

April 16, 2001

Honorable Pete V. Domenici  
Chairman  
Committee on the Budget  
United States Senate  
Washington, D.C. 20510-6100

Dear Mr. Chairman:

Attached is the Congressional Budget Office's (CBO's) response to your letter of December 22, 2000. In that letter, you asked CBO to review existing estimates of the costs of the Department of Defense's (DoD's) role in smaller-scale contingencies (SSCs). SSCs include such operations as limited strikes, peacemaking and peace-keeping, humanitarian assistance, and disaster relief. Most existing estimates suggest that those activities have cost DoD an average of about \$3 billion annually over the past 10 years.

As CBO's analysis indicates, current estimates of SSC costs focus only on the budgetary effects. Those estimates tally up DoD's expenditures without taking into account the value of lost capabilities for other missions—including homeland defense and major theater warfare—that result from participating in SSCs. The total (budgetary and nonbudgetary) costs of an SSC can be defined as the increase in DoD spending that would be required if the department engaged in the operation and still maintained the desired level of capabilities for its other missions. Estimates of budgetary costs will understate total SSC costs if, as some observers believe, participating in such operations diminishes DoD's capability to perform other missions. However, some SSCs may enhance DoD's capabilities; in those instances budgetary costs would overstate an SSC's total costs.

As you requested, CBO's analysis focuses only on the costs of SSCs. It does not address other issues in the larger debate about SSCs, such as the importance of

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SSCs to U.S. national security, whether U.S. forces need to be able to respond to more than one major theater war at a time, and the appropriate size of the defense budget.

Sincerely,

Dan L. Crippen  
Director

Attachment

cc: Honorable Kent Conrad  
Ranking Member  
Committee on the Budget

Honorable John Warner  
Chairman  
Committee on Armed Services

Honorable Carl Levin  
Ranking Member  
Committee on Armed Services

## ASSESSING THE COSTS OF SMALLER-SCALE CONTINGENCIES

This analysis examines the limitations of current estimates of the costs of smaller-scale contingencies (SSCs). SSCs include such military operations as limited strikes, peacemaking and peacekeeping, humanitarian assistance, and disaster relief. According to Department of Defense (DoD) estimates, SSCs have accounted for about 1 percent of the department's budget—or \$3 billion per year, on average—over the past decade.<sup>1</sup> The Congressional Budget Office (CBO) finds that although DoD's estimates may provide accurate and useful information about budgetary costs, they understate total costs in situations in which the SSC detracts from DoD's ability to carry out its other missions. This discussion focuses only on assessing the costs of SSCs and does not address a number of other issues that are part of a broader debate about such operations—for example, the extent to which participation in SSCs contributes to national security, whether the United States needs to be able to engage in more than one major theater war (MTW) at a time, and whether the nation is devoting enough resources to defense.

DoD's estimates of the budgetary costs of SSCs focus on the immediate impact those contingencies have on the department's spending. They reflect the amount of additional funding that the department would need if it engaged in SSCs and did not curtail other planned activities (such as training units and maintaining facilities and equipment) to obtain the needed funds. But the estimates do not take into account how SSCs affect the capabilities needed for DoD's other missions—which include major theater warfare, homeland defense, and peacetime engagement with the military forces of other nations. The total costs of an SSC can be defined as the amount of additional funding DoD would require if it both engaged in the SSC and maintained its desired level of capabilities for other missions.<sup>2</sup> Thus, budgetary costs would understate the total costs of an SSC that diminished DoD's other capabilities and overstate the total costs of an SSC that enhanced them.

Many military and Congressional leaders believe that U.S. involvement in SSCs, although important to national security, imposes a significant strain on military forces and leaves both personnel and equipment less prepared to carry out other missions. In particular, the Chief of Staff of the Army and the Commandant of the Marine Corps, after considering that issue, recently concluded that the full costs of SSCs are as yet undefined, and they have asked their staffs to develop estimates of those costs.<sup>3</sup> The total-cost concept described here helps explain why DoD's

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1. Estimates of annual average costs over the past five years are in the range of \$4 billion.
  2. This definition applies regardless of whether the desired capability involves one or two MTWs.
  3. See Robert Holzer, "U.S. Army, Marines to Gauge Deployment Cost," *Defense News*, July 17, 2000, p. 1.

capabilities might be adversely affected by SSCs even though the immediate budgetary costs of those operations are small relative to the total defense budget and may ultimately be covered through supplemental appropriations.

## UNDERSTANDING CURRENT ESTIMATES OF BUDGETARY COSTS

Several organizations besides DoD have reported on the budgetary costs of the U.S. military's participation in SSCs—among them the Congressional Research Service, the General Accounting Office (GAO), and the Center for Strategic and Budgetary Assessments.<sup>4</sup> However, those reports rely on DoD's data and cost concepts and thus yield similar cost estimates. All of the estimates exclude nonbudgetary costs—for example, the reduced readiness of U.S. forces for major theater warfare—that may be part of an SSC's total costs but that do not appear as expenditures in either DoD's or the total federal budget. In addition, the estimates focus for the most part on SSCs' immediate budgetary costs and do not take into account potential future expenditures—for example, higher spending on procurement in later years if the use of equipment in an SSC shortens the equipment's service life.

Another feature of existing estimates is that they focus on the additional, or incremental, spending that DoD undertakes as a result of the SSC. For example, they include the cost of the fuel used by units engaged in such operations *minus* the cost of the fuel that those units would have used had they not been deployed for the SSC. They also include the additional allowances (such as the family separation allowance and imminent danger pay) received by some military personnel who are deployed for contingency operations. However, because the estimates assume that the operations do not affect the military's overall size, they exclude the pay that those personnel would have received had they not been deployed. Incremental costs are the appropriate measure for SSCs; costs that would have been incurred in the absence of those operations are not, logically, ascribable to SSCs. (As a result, focusing on incremental costs is appropriate for both estimates of budgetary costs and estimates of total—that is, budgetary and nonbudgetary—costs.)

Estimates of budgetary costs serve an important purpose: they indicate the amount of immediate contingency funding needed to allow DoD to engage in SSCs without having its other planned activities disrupted solely by shortfalls in funding. And although the budgetary costs of SSCs can never be estimated with perfect accuracy, the available evidence does not indicate that existing estimates

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4. See Nina M. Serafino, *Peacekeeping: Issues of U.S. Military Involvement*, CRS Issue Brief IB94040 (Congressional Research Service, July 7, 2000); General Accounting Office, *Fiscal Year 2000 Contingency Operations Costs and Funding*, GAO/NSIAD-00-168 (June 6, 2000); Steven Kosiak, *After the War: Kosovo Peacekeeping Operations Could Cost U.S. \$2-3.5 Billion a Year* (Washington, D.C.: Center for Strategic and Budgetary Assessments, June 7, 1999).

systematically overstate or understate them. GAO has criticized DoD's estimates on the grounds that they often fail to take into account the savings in fuel and other expenses that accrue because the deployed unit is not training in the United States.<sup>5</sup> But those same estimates may fail to capture all of the immediate budgetary costs of those operations, such as increased spending on family and personnel support programs.

## THE LIMITATIONS OF BUDGETARY COSTS

Despite the utility of gauging SSCs' budgetary costs, DoD's estimates are unlikely to capture the total impact of SSCs on DoD. Among the nonbudgetary costs excluded from that figure are effects that such operations might have on training for major theater warfare, possible declines in the quality of military forces if the stress of frequent deployments makes it harder for DoD to retain experienced personnel, and reductions in capabilities due to the additional wear and tear on military equipment. Although such costs cannot be easily measured in dollars, they could outweigh the relatively modest budgetary costs of SSCs.

To understand the limitations of the budgetary metric, consider a military operation that disrupts training not only for units deployed overseas but also for units remaining in the United States. Unable to train as planned—perhaps because some of the equipment and personnel needed for the training is overseas—the units in the United States might use less fuel than they otherwise would. In an estimate that considered only budgetary costs, the fuel “saved” could be subtracted from the fuel used in the operation. As a result, a deployment that disrupted training in the United States could have lower budgetary costs than a similar deployment that did not disrupt training. At the same time, however, the deployment that disrupted training would have a greater impact on military capabilities and in that sense would be more costly.

Budgetary costs can also give a misleading picture if, over time, nonbudgetary costs become budgetary expenses. For example, in the short run, military families may simply be forced to bear the stress of frequent deployments for SSCs without any additional compensation. (That view is consistent with the assessment of Army and Marine Corps leaders that such deployments are “currently being performed on the backs of soldiers and Marines.”)<sup>6</sup> But over the longer run, those repeated deployments may make service members less willing to remain in the military. In such circumstances, DoD might convert those nonbudgetary costs into actual

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5. General Accounting Office, *Contingency Operations: DOD's Reported Costs Contain Significant Inaccuracies*, GAO/NSIAD-96-115 (May 17, 1996), p. 18.

6. See Holzer, “U.S. Army, Marines to Gauge Deployment Cost.”

spending by increasing pay or family support programs designed to offset the negative effects of frequent deployments. Focusing only on budgetary costs would indicate that SSCs had become more expensive, when in fact nonbudgetary costs were simply being converted into budgetary costs.

## THE TOTAL COSTS OF SMALLER-SCALE CONTINGENCIES

Much of the information needed to place a dollar value on the total costs of SSCs is not available. Nonetheless, a monetary equivalent exists in theory. Suppose that the country's national security strategy requires a military that is capable of responding quickly to scenarios involving major theater warfare and homeland defense.<sup>7</sup> But the military's ability to carry out that strategy is weakened when some U.S. forces are engaged in SSCs. In that case, the total cost of an SSC is equal to the increase in the defense budget that allows DoD to conduct the SSC and at the same time provide the desired capabilities for its other missions.<sup>8</sup>

That approach to calculating total costs assumes that the value the nation places on the capabilities forgone due to participation in the SSC equals what it would cost to replace them. The validity of that assumption is likely to depend on whether the SSC disrupts the capabilities of U.S. forces over the long run (either on a prolonged or on a repeated and routine basis) or whether it disrupts them for only brief, intermittent periods (in response to specific SSCs or peak levels of those operations).

The assumption that the forgone capabilities warrant replacement is most likely to be valid if they were worth what they cost before the SSC and if engaging in the SSC reduced them over a prolonged period. In contrast, replacing capabilities that were lost only briefly, during intermittent periods of peak contingency operations, might not be worthwhile. Such an effort might require DoD to maintain forces that most of the time had much more capability than was needed to meet national security objectives. Whether those larger forces were justified would depend on how the nation assessed the risk associated with brief reductions in the capabilities needed for major theater warfare, homeland defense, and peacetime engagement with other militaries. In the short run, DoD could take some steps—such as purchasing additional services from contractors—to offset the effects of sudden surges in SSC

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7. This example does not assume a strategy that calls for the ability to respond to two nearly simultaneous MTWs.

8. That same approach could be used to estimate the cost of maintaining capabilities for a second MTW given some desired level of participation in SSCs. That is, one could determine the increase in the defense budget that would allow U.S. forces to both respond to a second MTW and maintain some desired level of participation in SSCs as well as readiness for an initial MTW and homeland defense.

operations. Yet it might not be cost-effective or even feasible to replace all of the lost capabilities on short notice. In that case, the cost of actually replacing those capabilities in the short run would overstate both the total costs of the surge in SSC activity and the appropriate increase in DoD's budget. The least-cost solution would require the nation to either forgo the surge in SSCs or bear part of the cost in the form of temporary reductions in capabilities for major theater warfare, homeland defense, or other missions.

## HOW IMPORTANT ARE NONBUDGETARY COSTS?

The magnitude of an SSC's nonbudgetary costs depends in part on the degree to which the personnel, equipment, and other resources that it uses also contribute to other needed defense capabilities. At one extreme is the high-cost case in which units deployed for SSCs are unable to contribute to DoD's capabilities for major theater warfare, homeland defense, or peacetime engagement with other nations' militaries. In those circumstances, DoD could only maintain readiness for its other missions by increasing its force structure by the number of units deployed for the SSCs. The total cost of SSC operations might then equal an estimate that included, for example, such costs as the salaries of deployed personnel and the costs of the training that they would have received had they not been deployed—costs that are explicitly (and appropriately) excluded from existing estimates of budgetary costs. And an even greater increase in force structure might be required if, as the Army often argues, some nondeployed units were unprepared to carry out their missions because they had just returned from an SSC or were preparing to deploy to one.<sup>9</sup>

At the other extreme is the low-cost case in which units engaged in SSCs contribute just as much as—or more than—nondeployed units to DoD's capabilities for its other missions. SSCs that involve disaster relief, humanitarian assistance, and peacekeeping might be good substitutes for some of the routine peacetime training that DoD would otherwise engage in with foreign militaries. And SSCs involving peacemaking could do more to enhance combat skills and coordination among the United States and its allies than would many combat training exercises. In some cases, there might be no nonbudgetary costs imposed because of lost capabilities, and the total costs of an SSC might be even less than its budgetary costs.

Neither of those extreme cases seems plausible, however. The net effect of SSCs on DoD's other military capabilities is likely to depend on the length and frequency of those operations, the number and types of U.S. forces committed to

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9. However, some defense analysts believe that changes in the way the Army manages its personnel and units could reduce the strains associated with frequent deployments for SSCs yet leave its forces ready for major theater warfare. The Air Force is attempting such changes as part of its Aerospace Expeditionary Force concept.

them, and the specific tasks those forces undertake. On the one hand, some level of SSC participation could have a positive effect on the capabilities of particular units. On the other hand, it is probably unrealistic to assume that repeatedly deploying forces for SSCs does nothing to degrade DoD's overall ability to undertake other missions.