A Defense Recession within a Global Economic Recession

USG discretionary spending will be increasingly stressed by rising mandatory program costs as well as a prolonged period of global economic stagnation, further exacerbated by US political dysfunction.

- The global recession has led to slow growth across industries with defense spending expected to remain flat in the near-term.
- Unlike during previous downturns, government costs (and debt) have risen to a breaking point forcing a cap on spending and a possible sequestration scenario for the defense budget.
- Other costs are rising, Social Security and Medicare in particular have grown substantially and the US cannot continue to fund all programs equally.
- After a decade of wars abroad and sustained high military spending, the government is facing increased pressure to reduce defense spend and shift funds to other priorities.

Components of the Federal Budget as % of GDP: 1972-2011 Average and 2022 Projection

![Bar chart showing components of the federal budget as a percentage of GDP from 1972 to 2022 projection.]

It will be difficult to sustain today’s military spending in light of competition for government resources.

Expect a Deep and Lengthy Downturn

Beyond the structural challenges brought on by the global recession, defense spending has historically declined sharply and rapidly following draw-downs from previous conflicts.

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**Post Conflict Reductions in Defense Spending**

- **Vietnam**: High (1968) 540, Low (1975) 371, Reduction 31%
- **Post Gulf / Bosnia**: High (1985) 580, Low (1998) 374, Reduction 36%

**Note:** All values shown in constant 2012 dollars

**Source:** National Defense Budget Estimates for FY 2012
Danger of Relying on Unfounded Optimism

Even with the expectation for sharp post-conflict reductions, planners still tend to overestimate out-year budgets

- During the past market downturn, it took 5 planning cycles before the FYDP reflected the budget realities
- During the current downturn, we anticipate that budget realities will likely be realized sooner with many anticipating in FY10 that the FY12/FY13 budgets would be the turning point

Given historical trends, industry should anticipate cuts to the defense budget far beyond what is indicated by the current FYDP