



Center for Strategic
and Budgetary
Assessments

T E S T I M O N Y

Military Readiness: Cost-Effectiveness of US Plans for Reset, Force Expansion and Weapons Modernization

Testimony

**United States House of Representatives
Committee on Armed Services**

Steven M. Kosiak

**Vice President, Budget Studies
Center for Strategic and Budgetary Assessments**

February 14, 2008

Mr. Chairman and members of the committee, it is an honor to appear before you today to discuss the US military's state of readiness and the country's strategic posture. The US military, and the US Army and Marine Corps in particular, have been under enormous stress since the initiation of Operation Enduring Freedom in 2001 and, especially, since the US invasion of Iraq in 2003. Therefore, I applaud the committee's decision to hold a hearing on military readiness at this time. As requested, I will focus on the budgetary aspects of these issues.

The Department of Defense's (DoD's) plans to recover from the ongoing military operations in Iraq and Afghanistan and ensure the Services' long-term readiness, comprise three main elements: reset (or "reconstitution"); force expansion; and force modernization. In my testimony today, I will discuss each of these components.

In brief, I conclude the following:

- Although it is difficult to determine precisely what the Services' requirements are, they appear to have received (or be receiving) funds sufficient, or perhaps in excess, of those needed to repair or replace all of the equipment that has been destroyed or worn out in Iraq and Afghanistan. Funding for reset also appears to have gone a long way toward eliminating equipment shortfalls for the Army and Marine Corps that pre-date our involvement in these conflicts. Given the large amounts of funding that have been provided for reset to date, it is unclear whether if or when, US forces are withdrawn (or largely withdrawn) from Iraq, it will be necessary—as the Services have argued—to continue, for several additional years, to provide funding for reset. No matter how much money is provided for reset, it will be at least several years before all of the new and refurbished equipment will be delivered and fielded with the Services—and, thus, material readiness fully restored.
- The rationale for expanding the Army and Marine Corps is that it will improve the ability of the US military to sustain large-scale, long-term stability operations. However, this expansion will be costly in budgetary terms and may be achievable only if the Services are willing to accept some reduction in personnel quality. Moreover, because the Army plans to use the additional troops to man general purpose brigade combat teams (BCTs), rather than units designed for irregular warfare and building partner capacity (e.g., training, equipping and advising indigenous forces), the expansion—which would increase the number for active duty BCTs by six, or 14 percent—is likely to provide only a modest improvement in the Service's ability to sustain stability operations. Put differently, although the purported justification for the expansion is the need to grow the Service's capacity for stability operations, as currently envisioned, the expansion is focused much more on increasing the Army's conventional capabilities—where it already appears to have excess capacity—than its ability to sustain large-scale, long-term stability operations. As such, it is questionable whether the proposed expansion of the US military represents a cost-effective investment.

- The Services argue that implementing their modernization plans will greatly improve the military's ability to respond to the range of challenges outlined in the 2006 Quadrennial Defense Review (QDR)—including conventional and irregular warfare, the possible rise of a peer competitor, and the threat posed by weapons of mass destruction (WMD). Like the planned expansion of the Army and Marine Corps, the Services' modernization plans are very costly. Estimates by the Congressional Budget Office (CBO) suggest that implementing the current plan could require increasing procurement funding in DoD's base budget (i.e., excluding war costs) to some \$135 billion (in FY 2008 dollars) annually over the long term. It may be difficult to sustain this level of funding given other upward pressures *within* the DoD budget (e.g., personnel costs associated with the expansion of the Army and Marine Corps) and potential downward pressures *on* the DoD topline (e.g., future deficit reduction efforts). Moreover, in some cases, such as fighter programs and the Future Combat System (FCS), the Services' plans may not be focused on the right kinds of challenges. In other words, here too, there appears to be something of a disconnect between the Services' very costly plans and actual requirements.

I will spend the remainder of my time today discussing each of these areas, and my conclusions, in more detail.

Reset—the Cost of Restoring Readiness

To date, Congress has provided about \$691 billion to cover the cost of the wars in Iraq and Afghanistan, as well as some homeland security activities, including some \$645 billion in DoD funding. The costs incurred as a result of the military operations in Iraq and Afghanistan are driven by a wide range of factors, including the activation of reserve personnel, higher consumption rates for fuel, spare parts and other supplies, transportation and sustainment requirements, and increases in equipment wear and tear. For the most part, the funding required to cover these costs has been provided, more or less, on a pay-as-you-go basis. However, in the case of equipment replacement and repair, some of the costs incurred in these wars have been deferred.

Initially, the administration included very little funding in its supplemental requests to cover the cost of repairing and replacing equipment worn out or destroyed in Iraq and Afghanistan. In part, the decision to initially forgo such funding seems to have been driven by the assumption that these military operations, especially in Iraq, would be of short duration. In 2006 the Army—the service most heavily engaged in military operations—estimated that it needed some \$13 billion a year to cover reset (or “reconstitution”) costs incurred as a result of the wars in Iraq and Afghanistan. It also estimated that it would continue to require funding of this magnitude for at least two years after military operations had ended, in order to fully recover from these wars. This suggested that the Army alone might need roughly

an additional \$30 billion in reset funding after the conflicts have ended, or at least wound down to much smaller operations.

Since the Army first stated that it would need this additional funding for reset, the level of resources provided to the Service to cover equipment replacement and wear and tear costs has increased dramatically. This trend is reflected, in part, in the increasing amount of procurement funding that has been provided for the Army in recent supplemental appropriations. That funding has grown from about \$15 billion in 2006 to some \$25 billion in FY 2007. And the administration's 2008 supplemental request included nearly \$46 billion in Army procurement funding. Altogether, assuming Congress eventually approves the full request for FY 2008 war funding, the Army will have been provided a total of about \$100 billion in procurement funding in these war-related measures since FY 2001. By comparison, CBO estimates that the total value of the Army's inventory of major weapon systems (combat vehicles and helicopters) and trucks deployed in Iraq and Afghanistan amounts to some \$30 billion, and that these systems account for about 80 percent of the total value of all of the Army's equipment in theater.¹

The level of funding provided for procurement and reset (which are overlapping, but not synonymous, categories) has also increased for the other Services. In FY 2005, DoD as a whole received \$21 billion in procurement funding in emergency appropriations. That figure grew to \$42 billion in FY 2007. And the FY 2008 supplemental request included about \$64 billion in procurement funding. Likewise, altogether DoD received some \$19 billion to cover reset costs in FY 2006. In FY 2007, the level of funding for reset reached \$38 billion. And the request for 2008 included another \$38 billion for reset. Part of the reason for this increase in funding is the Services' expanding notion of what reset encompasses. Reset now means far more than simply bringing the military back—in terms of equipment availability and readiness—to where it was prior to the beginning OEF or the invasion of Iraq. Rather, reset involves bringing the Services, and especially the Army, up to where they believe they need to be based, in part, on the lessons learned over the past several years. According to CBO, through FY 2007, more than 40 percent of the funds provided for Army reset have been used for upgrading weapon systems, or buying new equipment to eliminate long-standing gaps in the Army's equipment inventories (e.g., shortfalls in Army trucks).²

The Services will continue to incur additional replacement and repair costs so long as US forces remain heavily engaged in Iraq and Afghanistan. However, given the level of resources provided (or requested and currently pending before Congress) for procurement and reset over the past several years, it is unclear whether the Army, or the other Services, would still require a further two-years of reset funding once the US military has re-deployed, or largely re-deployed, its forces out of Iraq. It is also

¹ Frances M. Lussier, *Replacing and Repairing Equipment Used in Iraq and Afghanistan: The Army's Reset Program* (Washington, DC: CBO, September 2007), p. 22.

² *Ibid.*, p. ix.

important to note that, no matter how much money is provided for reset, it will be at least several years before all of the new and refurbished equipment is delivered and fielded with the Services—and, thus, material readiness fully restored.

Expanding the Army and Marine Corps

Last year, the Bush Administration announced plans to increase the permanent active duty end strength of the Army and Marine Corps to, respectively, 547,000 and 202,000 troops. These represent increases of 65,000 and 27,000 troops from the previously authorized permanent end strengths of the Services. Under this plan, the number of Army Reserve and National Guard personnel would also be increased by about 9,200.

The Army plans to use these additional personnel to field 6 additional Brigade Combat Teams (BCTs), ultimately increasing the total number of active duty BCTs by about 14 percent, from 42 to 48 (with a further 28 BCTs in the reserves). Assuming the Army would seek to maintain a ratio of total-to-deployed BCTs of about 3-to-1 (its long-term goal), the addition of these six BCTs would increase by two the number BCTs that could be deployed, on a steady-state basis, in stability operations. Including the impact of the additional Marine Corps personnel, the planned expansion of the two Services might be sufficient to increase the number of BCT equivalents that could be sustained in such operations to three. By comparison, over the past five years, the Army and Marine Corps (combined) have typically maintained some 18-20 BCT equivalents in Iraq and Afghanistan. These figures suggest that the planned expansion of these two Services will increase the number of BCT equivalents that can be deployed in stability operations, on a steady state basis, only relatively modestly—by some 15-20 percent.

Alternatively, rather than being used to increase the number of BCTs deployed abroad, the additional BCTs could be used to expand the size of the Service's rotation base. This would allow them to sustain the same number of BCTs overseas, while increasing the amount of time units could spend at home in between deployments. But again, given the relatively small increase in the number of BCTs provided as a result of the proposed expansion, the impact might be relatively modest.

At the same time, there are significant costs associated with the proposed expansion of the Army and Marine Corps. CBO has estimated that funding this expansion will cost about \$108 billion through FY 2013.³ And once completed, it is likely that supporting these additional troops will, over the long term, require further funding of some \$15 billion a year.

³ Peter R. Orszag, "Estimated Cost of the Administration's Proposal to Increase the Army's and Marine Corp's Personnel Levels," Letter to Honorable Carl Levin, Chairman, Senate Armed Services Committee, April 16, 2007.

The Army appears to have suffered at least a modest reduction in personnel quality over the past several years. Among other things, in FY 2006 and FY 2007, the number of Army active duty recruits with high school degrees declined to about 81 and 79 percent, respectively (vice DoD's goal of 90 percent). Likewise, the jump in promotion rates among mid-level officers in recent years suggests some decline in quality among the officer corps. If the additional end strength is used to permit shorter and less frequent overseas deployments, the proposed expansion could improve the prospects that the Services will meet their recruitment and retention goals. However, it may be more likely that the planned expansion, by increasing the number of personnel that must be recruited and/or retained, will exacerbate the Army's already very serious challenges in this area. As a result, once the proposed expansion is completed, the Army could well end up with an Army that is larger but, person-for-person and unit-for-unit, of at least somewhat lower quality.

The wisdom and cost-effectiveness of the planned expansion of the Army are also called into question by the Army's intention to use the additional personnel to provide more BCTs rather than specialized units that might provide much greater "bang for the buck," in terms of expanding the Army's capacity to sustain large-scale stability operations. As noted earlier, if used simply to provide additional BCTs, the planned expansion of the Army will provide only a relatively modest increase in the size of the deployments it can sustain, on a steady-state basis, in stability operations—or, alternatively, a similarly modest reduction in PERSTEMPO, with no increase in the size of the deployment.

By contrast, the impact of the planned expansion of the Army's ability to support large-scale stability operations would likely be far greater if the Army were to dedicate the additional personnel to specialized irregular warfare units and, perhaps most importantly, units designed to help build partner capacity with indigenous forces—i.e., units designed to train, equip and advise those forces.⁴ The Army argues that it is not and will not (even after its expansion) be large enough to have forces dedicated to any particular warfare area—and that, therefore, essentially all of its forces must be "full-spectrum capable." Unfortunately, this appears to be a euphemism for "general purpose" forces, which have traditionally been focused on conventional warfare.

Moreover, it is difficult to see why, for the foreseeable future, the Army would need 48 active and 28 reserve "full-spectrum" BCTs capable of conducting conventional military operations. In the 1990s, DoD planning assumed that 20-21 combat brigades would be needed to conduct a single major theater war. And coalition forces carried out the initial, conventional phase of Operation Iraqi Freedom (OIF) with the equivalent of only 15 combat brigades, including 12 US (Army and Marine Corps) and 3 British brigades.

⁴ For a discussion of how the US Army might be organized to better focus on these mission, see Andrew F. Krepinevich, "The Future of US Ground Forces: Challenges and Requirements," testimony before the Committee on Armed Services, US Senate, April 17, 2007, pp. 13-21.

In short, under the current approach, we seem to be investing in a very costly expansion of our ground forces that is much more focused on improving our conventional military capabilities—where we may well have excess capacity—than our ability to sustain large-scale, long-term stability operations. This should be troubling, since the perceived need to improve our capacity for stability operations is clearly what has driven the administration and Congress to support an expansion of the Army and the Marine Corps. Absent a change of course by the Army, it is far from clear that the proposed expansion of that Service, at least, represents a cost-effective investment.

The wisdom and cost-effectiveness of the proposed expansion of US ground forces will also depend, in part, on how quickly and substantially the US military is able to reduce its deployments in stability operations and, particularly, in Iraq. It is possible that by the time the planned expansion of the Army and Marine Corps is completed, the need for additional troops will have diminished significantly, or perhaps even disappeared altogether. In this case, the United States could find itself, at a cost of some \$100 billion over the next five years and \$15 billion a year thereafter, paying for a capability it was never able to use fully and may no longer need. On the other hand, the additional troops—especially if organized into units specializing in irregular warfare and related missions—could prove very valuable if the US military remains heavily engaged in Iraq, needs to increase its presence in Afghanistan, or becomes involved in large-scale stability operations somewhere else.

Modernizing US Forces (Ready for What?)

Current plans call for developing and procuring a broad range of new weapon systems over the next several decades. Among other things, those plans include the acquisition of the F-35 fighter, new tanker aircraft, the FCS, new helicopters, the DDG-1000 destroyer, the Littoral Combat Ship (LCS), more Virginia-class attack submarines, and a new class of aircraft carrier, the CVN-21. The Services argue that if implemented these modernization programs will greatly improve the US military's ability to respond to the range of near- and long-term challenges outlined in the 2006 Quadrennial Defense Review (QDR). These challenges include conventional warfare, but, according to the QDR, are increasingly focused on irregular warfare (e.g., large-scale stability operations), the rise of a peer or near-peer competitor (e.g., China), and the threat posed by WMD.

Even more so than in the case of the planned expansion of the Army and Marine Corps, however, implementing the Services' modernization plans will prove very costly. The FY 2008 DoD base budget includes some \$99 billion for weapons procurement. Estimates provided by CBO suggest that—assuming that weapons programs experience the same kind of cost growth that they have historically—fully implementing the Services' existing long-term modernization plans will require increasing annual funding

for procurement to some \$135 billion over roughly the next five years, and sustaining it at that level over the next two decades.⁵

It will likely prove very difficult to achieve and sustain such high levels of funding for procurement given other pressures within the DoD budget—especially rising “people costs.” Because of steady increases in military pay and health care costs, and the dramatic expansion of some benefits for military retirees (initiated beginning in the late 1990s), military personnel costs have grown substantially and consistently over the past decade. Even absent the planned expansion of the Army and Marine Corps, personnel costs would likely grow substantially over the next decade and beyond. The decision to expand the Army and Marine Corps will, however, exacerbate this cost growth and almost certainly increase the pressures to scale back the Services’ modernization plans in order to help cover those costs.

It is, of course, possible that instead of cutting the level of funding provided for procurement in future years, a future administration and Congress will increase the DoD topline enough to accommodate both the planned expansion of the Army and Marine Corps and the Services’ existing modernization plans. Doing so may, however, be difficult given the need to address the long-term deficit problem confronting the country and, especially, the rising costs (for Social Security and, especially, Medicare and Medicaid) associated with the retirement of the baby boomer generation.

In any event, it is far from clear that the Services’ current modernization plans are actually focused on the most serious and likely challenges, including those identified in the 2006 QDR. Among the most questionable plans is the projected purchase of 2,443 F-35 Joint Strike Fighters (JSF) over the next several decades. Although it certainly makes sense to buy some number of these aircraft, the current plan—estimated to cost about \$300 billion—may be excessive. The focus on relatively short-range tactical fighters also seems at odds with recent experience in Afghanistan, Iraq and elsewhere, which suggests that in the future the US military may often have difficulty securing access to forward air bases.

Moreover, the decision to forego cuts in short-range fighter capabilities calls into serious doubt DoD’s commitment to fielding a new bomber beginning in 2018, as projected in current plans. Because of the high cost of the F-35 program it may prove difficult for DoD to find sufficient funding to develop (let alone procure and field) a new bomber in this time frame.

Next to the F-35 program, the most costly DoD modernization program is the Army’s FCS program. Through this program, the Army plans to develop a family of 14 combat vehicles and other systems, including UAVs and sensors. The Army claims that the FCS will dramatically improve the Service’s combat capabilities—in both conventional and irregular warfare. However, the program has

⁵ CSBA estimate derived from CBO data. Adam Talaber, *Long-Term Implications of Current Defense Plans: Summary Update for Fiscal Year 2008* (Washington, DC: CBO, December 2007), p. 14.

experienced significant cost growth and schedule delays in recent years. And despite the fact that total program costs are now expected to reach some \$160 billion or more, the Army has acknowledged that the program will only produce enough hardware to equip about one-third of the Army's 48 planned BCTs. Worse yet, notwithstanding Army claims to the contrary, the design of the FCS appears to be focused first and foremost on the ability to defeat a Republican Guard (i.e., heavily mechanized) type of enemy—perhaps the type of adversary it is least likely to confront over the next several decades.

Although it may prove necessary to provide additional resources to DoD to help cover the costs of its modernization plans in coming years, it may also be possible to lower the projected cost of those plans by, to some extent, scaling back certain programs like the F-35 and the FCS—and focusing on modernization programs that seem more closely aligned with the most critical present and future challenges.

Summary

According to DoD, the long-term readiness of the US military depends largely on three elements: reset, force structure expansion and weapons modernization. From a budgetary standpoint, all three of these elements will prove costly. However, the bill for the first of these, although substantial, has already been largely paid. By contrast, the cost of the other two elements—which are likely, in the end, to be much higher—are, for the most part, yet to be paid. Indeed, we have only just begun absorbing the costs associated with expanding the Army and Marine Corps, and carrying out the Services' long-term modernization plans.

Unfortunately, finding the funding to fully cover these large and growing costs is likely to be difficult. The US defense budget—including DoD's base budget—has undergone a decade of sustained and substantial growth. But given the projected growth in the size of the deficit and the existence of other, competing federal budgetary priorities, it seems unlikely that this buildup will continue much longer—at least at anything like the rate of the recent past. In this environment it is especially critical that the administration and Congress make sure that plans to expand and modernize the military are closely focused on addressing the most important military challenges confronting the United States. Unfortunately, as discussed in this testimony, there is reason to believe that those plans do not, in some important cases, meet that test. As such, unless changes are made to those plans, they may not represent cost-effective or affordable investments.

Thank you for the opportunity to speak to you today. I look forward to answering any questions.