2010, the forecast is for GDP to increase by 23 percent and the Gross Federal Debt to increase by 28 percent—the debt increases more than the economy grows. See table 1 for details.

The FY 2006 Budget spending and deficit projections fully reflect the outlay effects of the \$25 billion enacted and the additional supplemental request of approximately \$81 billion for FY 2005 but do not reflect the effect of undetermined but anticipated supplemental

Table 1

Gross Domestic Product and Annual Deficit
(\$ billions ¹)

	FY90 ²	FY95 ²	FY00 ²	FY03 ²	FY04 ²	FY05	FY06	FY07	FY08	FY09	FY10
Gross Domestic Product	5,735	7,325	9,710	10,839	11,553	12,227	12,907	13,617	14,349	15,111	15,906
Gross Federal Debt	3,206	4,920	5,629	6,760	7,487	8,133	8,726	9,318	9,931	10,564	11,137
Annual Federal Deficit	(221)	(164)	(236)	(375)	(521)	(364)	(268)	(241)	(239)	(237)	(207)
Gross Debt as Percentage of GDP	56%	67%	58%	62%	64%	66%	68%	69%	69%	70%	70%
Annual Deficit Surplus as Percentage of GDP	-3.9%	-2.2%	2.4%	-3.5%	-4.5%	-3.0%	-2.1%	-1.8%	-1.7%	-1.6%	-1.3%

¹ Numbers may not add due to rounding.

² Actual spending; remaining years are estimates.

Source: Budget of the United States FY06 Historical Tables 1-1, 7-1, 10-1

requests for ongoing operations in Iraq and Afghanistan beyond FY 2005.

The government finances the federal debt by borrowing from other federal accounts (e.g., Social Security) and from the public through the use of debt instruments. The debt gives rise to justifiable concerns that the funds borrowed from the other federal sources will not be available when needed for those programs; that the large portion of the public debt held by foreign governments increases America's dependency on other nations; and that the amount of interest paid to service the debt further reduces annual funds available for programs.

The President's Budget estimates a downward trend in annual deficit from FY 2005 to FY 2010. However, with the continuing growth of the debt, the estimate for interest payments rises from \$211 billion in FY 2006 to \$314 billion in FY 2010, or from 8.5 percent to 10.4 percent of the budget outlays.

A summary of the Gross National Debt and the funding sources is at table 2.

Congressional Budget Office Estimate

In addition to the President's estimates of receipts and spending, federal statute also requires the Congressional

Budget Office (CBO) to estimate future budget outcomes for the President's Budget proposal. The statutory intent is for the CBO to provide a neutral benchmark that lawmakers can use to measure the effects of proposed changes to taxes and spending. The President and the CBO use different assumptions, so their estimates vary.

The CBO forecasts growth in both receipts and spending outlays but estimates larger deficits than in the President's Budget. The CBO's estimate of the deficit for FY 2006 is \$332 billion, or 8 percent more than the President's Budget estimate of \$268 billion. Additionally, the CBO notes that the FY 2006 estimate excludes any supplemental for the war in Afghanistan and Iraq and estimates that "to keep the operations at roughly the same level as expected for 2005 would add about \$40 billion to the 2006 deficit, bringing it to between \$370 billion and \$375 billion, or 2.9 percent of GDP."²

With regard to all federal outlays, the CBO estimates spending growth for entitlements and other mandatory programs at an average rate of 5.9 percent a year, and spending growth for discretionary outlays at an average rate of 1.2 percent a year. With regard to the GDP and revenue, CBO projects GDP growth at 4.9 percent annually and revenues remaining relatively low by historical

Table 2

Gross Federal Debt by Source (\$ billions ¹)

	FY90 ²	FY95 ²	FY00 ²	FY03 ²	FY04 ²	FY05	FY06	FY07	FY08	FY09	FY10
Gross Federal Debt	3,206	4,920	5,629	6,760	7,487	8,133	8,726	9,318	9,931	10,564	11,137
Amount in Federal Government Accounts	795	1,316	2,219	2,846	3,066	3,341	3,652	3,985	4,342	4,720	4,926
Percentage Held by Federal Government	25%	27%	39%	42%	41%	41%	42%	43%	44%	45%	44%
Amount Held by Public	2,411	3,604	3,410	3,914	4,421	4,792	5,074	5,333	5,589	5,844	6,212
Percentage Held by Public	75%	73%	61%	58%	59%	59%	58%	57%	56%	55%	56%

¹ Numbers may not add due to rounding.

² Actual spending; remaining years are estimates.

Source: Budget of the United States FY06 Historical Table 7-1

² Congressional Budget Office, "CBO's Estimates of the President's Budget for 2006," Chapter 1, *An Analysis of the President's Budgetary Proposals for Fiscal Year 2006*, March 1, 2005, Section 2 of 8.

standards, rising from 16.8 percent of GDP in FY 2005 to 17.1 percent in 2006 and to 18.0 percent by 2015.

Table 3 presents the difference in the deficit estimates between the President's Budget and the CBO. These and others estimates of the deficit are part of the debate by political leaders as they formulate future programs.

As noted earlier, the Gross Federal Debt is the sum of multiyear deficits; deficits are a function of receipts and spending. While most of the subsequent analysis will focus on spending, some comments on receipts are important since receipts give rise to some bounds on spending. Receipts are mainly a function of the robustness of the economy and tax policy, i.e., what is taxed and at what rates.

Receipts

Receipts have declined dramatically as a share of GDP since their peak in 2000 as a result of weak income growth due to the recession, a collapse in capital gains due to the stock market downturn, and the policy changes in personal income tax. Receipts reached a low of 15.6 percent of GDP in FY 2004 and then began rising as the economy recovered. With economic growth, the President's Budget estimates receipts of 17.1 percent in FY 2006 and climbing to 17.7 percent of GDP in FY 2010 (almost matching the post-World War II average).

The President's Budget for FY 2006 estimates federal receipts of nearly \$2.2 trillion from four specific sources

and "all other" sources. Individual income taxes account for 44 percent, and corporate income taxes account for another 10 percent of the general revenue. Social Security receipts, which fund current and future entitlements, account for 38 percent of receipts. See table 4 for estimates of receipt by sources.

Spending

Spending is the focus of most budget analyses and of the rest of this document. In the broadest terms, federal spending is for either discretionary or mandatory expenses:

- **Discretionary** spending is what the President and Congress decide to spend through annual appropriations bills. Examples include money for such activities as defense, homeland security, FBI, foreign aid, housing and education, highway construction and space exploration.
- **Mandatory** spending is for entitlement programs that do not require annual appropriation bills. Once a law creates an entitlement program, the federal government is legally obligated, until the law is amended or repealed, to make payments or provide aid to any person who meets the legal criteria for eligibility. Examples include Social Security, Medicare and Medicaid.

The President's Budget estimates discretionary spending of \$922 billion and mandatory spending of \$1,621 billion in FY 2006. Defense is 46 percent of discretionary

Table 3

Receipts, Outlays and Surplus or Deficits

(\$ billions*)

	Actuals					Estimates					
	FY90	FY95	FY00	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
President's Budget											
Receipts	1,032	1,352	2,025	1,782	1,798	2,036	2,205	2,351	2,485	2,616	2,821
Outlays	1,253	1,516	1,789	2,157	2,319	2,400	2,473	2,592	2,724	2,853	3,028
Surplus/Deficit (-) ¹	(221)	(164)	236	(375)	(521)	(364)	(268)	(241)	(239)	(237)	(207)
Congressional Budget Office Estimates											
Surplus/Deficit (-) ²	(221)	(164)	236	(378)	(412)	(368)	(295)	(261)	(235)	(207)	(189)

* Numbers may not add due to rounding.

Sources: ¹ Budget of the United States FY06 Historical Table 1-1

² CBO, The Budget and Economic Outlook: Fiscal Year 2006 to 2015, January 2005 Appendix F, Table F-1

Federal Receipts
Fiscal Year 2006 Estimate
(\$ billions*)

Individual Income Taxes	966.9
Social Security Receipts	818.8
Corporate Income Taxes	220.3
Excise Taxes	75.6
All Other	96.0
Total	2,177.6
* Numbers may not add due to rounding.	
Source: Office of Management & Budget FY06 Budget, Summary Table S-8	

spending; all other departments and agencies account for 54 percent of discretionary spending.

Attempting to balance the budget or reduce the annual deficit without modifying the entitlement programs requires reductions in discretionary spending. With the Defense Department accounting for 46 percent of discretionary dollars and conducting the Global War on Terrorism (GWOT), defense spending is increasing and not declining. Therefore, spending reductions to balance the budget must come from the non-defense departments and must also offset any additions to defense spending. This is a very real federal budgeting dilemma. See table 5.

Discretionary spending is a somewhat misleading term because a large proportion pays for compensation of civilian employees and military servicemembers, accrual for related personnel benefits and essential services such as utilities. Agencies, in fact, do not have a great deal of flexibility with a substantial portion of their discretionary funds.

- Actions that may produce large savings in discretionary funds generally require substantial planning, adequate leadtimes, prior congressional approval, and sometimes one-time implementation funding. These actions may include program cuts, closures of facilities, terminations of leases and personnel reductions. Agencies need to plan for and include these sorts of actions in their budget proposals.
- If Congress initiates substantial actions in the appropriation acts, the agency normally lacks adequate leadtime for achieving the significant savings in that fiscal year.

Federal Spending
Fiscal Year 2006 Estimate
(\$ billions*)

Discretionary	
National Defense	424.0
Nondefense	497.0
Subtotal	922.0
Mandatory	
Social Security	540.0
Medicare	340.0
Medicaid	199.0
Other entitlements	331.0
Net Interest	211.0
Subtotal	1,621.0
Total	2,543.0
*Numbers may not add due to rounding.	
Source:	

The FY 2006 receipts and spending estimates are expressed as percentages under the headings *Where It Comes From* and *Where It Goes*, respectively, in figure 1.

NATIONAL DEFENSE

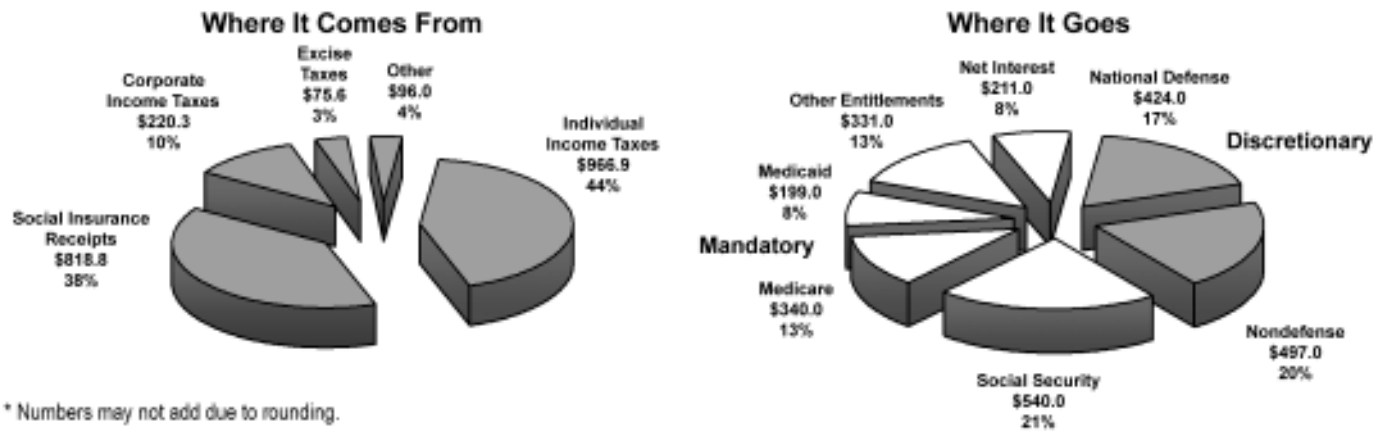
The President's Budget for FY 2006 proposes \$442 billion in BA for the functional classification 050 National Defense, which comprises more than the Department of Defense. The National Defense function includes three subfunctions:

- 051 Department of Defense–Military (\$421.1 billion);
- 053 Atomic Energy Defense Activities (\$17.5 billion);
- 054 Defense-Related Activities (\$3.2 billion).

The Department of Defense–Military line includes the DoD or “Pentagon’s” budget, which comprises the budgets of the services and all other organizations in DoD. Unless otherwise noted, discussions of the defense budget in this document refer to 051 Department of Defense–Military. See table 6 for BA data from FY 2004 to FY 2010.

Outlay estimates are higher than BA estimates for FY 2006. The 050 National Defense outlay estimate for FY 2006 is \$447 billion, or \$5 billion more than BA. In terms of percentage of federal spending and percentage of GDP,

The Federal Government Dollars Fiscal Year 2006 Estimates (\$ billions*)



Budget Authority by Function and Subfunction 050 National Defense (\$ billions*)

	FY04	FY05	FY06	FY07	FY08	FY09	FY10
051 Department of Defense—Military	471	402	421	445	464	484	494
053 Atomic Energy Defense Activities	17	18	17	17	16	16	16
054 Defense-related Activities	3	4	3	3	3	3	4
050 Total, National Defense	491	424	442	465	484	504	514

* Numbers may not add due to rounding.

Source: Budget of the United States FY06 Historical Tables, Table 5-1

the FY 2006 outlays for National Defense are down from FY 1989, the final year of the Cold War. The FY 2006 outlay estimates are 17.4 percent of federal spending, down from 24 percent in FY 1989; and 3.5 percent of GDP, down from 6 percent in FY 1989. See table 7 for outlay data from the President's Budget.

The FY 2006 outlay estimates do not include any future supplemental funds for the GWOT, Operation Iraqi Freedom (OIF) and Operation Enduring Freedom (OEF). The scope and duration of these continuing operations will affect the final outlay amounts for FY 2005, 2006 and probably for some years into the future. Figure 2 graphically illustrates the GDP trend.

The tall bar in figure 2 illustrates the growth in GDP; the small portion of the bar highlighted at the top, along

with the percentage, reflects the portion of GDP for National Defense. The figure illustrates the peak of National Defense spending as a percentage of GDP in the 1980s and the steady decline in the 1990s along with the growth in the economy, which continued through FY 2001. With the GWOT and combat operations, the trend for National Defense spending as a percentage of GDP increases began in FY 2002. The outlays for FY 2005 and beyond do not include equivalent supplemental funds which are included for FY 2004.

Relating defense spending to the overall economy provides a macro-level snapshot of defense compared to all other sectors of the economy but really does not provide any insights about whether the level is adequate or not. The subsequent paragraphs and the next sections

Outlays by Function and Subfunction
050 National Defense
(\$ billions*)

	FY04	FY05	FY06	FY07	FY08	FY09	FY10
051 Department of Defense—Military:	437	444	426	428	446	468	485
053 Atomic Energy Defense Activities	17	19	18	18	16	16	16
054 Defense-related Activities	3	3	3	3	3	3	4
050 Total, National Defense	456	466	447	449	466	488	505
050 National Defense as Percentage of All Outlays	19.9	18.8	17.4	16.9	16.9	16.9	16.7
050 National Defense as Percentage of Gross Domestic Product	3.9	3.8	3.5	3.3	3.2	3.2	3.2

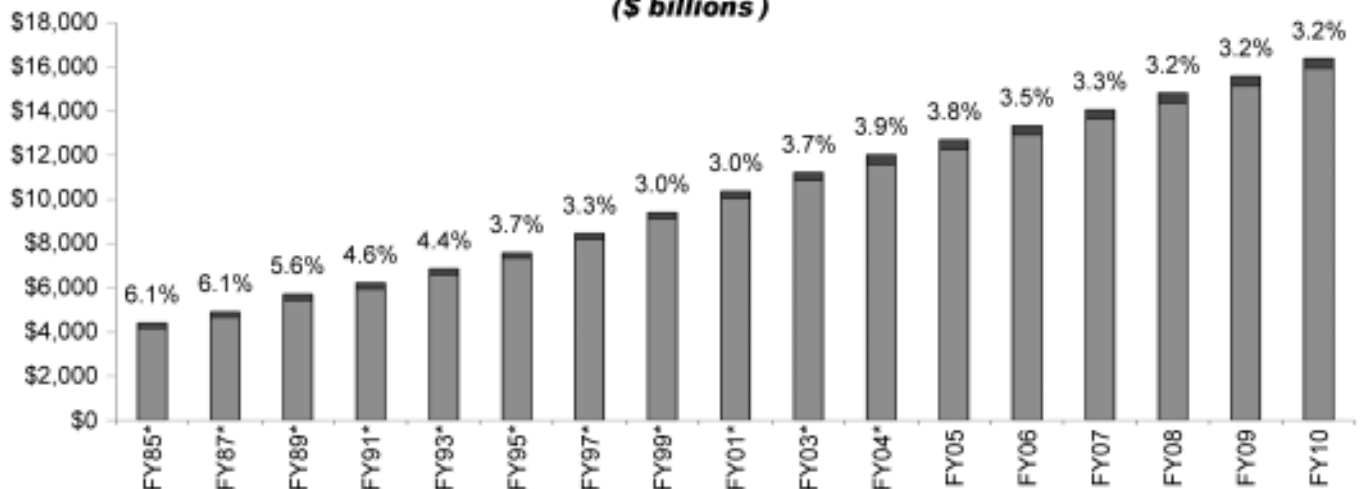
* Numbers may not add due to rounding.

Source: Budget of the United States FY06 Historical Tables, Table 3-1 and 3.2

Figure

2

National Defense as a Percentage of Gross Domestic Product
(\$ billions)



* Actual spending; remaining years are estimates.

Source: Office of Management and Budget

■ Gross Domestic Product ■ National Defense Outlays

of this document examine more specifically the defense budget and what it buys, which is much more meaningful information.

The actual or estimates of National Defense outlays from FY 1985 (at the height of the Cold War buildup) through FY 2010 from the President's Budget are shown in figure 3. The amounts are somewhat misleading because the numbers have not been adjusted for inflation, e.g., real defense spending decreased from FY 1989 to 2003 by

nearly 11 percent. A substantial reason for this decrease was the drawdown in endstrength (e.g., active duty military strength decreased by 35 percent, and civilian employee strength decreased by 41 percent) and the decision to skip a generation of procurement.

The trend to increase National Defense spending began in FY 1999 with a modest 2.4 percent increase. In FY 2002, which began on 1 October 2001 (just weeks after the 11 September 2001 terrorist attacks on the U.S.

National Defense Spending Outlays (\$ billions)



* Actual spending; remaining years are estimates.

Source: Budget of the United States FY 2006, Historical Table 3-1

homeland), outlays increased by 10 percent over FY 2001. This included supplemental funds during the course of the year. Then FY 2003 experienced the largest increase with nearly 21 percent. As of the President's Budget submission in February 2005, and therefore without a request for supplemental funds for GWOT, the FY 2006 outlays are forecasted to be 4 percent below those of FY 2005.

Over the first decade of the new century, National Defense spending jumps from \$304 billion in FY 2001 (the pre-GWOT benchmark) to \$505 billion by the end of FY 2010. This is an increase of 66 percent in the span of 10 years. As you may recall from the earlier discussion on spending, defense spending is nearly 46 percent of all discretionary spending. This 66 percent increase in defense will require a substantial increase in discretionary spending and either an increase in revenue to avoid large deficits or a substantial offsetting decrease in non-defense spending to hold overall discretionary spending to a specified ceiling. These are not attractive options.

Determining the "correct" amount of discretionary spending for defense and non-defense is a difficult problem for every President and every Congress (particularly in election years).

This concludes observations on the overall federal budget. The other two principal sections of this analysis focus on the budget proposals for DoD and the Army.

DoD and the Army contribute substantially to homeland security; therefore, an overview of homeland security is appropriate.

HOMELAND SECURITY

The missions of the Department of Homeland Security and the Department of Defense are clearly complementary. DoD is responsible for deterring or defeating foreign enemies. DHS was created to better coordinate, focus and fund activities associated with protecting America from terrorist attacks. The mission of the DHS is to:

- prevent terrorist attacks within the United States;
- reduce the vulnerability of the United States to terrorism; and
- minimize the damage and assist in the recovery from terrorist attacks that do occur within the United States.

When DHS was established, Congress recognized that funding for homeland security would involve programs and functions in many government agencies. Consequently, the Homeland Security Act of 2002 requires the President to include an analysis of homeland security funding in the budget proposal. In fact, the FY 2006 budget includes federal homeland security funding in 33 agencies. The *Analytical Perspective* document, which accompanies the President's Budget, contains this analysis with budget authority data by agencies and by homeland security missions.

The President's Budget for FY 2006 increases funding for DHS and homeland security activities across the government. The budget includes \$49.9 billion for homeland security activities across all agencies, a \$3.9 billion increase over the 2005 level, excluding DHS's Project BioShield.³ This is an increase of \$2.9 billion (8.3 percent) in gross discretionary funding over the 2005 level, excluding mandatory funding, DoD activities and Project BioShield.

The FY 2006 budget proposal is more than 300 percent above FY 2001 funds, i.e., pre-9/11, for non-defense spending; and more than \$29 billion, or approximately 240 percent, above the 2002 level of \$20.7 billion.

The DHS proposal is \$27.3 billion, the largest amount among the agencies. The DHS proposal is the entire budget for the department; however, not all the funding in the DHS budget proposal is for homeland security, e.g., funding for Coast Guard search-and-rescue missions is in the DHS budget but not under homeland security.

Although 33 agencies participate in federal homeland security funding, the DHS and four other agencies account for approximately 92 percent of total funding in 2006. The other four agencies are the Departments of Defense (\$9.5 billion), Health and Human Services (\$4.4 billion), Justice (\$3.1 billion) and Energy (\$1.7 billion).

Table 8 displays the multiyear funding by agency.

The *National Strategy for Homeland Security* defines six critical mission areas for homeland security. The agencies categorize their funding data in the budget analysis according to these missions. See table 9 for the missions and funding.

The threats to homeland security are diverse—terrorists generally do not choose military targets. Therefore, homeland security requires detecting and deterring attacks on civilians and responding to emergencies. The responsibility for homeland security requires a national effort with cooperation among all government levels, the private sector and individual citizens.

DHS is breaking down the walls between law enforcement and terrorist investigations; improving intelligence gathering and analysis; acquiring biological weapons countermeasures; enhancing security at the borders and airports and in communities; and strengthening America's preparedness and response capabilities.

The President's 2006 Budget includes a wide range of programs and many different government partnerships. Among the major programs (based on funding proposals) are the following:

- \$100 million to the Department of the Treasury's efforts at detecting and stopping financial crimes, money laundering and terrorist financing;
- \$294 million for counterterrorism and counterintelligence initiatives and \$117 million in new funding to bolster the intelligence program of the FBI;
- \$344 million to improve and better coordinate screening of people, cargo and conveyances by consolidating several major initiatives within DHS, including: US-VISIT (\$50 million) and the Secure Flight Program (\$49 million);
- \$104 million for the multiagency Terrorist Screening Center (TSC)—a \$75 million increase over 2005—to increase development and management of a consolidated terror screening watch list;
- \$596 million, an increase of \$143 million, to improve the ability to detect and contain contamination to food and agriculture and \$58 million to support the establishment and maintenance of laboratories to analyze samples of potentially contaminated food as quickly as possible;
- \$416 million to help dismantle weapons of mass destruction infrastructure in the former Soviet Union to prevent the proliferation of nuclear weapons in DoD's Cooperative Threat Reduction program;
- \$343 million in Russia and other regions of concern to secure vulnerable nuclear weapons and weapons-usable material in the Department of Energy's National Nuclear Security Administration (NNSA);

³ The Department of Homeland Security Appropriations Act of 2004 provided \$5.6 billion for Project BioShield, to remain available through 2013. Pursuant to that Act, specific amounts became available in 2004 (\$0.9 billion) and 2005 (\$2.5 billion) that are intended to cover programmatic activities through 2008. The remainder will become available in 2009. Including this uneven funding stream can distort year-over-year comparisons. For more information about Project BioShield, go to <http://www.whitehouse.gov/infocus/bioshield/>.

Homeland Security by Agency
(Budget Authority, \$ millions ¹)

Agencies	FY03		FY04		FY05	FY06
	Actual	Supplement	Actual	Supplement	Enacted	Request
Department of Agriculture	300.0	110.0	411.0	—	600.0	704.0
Department of Commerce	112.0	—	125.0	—	167.0	183.0
Department of Defense—Military ²	8,442.0	—	7,024.0	—	8,570.0	9,513.0
Department of Energy	1,247.0	162.0	1,364.0	—	1,562.0	1,666.0
Department of Health and Human Services	4,002.0	142.0	4,062.0	—	4,230.0	4,407.0
Department of Homeland Security	18,652.0	4,411.0	22,834.0	—	24,871.0	27,331.0
Department of Interior	—	—	83.0	—	65.0	57.0
Department of Justice	1,893.0	457.0	2,165.0	—	2,678.0	3,104.0
Department of State	633.0	1.0	696.0	—	824.0	938.0
Department of the Treasury	80.0	—	90.0	—	101.0	111.0
Department of Transportation	383.0	—	284.0	—	182.0	192.0
Department of Veterans Affairs	154.0	—	271.0	—	280.0	299.0
Corps of Engineers	36.0	39.0	102.0	—	89.0	72.0
Environmental Protection Agency	133.0	—	131.0	—	107.0	184.0
General Services Administration	—	—	79.0	—	65.0	80.0
Social Security Administration	132.0	—	143.0	—	159.0	178.0
National Aeronautics and Space Administration	205.0	—	207.0	—	218.0	205.0
National Science Foundation	285.0	—	340.0	—	342.0	344.0
Other Agencies	429.0	7.0	317.0	—	888.0	375.0
Total, Homeland Security Funding excluding Project BioShield	37,118.0	5,329.0	40,728.0	107.0	45,998.0	49,943.0
Less Department of Defense—Military ²	-8,442.0	—	-7,024.0	—	-8,570.0	-9,513.0
Total, Homeland Security Funding, excluding Defense and BioShield³	28,676.0	5,329.0	33,704.0	107.0	37,428.0	40,430.0
Less Mandatory Homeland Security Funding ²	-1,760.0	—	-1,940.0	—	-2,225.0	-2,302.0
Less Discretionary Fee-Funded Activities ⁴	-3,414.0	705.0	3,289.0	—	3,941.0	-5,890.0
Net Nondefense Discretionary Homeland Security Budget Authority excluding Project BioShield	23,502.0	6,034.0	28,475.0	107.0	31,262.0	32,238.0
Plus Dept of Homeland Security BioShield	—	—	885.0	—	2,508.0	—
Net including Project BioShield	—	—	29,360.0	—	33,770.0	32,238.0

¹ Numbers may not add due to rounding.

² Mandatory homeland security programs include Agriculture Quarantine and Inspections, Border Protection and Immigration Enforcement.

³ Excludes \$107 million in supplemental appropriations in FY04 and \$16 million in FY05.

⁴ Discretionary free-funded homeland security programs include Visa Processing, Airport Security and Social Security physical and computer security.

Source: Budget of the United States FY06 Summary Table S-5

Homeland Security by Mission
(Budget Authority, \$ millions*)

	FY03 ¹		FY04 ²		FY05 ²	FY06 ²
	Enacted	Supplement	Enacted	Supplement	Enacted	Request
Intelligence and warning	125.1	86.0	242.0	—	349.8	431.9
Border and transportation security	15,170.8	1,859.0	15,840.8	90.7	17,550.2	19,285.8
Domestic counterterrorism	2,509.2	522.6	3,379.3	12.3	3,944.5	4,468.7
Protecting crucial infrastructure and key assets	12,893.1	388.3	12,279.1	2.5	14,939.4	15,632.2
Defending against catastrophic threats	2,428.4	201.1	2,974.2	0.7	3,399.2	3,898.3
Emergency preparedness and response	3,873.2	2,272.0	6,002.6	—	5,765.2	6,121.6
Other	118.3	—	9.6	—	49.8	104.5
Project BioShield	—	—	885.0	—	2,508.0	—
Total Homeland Security	37,118.2	5,329.0	41,612.7	106.2	48,506.2	49,942.9

* Numbers may not add due to rounding.

Sources: ¹ Budget of the United States FY05 Analytical Perspectives Table 3-2

² Budget of the United States FY06 Analytical Perspectives Table 3-2

- \$1.7 billion to support both basic research (which leads to breakthroughs in scientific knowledge) and applied research and development (which converts knowledge into effective countermeasures such as vaccines and treatments) at the National Institutes of Health;
- \$385 million, an increase of \$22 million, to the DHS Biological Countermeasures Office for developing vaccines to defend the food supply against intentional or accidental introduction of animal diseases into the country;
- \$107 million, including \$36 million in new spending on countermeasures to non-traditional chemical agent threats, which doubles the spending for chemical agent research and development conducted by DHS. This funding includes the creation of a state-of-the-art materials testing facility that will be housed within DoD's chemical countermeasures programs;
- \$223 million to DoD for boosting efforts in the areas of agent detection, early warning, decontamination and medical countermeasures for chemical and biological threats;
- \$150 million to DHS for aviation explosives detection research and continuing the deployment of more advanced equipment and systems at airports;
- \$110 million to DHS for continuing research on the viability of countermeasures for commercial aircraft against the threat of shoulder-fired missiles known as Man-Portable Air Defense Systems;
- \$2 billion to ensure the security of the nation's ports, primarily supporting the Coast Guard's ports, waterways and coastal security program (\$1.9 billion in discretionary funding), and the U.S. Customs and Border Protection (CBP) container security initiatives;
- \$600 million for Targeted Infrastructure Protection (TIP) grants to be allocated by the Secretary of DHS to state and local governments to assist in reducing the vulnerability of critical infrastructure such as chemical facilities, ports and transit systems;
- \$530 million for DHS' Information Analysis and Infrastructure Protection (IAIP) Directorate, which assesses threats, issues alerts and takes preventive action; and
- \$17 billion in grants to assist state and local homeland security efforts that will be allocated through the House-approved Faster, Smarter, First Responder Act, providing greater authority to allocate funds based on need, risk and the achievement of national preparedness goals instead of the previous formula approach.

As is evident from this list of programs, DoD and the Army are responsible for critical parts of the homeland security missions. Americans benefit from the interaction of DHS and DoD.

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The subsequent sections of this analysis focus on the DoD and the Army budget proposals, and what the funds will provide to the nation.