

National Defense Budget Update 01 Inflation Sparks New Fight over Biden's Military Budget Request

Spiking inflation's potential effect on the Pentagon has emerged as a line of attack for Republicans who argue President Joe Biden's defense budget was already treading water when it was introduced 28 March 2022. Inflationary shocks are driving up Pentagon costs for labor, fuel and other materials, prompting Republicans to call for more than Biden's \$813 billion national defense budget request for fiscal 2023. That request would be a \$30 billion, or 4%, boost from the fiscal 2022 level enacted by Congress — which is a nominal increase above the Pentagon's assumption of 2.5% inflation.

The armed services committees' lead Republicans, Sen. Jim Inhofe, and Rep. Mike Rogers, have pressed Defense Secretary Lloyd Austin and the armed services secretaries, in a series of letters obtained by Defense News, to explain where their inflation figures came from, noting the Labor Department calculates the Consumer Price Index at 7.9%, a 40-year peak. Both are among Republicans who have called for a 5 percent increase above inflation. Along similar lines Monday, Senate Minority Leader Mitch McConnell (R-KY) was swift to react to the defense budget release, arguing that it “falls woefully short.”

“Our commander-in-chief has again failed to budget for the resources that our armed forces actually need,” McConnell said, adding: “So even if you accept the White House's rosiest 7 predictions about where inflation is headed, this would amount to a flat funding defense with none of the robust growth we need to keep pace with Russia and China.” Emphasizing China and Russia, the request boasts the Pentagon's largest research and development budget yet, at \$130 billion for new weapons like hypersonic missiles. It would retire systems like the Littoral Combat Ship, citing the expense to maintain it, and the A-10 Warthog aircraft, which defense officials argue isn't relevant to a high-end fight. It also boasts \$4.2 billion for the European Deterrence Initiative, an increase of \$360 million, with new funds to help Ukraine repel a Russian invasion.

Senate Armed Services Committee Chairman Jack Reed (D-RI) hailed the forward-leaning investments and said he supports the Pentagon's “efforts to achieve billions of dollars in savings by offloading unnecessary equipment and programs.” Still, Reed called the request, “an outline and a starting point.” Deputy Defense Secretary Kathleen Hicks, the Pentagon's No. 2 civilian, signaled that the Pentagon will work with Congress on some sort of increase for inflation. She said neither the recently passed defense budget for fiscal 2022 nor the new submission for 2023 fully account for the inflation's effects. “So we'll be working with Congress through the summer on how this year lands ... and how inflation ends up affecting our service members,” Hicks told reporters. “We built into this '23 budget the best information that we had at the time. As in any year, we're going to be working that as we get closer to the reality, and even in execution.”

Pentagon Comptroller Mike McCord said the White House-approved request would give the Pentagon the resources it needs to defray escalating costs. He also seemed to downplay those costs, saying they would be hard to project for fiscal 2023, much less over a five-year defense plan, known as the FYDP. “We're a long way off from knowing what's going to happen in

FY23, which doesn't start for six more months and doesn't end for 18 months," he told reporters. "I think one of the real hard things for everyone is to separate in your mind what happened last month or the month before from saying you know what's going to happen 12 months from now, let alone across the FYDP."

Republicans are probing for more answers now. In a five-page letter sent to Austin and the service secretaries, Inhofe and Rogers asked nearly two dozen questions about how the Pentagon and each of the services is planning for inflation, and how their assumptions were formed — but also about the impacts of inflation in fiscal 2021 and 2022. "Put simply, the inflation we are experiencing is effectively a 5 to 8 percent cut to the department's buying power, which could amount to between \$20-\$30 billion in unfunded costs in fiscal year 2022 alone, not to mention lost buying power in fiscal 2021 and potential lost buying power in fiscal year 2023," they write.

The two lawmakers also asked about the inflationary effects on military and civilian pay, housing allowances, fuel, operations, maintenance, military construction facilities sustainment, research and development and procurement. In addition, they asked if the Pentagon is has authorized contracting officers to negotiate contract adjustments to absorb contractors' inflation costs, and what internal requests McCord's office may have received to reprogram funding to cover inflationary costs. Also, how are senior leaders tracking inflation and have they contracted for outside support to study it? "Does departmental leadership have a regularized meeting schedule to discuss inflationary effects on departmental budgets?" the lawmakers ask.

The questions hint at the billions of defense dollars at stake as contractors experience the effects of inflation on wages and other costs and may eventually pass those costs on to the government. Friction over the actual size of inflation and how it's calculated will likely loom large in the push and pull over the annual Pentagon budget, according to Todd Harrison, director of defense budget analysis and of the Aerospace Security Project at the Center for Strategic and International Studies. "Inflation is going to be central to the battle over the defense budget this year, and the further we get into the current year, the more we're going to know about the inflation environment going forward and the more intense that battle is going to get," Harrison said.

Though Republican are in the minority now, midterm elections are coming in the fall, and the historical trend is that the party in power will lose seats. Republicans are telegraphing, should that occur, how they would make increases. "It's the ranking members, Inhofe and Rogers, that are voicing these questions, and we're facing a midterm election where both chambers of Congress might flip control before this budget is even enacted," Harrison said. "That would have a big impact on the top line number we end up with."