

CBO TESTIMONY

**Statement of
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Budgeting for Defense: Maintaining Today's Forces

**before the
Committee on the Budget
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Mr. Chairman, Senator Lautenberg, and Members of the Committee, I am pleased to appear before you to discuss the Congressional Budget Office's (CBO's) estimate of a long-run, or sustaining, budget for national defense. The budget request for national defense that the 107th Congress will consider next year will be the first submitted by a new Administration in eight years. As the Congress considers that budget request, three questions should be prominent:

- Is the new Administration's national security strategy an appropriate response to likely threats to U.S. security?
- Will the military forces and modernization programs that the Department of Defense (DoD) plans adequately support that strategy?
- Will the budget that the Administration proposes be sufficient to maintain those forces and carry out those plans?

While all three of those questions are appropriate for evaluating the nation's military forces and the funding that is necessary to maintain them, the testimony I will present today will provide a context for addressing the last issue. The study CBO is releasing today describes the funding that would be required to maintain today's forces over the long run.

In its study, CBO did not undertake to examine either the current threats to U.S. security or the adequacy of the strategy that has been developed to counter them. Accordingly, my testimony treats threats and strategy only briefly to provide some background for describing CBO's analysis of current military forces and their funding. That analysis presents an estimate of the cost of a sustaining budget for today's national defense structure—that is, the annual funding needed to maintain today's forces into the future and to modernize them. The study also describes several options for closing the gap between current appropriations for defense and CBO's estimate of a sustaining budget.

THREATS

The U.S. military today has no peer. In number, certain Russian and Chinese conventional (mostly nonnuclear) weapons and forces may equal and, in a few cases, exceed those of the United States. But the capabilities of the U.S. military far surpass those of other nations if such factors as training, readiness for combat, sophistication of weapons, and availability of linked communications and intelligence networks are taken into account.

Nevertheless, certain regional powers around the world are antagonistic to U.S. interests and pose threats that are the focus of much of today's defense planning. Iran, Iraq, and North Korea are the nations of most concern, although they have substantially fewer forces than either Russia or China, let alone the United States. Their forces are also no match for U.S. troops and equipment in many of the other dimensions of combat capability noted above.

But most worrisome, according to the intelligence community and many military leaders, may be unconventional threats—for example, nuclear, biological, and chemical (NBC) weapons, many of which have enormous destructive capacity. The regional powers of concern to U.S. analysts may be developing or expanding their stocks of such weapons. Moreover, threats to use unconventional weapons could come from individuals or hostile groups as well as other nation states. Adversaries could also target the Internet and seek to disrupt commercial and military computer networks, on which the United States and DoD increasingly rely. Such threats are difficult to counter, in part because most current U.S. weapons are focused on more conventional threats. Moreover, the nation's superior conventional forces and weapons would be of limited value in a regional war if an enemy's threat of retaliation with NBC weapons deterred the United States from using its conventional arms.

STRATEGY

The current national security strategy rests on a policy of engagement in the world's affairs, not only during crises but in peacetime as well. Consequently, the strategy directs the U.S. military to be ready to undertake activities ranging from limited humanitarian missions to full military campaigns against capable, well-equipped regional adversaries.

The makeup of today's combat forces is driven by a goal of being ready to fight two regional campaigns occurring at about the same time. That objective determines the size and structure of most types of forces. But the current national security strategy has also expanded the U.S. military's peacetime activities—referred to in CBO's study as peace operations—compared with past periods. (Peace operations include peacekeeping, humanitarian assistance, hostage rescue, and peace enforcement.) That part of the strategy has affected forces as well, adding to the military's operating costs in peacetime and increasing the demands on military personnel—not only from additional activities but also from the greater need for forces specifically associated with peace missions, such as civil affairs personnel and military police.

Another factor that affects U.S. military actions and budgets is the desire of decision-makers to minimize casualties, a desire that has increased over the past several decades. That attitude may affect the nature of the forces that military leaders use—for example, air rather than ground forces. It may also lead to increases in the number of forces that DoD maintains, because, the military argues, greater U.S. superiority can shorten wars and reduce U.S. casualties.

In addition to meeting current demands, the national security strategy directs that the services prepare for the demands of the future. The plans that DoD develops for that purpose attempt to consider the evolution of military technology, the proliferation of more sophisticated weapons—including weapons of mass destruction and the means to deliver them—and the possible emergence in the future of a nation with military capabilities that rival those of the United States. The military has used those considerations to justify its plans for modernization and its development and procurement of new weapons.

WHAT FACTORS DRIVE BUDGET REQUESTS FOR DEFENSE?

Several major factors determine the resources needed to support today's military forces. Factors that influence DoD's annual operating costs—specifically, the number, type, and readiness of its forces—are particularly important. (The costs associated with readiness, however, are difficult to pinpoint, in part because funding is dispersed among a number of budget categories; moreover, DoD's measures of readiness have serious limitations.) Another major determinant is the future capability that DoD requires in its forces, which guides the military's investment in modernization (specifically, the development and procurement of weapons, equipment, and facilities). The costs of supporting DoD's infrastructure, including military construction and family housing, also add to budgetary requirements.

The size and structure of U.S. conventional forces largely determine the military's operating costs and hence its budget requests. Metrics used for those factors typically include divisions (the Army and the Marine Corps); tactical air wings (the Air Force, Marine Corps, and Navy); and ships (the Navy). Today's Army includes 10 active-duty divisions, and typically, each has three brigades. Another eight divisions and 18 separate brigades make up the Army National Guard. The Navy operates more than 300 battle force ships (essentially all ships involved in combat plus some others). The Marine Corps is organized into three active divisions and three Marine air wings; another division and air wing make up the Marine Corps Reserve. Finally, the Air Force operates the equivalent of about 20 tactical fighter wings—12.6 in the active

component of the service and 7.6 in the Air National Guard and Air Force Reserve. (Table 1 lists today's forces and compares them with those of previous years. Table 2 shows how budgets have changed along with force structures.)

CBO did not analyze whether those forces are sufficient to support the national security strategy, although that issue has been a matter of some contention. Defense analysts have criticized force levels as either too high or too low, or the mix of units as wrong for the missions that the U.S. military is expected to accomplish, both today and in the future. Such criticisms suggest that the levels and structure of those forces may change and that questions about their sufficiency will be a topic of upcoming debates about defense. In its analysis, however, CBO accepted the nation's military forces as they are sized and structured today and estimated the annual budget that would be necessary to sustain and modernize them.

CBO'S ESTIMATE OF A SUSTAINING BUDGET FOR NATIONAL DEFENSE

CBO's estimate of a sustaining budget for national defense totals about \$340 billion in 2000 dollars. That amount represents the overall funding required to keep defense forces in a "steady state," which CBO calculated by holding constant certain factors, including the numbers of personnel, forces, and military bases. It is not an estimate of the defense budget for any specific year, although CBO has organized the components of the estimate in traditional budget categories (see Table 3). In budgetary terms, the estimate covers budget function 050, which includes not only funding for the Department of Defense but also budget authority for defense activities related to atomic energy in the Department of Energy and for national defense functions in other federal agencies.

More specifically, CBO's estimate of sustaining funding for DoD's portion of the defense budget includes funds to:

- Keep increases in the pay of military personnel consistent with increases in pay in the private sector;
- Maintain current operating tempos (the pace of operations and training) and levels of maintenance and support for today's forces and keep increases in pay for DoD's civilian workforce in line with those in the private sector;

- Replace the military's weapons and equipment at a rate consistent with projections of their service lives—in particular, replace old weapons and equipment with new systems that exist or are planned, or with items in DoD's current inventory where no new system is in development;
- Provide funding for the research, development, test, and evaluation category consistent with the historical share of the budget that has been devoted to those activities; and
- Repair and replace the existing stock of military facilities and family housing units.

Most of the sustaining budget—\$327 billion—would fund DoD; about \$13 billion would support the defense programs in other agencies. Activities in the Department of Energy would account for \$12 billion of those non-DoD funds, and the remaining \$1 billion would be dispersed among a variety of other agencies.

Sensitivities and Uncertainties of CBO's Estimate

The assumptions CBO made in estimating a sustaining budget for national defense were based on the best available information about current forces and trends. Like most estimates, CBO's would be affected by changes in some of those assumptions.

For example, a different force structure would not only alter appropriations for the pay and benefits of military personnel but also change the funding required for both operating costs and modernization. And even if the number and structure of forces were unaltered, the estimate would still be sensitive to changes in other assumptions.

CBO's sustaining estimate of operating costs, for example, rests on an assumption about how much the pay of military personnel and DoD's civilian workforce would need to grow in real (inflation-adjusted) terms over a particular period to remain competitive with the pay of private-sector workers. That estimate would be higher or lower depending on whether pay in the private sector grew faster or more slowly than CBO's projection. If the labor market for young adults tightens further or even remains as challenging for military recruitment and retention as it is today, the costs of labor (military pay and benefits) could rise faster than the costs of other aspects of support for military forces.

CBO's estimate of sustaining funding for procurement (\$90 billion) is particularly sensitive to changes in some of its components. Alternative assumptions about some portions of that estimate could add to or reduce it by tens of billions of dollars. For example, a major assumption involved the service lives of weapon systems and equipment. CBO used service-life projections that are consistent with those the military services use for their planning, which are much longer than the projections used in the past (because DoD is now keeping some equipment in service longer). But if CBO based its estimate on DoD's previous experience in retiring equipment, its estimate of sustaining funding for procurement would be \$25 billion higher.

Conversely, that estimate would be lower under an assumption that weapon systems and other equipment would be replaced on some other basis than one for one. The services might choose a different replacement policy in the future for a variety of reasons, as an example involving the Navy suggests. That service has cut the number of fighter aircraft in its carrier wings by about 20 percent from the levels it maintained during the Cold War. Such cuts might reflect changes in the threats faced by the carrier wings and in their missions. But they might also reflect the Navy's view that it could provide sufficient capability with fewer planes if those planes were more capable.

The Limitations of CBO's Estimate

In addition to the uncertainties noted above, CBO's estimate of a sustaining budget for national defense has several limitations that affect its usefulness. The estimate does not apply to the period for which DoD typically constructs detailed plans; in addition, as noted earlier, it is not an estimate of the defense budget for any specific year. The estimate is also a broad one, based on total defense appropriations and simple estimating methods. Consequently, it is not comparable to the detailed cost estimates that CBO prepares for legislation.

A more fundamental limitation of CBO's estimate is that it is not a calculation of the funding required to defend the nation's security interests. Such an estimate would require a full evaluation of the national security strategy and the military capabilities required to support it in light of the threats that the United States could confront. A new strategy could deemphasize, revise, or replace any of DoD's and the Administration's goals. Changes in the assumptions DoD now uses for planning—such as maintaining enough forces to fight two regional wars that occur at about the same time—would change the forces that the military required and therefore the funding it would need for both the operations and modernization of those forces. Likewise, fewer

peace operations and deployments overseas could reduce the operating funds that the military required and might even justify cuts in the number of forces it would need.

ALTERNATIVES FOR DEFENSE FORCES AND BUDGETS

To broaden the discussion, CBO's study includes a number of illustrative options for changes to the military's force structure, modernization plans, or operations that might affect the funding that the services require to maintain their forces. Some of the options would change specific force elements or particular programs; others would alter DoD's business operations or the way it runs its military bases. CBO drew specific alternatives from its March 2000 publication *Budget Options for National Defense*. The options are not intended to be recommendations but rather examples that indicate the rough size of the savings such changes might produce. The options' average annual savings would range from \$0.5 billion (for canceling the Army's Comanche helicopter) to \$3.8 billion (for canceling the F-22 fighter plane).

In addition to those options, CBO constructed two broad force structures to illustrate the budgetary effects of changing the focus of some of the military's missions. The first alternative emphasizes peace operations and deemphasizes combat missions. It would cut conventional combat forces, such as Army divisions, yet preserve most maritime forces and units that have been heavily used in recent peace operations, such as some support forces and airlift aircraft. Sustaining the forces in that option would require an annual budget of about \$320 billion (in 2000 dollars), CBO estimates, or about \$20 billion less than the sustaining budget associated with today's forces. The second of CBO's alternative force structures stresses regional combat and conventional forces rather than peace missions but would cut purchases of newly developed equipment. According to CBO's calculations, the forces under the second option would require about \$325 billion (in 2000 dollars) to sustain them.

CONCLUSION

The questions I noted at the beginning of this testimony provide a context for considering the defense budget request and the military forces and activities it funds. CBO's analysis is focused on the budget question, not questions dealing with the appropriateness of strategy or the adequacy of forces. CBO's estimate of a sustaining budget is higher than any recent year's funding for national defense. To eliminate that imbalance, decisionmakers could change what they require from the military services, increase funding, or pursue some combination of those approaches. But even under the

broad options that CBO evaluated for closing that gap, its estimate of a sustaining budget would still be higher than today's level of defense funding.

The large disparity between current defense budgets and CBO's estimate indicates the complexity of the problem that decisionmakers face. To fully address that problem, they would need to consider all three of the questions I posed earlier, which would involve a thorough review of possible threats to the nation's security (both now and in the future), the appropriate strategy to counter them, and the budgetary implications of decisions about those matters—a process that could lead to changes in forces, levels of readiness, and plans for modernization. Without that review, the appropriate level of budgetary support for national defense cannot be determined.

Table 1.
U.S. Military Forces in Selected Fiscal Years, 1989-1999

	1989	1993	1997	1999	Percentage Change, 1989-1999
Strategic Forces^a					
Land-Based ICBMs	1,000	787	580	550	-45
Heavy Bombers ^b	310	194	126	143	-54
Submarine-Launched Ballistic Missiles	576	408	408	432	-25
Conventional Forces^c					
Land Forces					
Army divisions ^d					
Active	18	14	10	10	-44
Reserve	10	8	8	8	-20
Marine Corps expeditionary forces ^e					
Active	3	3	3	3	0
Reserve	1	1	1	1	0
Naval Forces					
Battle force ships ^f					
Aircraft carriers	566	435	354	317	-44
Active					
Active	15	13	11	11	-27
Reserve	1	0	1	1	0
Navy carrier air wings					
Active					
Active	13	11	10	10	-23
Reserve	2	2	1	1	-50
Air Forces					
Tactical fighter wings					
Active					
Active	25	16	13	13	-48
Reserve	12	11	8	8	-33
Airlift aircraft					
Intertheater					
Intertheater	401	382	345	331	-17
Intratheater	468	380	430	425	-9

SOURCE: Congressional Budget Office using data from Office of the Secretary of Defense, *Annual Report to the President and the Congress* (various years).

NOTE: ICBMs = intercontinental ballistic missiles.

- a. Forces with basically nuclear missions.
- b. Includes some long-range bombers that do not have strategic missions.
- c. Forces with largely nonnuclear missions.
- d. Excludes separate brigades that are not part of a division.
- e. A Marine expeditionary force includes a division, an air wing, and supporting forces for those combat elements.
- f. Includes all Navy ships involved in combat—for example, ballistic missile submarines, surface combat ships, aircraft carriers, and amphibious craft—as well as some other vessels.

Table 2.
Funding for National Defense and Personnel for the Department of Defense
in Selected Fiscal Years, 1989-1999

	1989	1993	1997	1999	Percentage Change, 1989-1999
Budget Authority (In billions of 2000 dollars)					
Department of Defense					
Military personnel	109	93	78	73	-33
Operation and maintenance	116	99	99	109	-6
Procurement	97	58	44	52	-47
Research, development, test, and evaluation	47	42	38	39	-17
Military construction	7	5	6	6	-20
Family housing	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	-11
Subtotal	380	302	269	282	-26
Other Agencies ^a	<u>11</u>	<u>16</u>	<u>13</u>	<u>14</u>	23
Total, National Defense ^b	391	318	282	296	-24
DoD Personnel (In thousands)^c					
Active Duty	2,130	1,705	1,439	1,386	-35
National Guard and Reserve	1,171	1,058	902	869	-26
Civilian	1,107	984	786	704	-36

SOURCE: Congressional Budget Office using data from the Department of Defense and the Office of Management and Budget.

NOTE: Apparent discrepancies in the calculations arise from rounding.

- a. Covers defense activities related to atomic energy in the Department of Energy and national defense functions in other agencies.
- b. Includes revolving and management funds, trust funds, and offsetting receipts. Excludes contract authority for the working capital funds because appropriations are used to liquidate that authority.
- c. Strength measured at the end of the year.

Table 3.
Fiscal Year 2000 Appropriations for National Defense and CBO's Estimate of a Sustaining Defense Budget, by Budget Category (In billions of 2000 dollars of budget authority)

	Appropriation for Fiscal Year 2000 ^a	Sustaining- Budget Estimate ^b
Department of Defense (Budget subfunction 051)		
Military personnel	74	82
Operation and maintenance	102	107
Procurement	53	90
Research, development, test, and evaluation	38	40
Military construction	5	5
Family housing	<u>4</u>	<u>4</u>
Subtotal	276	327
Other Agencies (Budget subfunctions 053 and 054) ^c	<u>13</u>	<u>13</u>
Total, National Defense (Budget function 050) ^d	289	340

SOURCE: Congressional Budget Office.

NOTE: The figures in the table include both discretionary and mandatory funding. Apparent discrepancies in the calculations arise from rounding.

- a. Based on CBO's estimates as of July 2000 but excluding supplemental appropriations of about \$9 billion.
- b. The sustaining-budget estimate is CBO's calculation of the annual funding required to maintain U.S. military forces at their current size; to modernize their weapons and equipment at a rate that is consistent with expected service lives and with maintaining a technological advantage over potential adversaries; and to maintain current funding for readiness. It is a steady-state concept and not an estimate of the defense budget for any specific year.
- c. Covers defense activities related to atomic energy in the Department of Energy and national defense functions in other agencies.
- d. Includes revolving and management funds, trust funds, and offsetting receipts, which total less than \$0.5 billion. Excludes contract authority for the working capital funds because appropriations are used to liquidate that authority.