STATEMENT OF
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Before the
Committee on the Budget
United States Senate

March 1, 1978

MR. CHAIRMAN:

Reviewing the defense budget presents a special challenge to the Budget Committee. An adequate defense is vital to the security and even the survival of the nation, and no responsible person proposes risking these by skimping on defense. But wasteful or excessive spending for defense uses resources that could meet other needs, and it may even increase the risk of international conflict. Whether the defense budget is viewed as too large, too small, or about right depends on complex judgments about the nature of threats to U.S. security and the adequacy of our forces to meet those threats--judgments necessarily made in the face of very great uncertainty.

Moreover, it is impossible to deal intelligently with defense budget issues one year at a time. The size and location of most forces cannot be changed quickly, and major weapons systems take many years to develop and deploy. Small changes made in one year's defense budget may lead to major costs or cost savings many years in the future. Thus, the arguments for multiyear targeting that I have made in previous sessions with this Committee are especially strong with respect to defense.

Today I would like to review a few of the more basic issues whose resolution will determine the size of the defense budget over the next few years, indicate how these issues appear to be resolved in the Administration's proposed fiscal year 1979 defense budget, and suggest how some alternative resolutions might affect

defense costs in the years ahead. It is my hope that this discussion will help the Committee identify some issues and questions to be raised with subsequent witnesses as you listen to different points of view on the defense budget over the next few days.

REAL GROWTH IN THE ADMINISTRATION'S BUDGET PROPOSAL

In the aggregate, the Administration's proposal of $126 billion in budget authority represents a fairly low rate of real growth over what current policies would cost if maintained through fiscal year 1979. Using the Defense Department's estimate of a 6 percent inflation rate and a 6 percent pay raise, the budget request represents an overall real growth of 2.2 percent.

If inflation turned out to be higher, the real growth implied by the budget proposal would, of course, be less. If the price deflator for defense purchases were 7 percent instead of 6 percent, for example, the amount of real growth in the fiscal year 1979 budget would be reduced by $500 million.

As Table 1 indicates, the budget for strategic forces appears to decline by about 11 percent in real terms. This decline, however, is attributable primarily to the procurement cycle for Trident submarines: two in fiscal year 1978, only one in fiscal year 1979, and back to two in fiscal year 1980. This pattern does not represent a policy shift, but is simply a continuation of established policy. The relatively small overall increase in funds for general purpose forces includes more rapid growth in

TABLE 1. REAL GROWTH OR DECLINE BY MAJOR MISSION IN THE PRESIDENT'S FISCAL YEAR 1979 BUDGET REQUEST FOR DEPARTMENT OF DEFENSE MILITARY (BUDGET FUNCTION 051): IN MILLIONS OF DOLLARS

	President's Fiscal Year 1979 Budget		Real Growth or Decline (-)	
	No-Growth a/	Actual Request	Cost	Percent
Strategic Forces				
Offensive forces	8,659	7,312	-1,347	-15.6
Defensive forces	619	702	83	13.4
Control and surveillance	1,242	1,388	146	11.8
Total	10,520	9,403	-1,117	-10.6
General Purpose Forces				
Ground forces	14,187	15,283	1,096	7.7
Naval forces	12,645	12,164	-481	-3.8
Tactical air forces	14,052	14,195	143	1.0
Mobility forces	1,399	1,606	207	14.8
Total	42,284	43,247	963	2.3
Auxiliary Forces	15,122	16,242	1,120	7.4
Mission Support Forces	10,666	11,361	695	6.5
Central Support Forces	29,434	30,861	1,427	4.8
Miscellaneous	14,831	14,453	-378	-2.5
Total Function 051	122,857	125,567	2,710	2.2

NOTE: Details may not add to totals because of rounding.

a/ By "no-growth" is meant current (that is, fiscal year 1978) policy projections using the Administration's economic assumptions for growth in wages and prices.

ground forces associated with stepped-up commitments for NATO defense, offset by a decline in naval forces primarily because of cuts in shipbuilding. The large percentage increase in mobility forces is associated with the procurement of the Advanced Tanker/Cargo Aircraft (ATCA).

STRATEGIC FORCES

The question of whether and how fast to deploy the MX mobile intercontinental ballistic missile (ICBM) will be the most important strategic arms issue before the Congress during the next few years, not only because of its great cost--an estimated $25 billion in today's dollars for 300 missiles--but also because it is at the heart of the "counterforce" issues that will be shaping the debate on strategic forces. (The counterforce issues encompass both the vulnerability of our forces to nuclear attack by the Soviet Union and our ability to attack Soviet strategic forces.)

The United States continues to rely on a TRIAD of land-based ICBMs, bombers, and submarine missiles. At present, each element of the TRIAD is capable of surviving a Soviet first strike in numbers large enough to destroy about three-quarters of the industrial targets in the Soviet Union. The capability of the Soviet land-based missile force to destroy our Minuteman ICBMs in a first-strike counterforce attack, however, is increasing rapidly. CBO analysis indicates that some 700 of our 1,000

Minuteman missiles might survive a Soviet attack today. But this number could decrease to fewer than 500 by the early-to-mid 1980s--and possibly to fewer than 100 by the mid-to-late 1980s--if the Soviets make further improvements in the accuracy of their missiles.

Soviet leaders contemplating such an attack would still be taking great risks. One hundred Minuteman missiles could still destroy about one-third of the Soviet industrial base. And the uncertainties associated with missile performance mean that, even in the case of a Soviet attack that would be expected to leave fewer than 100 surviving Minuteman missiles, there would be a chance that about 250 missiles might survive. Moreover, programs now underway are designed to maintain the retaliatory capability of sea-based missiles and the bomber force, regardless of what the Soviet Union may do in air defense, civil defense, or antisubmarine warfare. Trident submarines now under construction will be quieter and harder to detect. Trident I missiles will have longer ranges--thus complicating Soviet antisubmarine warfare efforts--and more destructive warheads that would help overcome Soviet civil defense measures designed to protect critical industrial machinery. Cruise missiles seem likely to improve the capability of our bomber-delivered weapons to penetrate improved Soviet air defenses.

The major question is whether a third modernization program--the MX mobile ICBM--is needed to enhance the capabilities

of our land-based missile force. The MX missile is a powerful and accurate ICBM that would move at random in underground trenches 10 to 12 miles long or among several protective shelters above ground. Because of their mobility, MX missiles would be much less vulnerable to a Soviet counterforce attack than the silo-based Minuteman missiles will be by the latter half of the 1980s. In addition, the MX missile itself would be a much more accurate weapon, capable of delivering many more warheads than even the most advanced Minuteman III missiles; it would thus provide the United States with a vastly improved capability to destroy Soviet ICBM silos.

With their improved survivability and counterforce capability, MX missiles would provide a means to retaliate in kind against the Soviet land-based missile force after having absorbed an attack on our own strategic forces. Such a second-strike counterforce capability might enhance deterrence by providing an additional retaliatory option short of attacks on Soviet cities.

But precisely because MX missiles would be so capable--and because the Soviet Union continues to remain heavily dependent on silo-based ICBMs--U.S. deployment of this weapon could appear very threatening to the Soviet Union. With a capability to destroy more than 90 percent of the Soviet ICBM force, as few as 300 MX missiles could cause a Soviet leadership perceiving a real prospect of war to launch their vulnerable ICBMs before they could be destroyed. Moreover, faced with a serious threat

to their silo-based missile force, the Soviets might feel compelled to respond with some sort of arms program of their own. If the Soviets chose to reject SALT constraints and to continue building enough large silo-based ICBMs for an attack on the thousands of miles of MX trenches, a dangerous situation of mutual vulnerability to counterforce attacks would result. If, on the other hand, the Soviets responded by deploying mobile ICBMs of their own, a stable--but expensive--new equilibrium might be established. Whether SALT limits would continue to be verifiable under such a regime is an open question.

The Administration proposes to continue development of the MX missile in fiscal year 1979 at a relatively slow pace, budgeting only about $160 million and delaying full-scale development until studies and testing of the basing system are completed. In short, the Administration has put off making a definitive recommendation on the subject.

There are two general alternatives to this approach. The first would push ahead more rapidly with development of the MX missile in an attempt to reach an initial operating capability before the 1986 date that the Department of Defense is currently projecting. The MX might thus be available for deployment about the same time as the new generation of ICBMs that the Soviet Union now has under development. An accelerated program--which would add about $100 million to the fiscal year 1979 budget--might not have a substantial impact on the Administration's five-year

defense projections. But any decision to move ahead with the MX program would commit the United States to expenditures of as much as $5.5 billion (in current dollars) over the next five years.

A second option would be to terminate the MX program before substantial funds are spent on its development. Such a course would be consistent with a policy of refraining from the development of a U.S. counterforce capability. It would also undermine the TRIAD concept. In the future, the United States would have to place greater reliance on the retaliatory capabilities of its bomber and submarine forces. A decision to cancel the MX program now--rather than to continue a representative development program--would save about $5.5 billion over the next five years and much more in later years.

GENERAL PURPOSE FORCES

The Defense Department's priorities for general purpose forces, revealed in the fiscal year 1979 budget request, increase emphasis on a land/air war in Europe, while maintaining at current levels the U.S. capacity to "project power" elsewhere. Alternative views might give less credence to the threat of war in Europe or more weight to the need for additional forces to deal with threats in other parts of the world.

General purpose forces have long been structured primarily to contribute to NATO's ability to deter a Soviet attack on Western Europe. Yet some questions about NATO's preparations

for such a war have persisted. For example, although terrain and other factors are thought to be generally more favorable for such an attack in northern Germany, most of NATO's ground strength--nearly all U.S. forces and the bulk of West Germany's army--is stationed in southern Germany.

Some of the growth proposed by the Administration in spending for general purpose forces in the fiscal year 1979 budget is designed to remedy the apparent misallocation of ground forces in Central Europe. Included in the proposals are funds to increase our capability to move additional U.S. forces to Europe quickly in time of crisis. There is an initial increment of construction funds to preposition equipment for one division in northern Germany. Some of the growth for ground forces portrayed in Table 1 reflects expenditures for communications and electronics equipment and helicopters and munitions to improve the coordination, flexibility, and staying power of our forces. There are modest increases in the purchase of tactical aircraft for the Air Force. And the European orientation may be reflected in the future of the Army's 2nd Division, which is being withdrawn from Korea. Contradictory statements have appeared about the future mission of the 2nd Division, but the Defense Department has proposed to mechanize the first brigade to leave Korea, suggesting a new orientation for NATO reinforcement.

One alternative to the Administration's proposal would accept the Administration's view of the priority of NATO but would

emphasize augmenting our NATO allies with tactical aircraft and procuring munitions and other war reserve materiel that could be shared by allied forces. This option might be based on belief in a more flexible and integrated response to the Soviet threat on the Western Front and relatively greater reliance on our NATO allies to reinforce weaker defensive sectors rapidly. This general approach would, among other things, eliminate the need to preposition additional equipment in the northern sector of the Central Front, but would expand procurement of tactical aircraft (principally A-10s) beyond the Administration's proposal. Such an option could be very similar to the Administration's budget in fiscal year 1979 but would increase it by $4.3 billion over the next five years.

On the other hand, skepticism about the likelihood of a Soviet attack on Western Europe, especially an attack with little warning, might imply that increases in U.S. commitments to NATO are unnecessary. If it took such a view, the Congress might defer plans to augment NATO with additional aircraft and war reserve supplies and increase U.S. air and ground reinforcement of allied sectors. Indeed, acceptance of this view could suggest that the Army's long-range goal of increasing the number of active divisions from 13 to 16 might no longer be justified, and 3 divisions could be deleted from the force structure. One of these could be the 2nd Division. Acceptance of this option would reduce the defense budget by $240 million in fiscal year 1979 and $6 billion over the next five years.

A related major budgetary issue involves the future role of the Navy. The debate over the Navy centers around aircraft carriers because they and their support ships--cruisers, destroyers, and ships to supply ammunition and fuel--and their aircraft are all extremely costly. A carrier task force represents an investment of $12 billion to $15 billion. It is a flexible asset--with a "power projection" capability, such as showing the flag and providing airpower (possibly in support of a Marine landing), as well as an ability to carry out various missions in a NATO war. But in the early stages of a European war, the Navy/Marine Corps teams would probably not play a major role, since reinforcements sent by sea would probably arrive too late to be effective. There is a need to hedge against a longer war in Europe, and to keep sea lanes open, but the primary threat to the sea lanes is Soviet submarines. Carriers are more effective in defeating air threats and carrying out strikes against land targets, not in locating and destroying submarines.

Thus, a case can be made that we have sufficient carrier task forces for operations short of a NATO conflict, that carriers would not play a large role in a NATO conflict, and that any new investment should therefore be placed in ships that contribute directly to antisubmarine warfare. This position is strongly reflected in the Administration's proposed fiscal year 1979 budget. Proposed expenditures for Navy/Marine Corps power projection forces are consistent with maintaining current forces.

All of the proposed new ships, except for the one Trident submarine, are associated with antisubmarine warfare.

Alternatively, the Congress could seek to enhance the power projection role of the Navy by adding one carrier and one cruiser to the shipbuilding plan. We now keep 4 carriers deployed overseas. Using current ship rotation factors, we need 12 carriers in the force to maintain 4 carriers overseas. During the period 1980-1996, one carrier will always be in the shipyard undergoing major overhaul, so a case could be made for a 13th carrier to maintain our overseas deployments.

At least one nuclear cruiser carrying the Aegis air defense system would be procured as an escort for each nuclear carrier. Long lead funds for the first nuclear-powered cruiser to carry Aegis were appropriated last year. The remainder of the funds could be authorized this year. The addition of these two ships--one carrier and one cruiser--to the shipbuilding program could add more than $3 billion to the budget if the carrier were also to have nuclear power. The procurement of one cruiser carrying Aegis as an escort to the additional carrier may set a precedent to justify the need for one Aegis cruiser for each of the 4 carriers already authorized.

MANPOWER

Manpower costs represent more than half the defense budget. After years of relative increase, defense manpower costs have begun to decline slightly both in real terms and as a fraction

of the defense budget, but reescalation of the growth in manpower costs in the near future is a strong possibility.

In the Administration's proposed fiscal year 1979 budget, manpower costs increase 6.4 percent over the fiscal year 1978 level, while nonmanpower costs grow by 12 percent. In real terms, manpower costs would decline by about 0.6 percent and would constitute 51 percent of total defense budget authority, down from 52 percent in fiscal year 1978.

The downward trend in manpower costs would continue in fiscal year 1979 because of proposed policy changes that would cut costs. For example, the Administration proposes changing the mechanism for computing pay raises for federal blue-collar workers (wage board employees). The changes would make federal pay more comparable with pay in the private sector, and they would save about $140 million in fiscal year 1979 and a total of almost $2 billion (in constant dollars) over the next five years. The budget also proposes efficiencies in military training that would eliminate about 10,600 personnel now serving on training staffs. In addition, the Administration argues that the Navy can meet its mobilization needs with about 40 percent fewer selected or drilling reserves, and that the Services can cut costs by reducing the fraction of personnel lost before completing their first term of service.

Over the next several years, however, defense manpower costs are likely to rise rapidly if new policies are not developed. Today the Services recruit about 400,000 persons a year. Most are

males who are 18 or 19 years old; the Services prefer high school graduates who score well on aptitude tests. Over the next decade, however, the total number of persons at ages 18 and 19 will decline by more than 15 percent. If the Services continue to recruit the same number of young, above-average males from this smaller market, costs are likely to rise rapidly. For example, if pay is increased sufficiently to attract enough above-average males into the military, manpower costs in the mid-1980s could be as much as $7 billion a year higher than at present.

The Services could, however, avoid some or all of these increases by cutting back on their demand for high-quality male recruits. Less first-term attrition and fewer personnel in the training base would cut the demand for recruits, without appreciably reducing trained strength and military readiness. The number of female recruits could also be increased. High-quality female recruits are readily available to the military, and this year's budget announced a 30 percent increase over 1977 levels in female accessions. Thus, it appears that the proposals in this budget start down the road toward avoiding cost increases while meeting needs for recruits into the active forces.

Manpower costs could also go up in the future if the Services seek to fully man and improve the readiness of part-time reservists. In recent years, U.S. defense strategy has come to rely more heavily on these reserves. Some are intended to assist active forces in the critical early days of a major war. But at

the same time, U.S. reserves--particularly the one million reservists in the two Army reserve components--have personnel shortages and other readiness problems that could delay their entry into a war. In response to these problems, numerous proposals for improving reserve readiness have come from the Congress and the Services, including employing more reservists, offering higher pay and bonuses to attract these added reservists, increasing the number of full-time assistants to free reserves for training, and procuring more and better equipment.

CBO analysis indicates that these proposals could eventually increase costs for the Army reserve components alone by as much as $750 million a year in today's dollars. Yet even with these improvements, there remains uncertainty about whether the reserves can be sufficiently ready to assist active forces, particularly in the early days of a major war. Until planners know how ready reserves can be, it may be desirable to invest more selectively--perhaps by concentrating any added spending on the early-deploying reserve units. This could hold cost increases to only about $80 million a year and provide a large-scale test of how ready the reserves can be.

While meeting the stated manpower requirements of the active forces and reserves could increase costs, changes in compensation of both military and civilian employees offer the potential for savings. The Congress must, of course, insure that federal pay is high enough to attract and retain desired numbers and types of

employees. But there may be areas where pay does more than this. The budget addresses one such area; it recommends changes in the way the federal government pays its federal blue-collar workers. But the budget does not address other civilian pay issues--such as integrating civilian employees into the social security system and splitting the general schedule so that clerical and technical workers' pay is based on local practice. Nor does the budget address any major changes in military compensation, pending recommendations from a Presidential commission on the subject. Yet changes in military pay, particularly retirement pay, could have the desirable effect of lengthening military careers while also cutting costs. CBO analysis of alternative retirement systems, done at this Committee's request, showed that savings by the year 2000 could amount to from $1 billion to $4 billion a year in today's dollars, depending on the scope of reform. There would be little or no savings over the next five years because of grandfather provisions to protect retirement credits already earned.

In sum, decisions in three key areas--meeting active recruit needs, improving reserve readiness, and compensation--will shape future defense manpower costs. This year's budget takes important first steps, but many decisions remain for later years. The decisions on these issues--particularly the compensation issues--will be difficult. But the alternative may be sharply higher costs for defense manpower.

Before leaving defense manpower, I would like to discuss the Administration's proposed changes in the way the federal budget accounts for military retirement. Under the proposed new procedures, the defense budget would reflect future retirement liabilities for today's employees, rather than costs of those already retired. These proposals would not change anyone's benefits, nor would they affect costs to the government as a whole. The proposals would, however, greatly improve the visibility of retirement costs to defense managers. And they would make the long-run savings from reforms of the retirement system much more obvious. Because of these advantages, I recommend that the Congress accept the accounting concepts involved in the Administration's proposal.

SUMMARY

This year's defense budget reorders some priorities, shifting emphasis toward ground forces for NATO. Overall, the budget is not much higher than what current policies would cost if maintained through fiscal year 1979. The budget defers some key decisions, such as those about strategic forces and military compensation, and raises major issues for the future. The Congress can take actions that will have a major impact on defense costs, particularly in the longer run. I have discussed some of the most important issues this morning.

The future of the MX missile system will shape the character of our strategic forces into the 1990s. Procurement of this formidable weapon would add only $160 million to this year's

budget, but it would commit nearly $6 billion over the next five years. If confidence in our strategic submarines and aircraft is high, the need for a third survivable strategic system may not be great enough to justify spending this hefty sum.

In the debate over general purpose forces, this will be the year of Europe. The Administration's budget emphasizes our ability to deploy troops more quickly in the event of a European war. Another way of meeting what many believe to be the greatest danger--an attack in northern Germany--might be to invest more in tactical aircraft and concentrate on aiding our allies with equipment rather than troops. On the other hand, skepticism about the likelihood of a Soviet attack in Europe, particularly one with little warning, might argue that major increases in U.S. commitments to NATO are unnecessary and that we should concentrate on defending our assigned sectors in Europe. This approach, expressed in budgetary terms, could mean a budget that was lower by $800 million this year and about $13 billion less over the next five years.

Shipbuilding, too, is a major issue. The Administration has chosen to decrease costs by concentrating on cheaper anti-submarine vessels rather than expensive aircraft carriers, whose role in a NATO war is uncertain. Carriers are useful, however, in their power projection roles of showing the flag and extending the range of air power against the enemy. But a decision to buy one more nuclear carrier and the cruisers to go along with what would

then be a total force of five nuclear carriers could add more than $11 billion over the next five years. These options are portrayed in Table 2. They point to the growing budgetary impact that relatively minor adjustments to forces in fiscal year 1979 could have over the longer run.

TABLE 2. COSTS AND SAVINGS OF BUDGET OPTIONS FOR STRATEGIC FORCES AND GENERAL PURPOSE FORCES: BY FISCAL YEAR, IN MILLIONS OF CURRENT DOLLARS

	1979	1980	1981	1982	1983
Strategic Force Option					
Expedite MX procurement	160	500	1,200	1,700	2,300
General Purpose Forces Option					
Augment NATO with equipment	60	570	1,270	930	1,480
Emphasize defending U.S. sectors in NATO	-810	-2,090	-3,480	-3,180	-3,060
Improve Navy projection forces	3,960	1,680	1,790	1,920	2,050

Likewise, the costs of manning our forces could grow rapidly if we raise pay to attract enough well-qualified male recruits from an increasingly smaller pool. Manpower costs could also go up if we try to improve the readiness of all our reserves. But there are other approaches--such as cutting back on demand for male recruits and selective improvement of the reserves--that could avoid most of these increases. Moreover, judicious changes in military and civilian compensation could eventually lead to substantial savings. These options are portrayed in Table 3.

TABLE 3. COSTS AND SAVINGS OF BUDGET OPTIONS FOR MANPOWER: BY FISCAL YEAR, IN MILLIONS OF CONSTANT DOLLARS

	1979	1980	1981	1982	1983
Manpower Options					
Maintain 1979 recruit levels with pay increases	--	1,100	2,400	4,200	5,800
Improve readiness of all reserves	210	340	490	620	750
Reform pay for blue-collar employees	-140	-310	-410	-460	-470
Reform military retirement	140	90	40	-10	-80

The Congress, then, faces important choices that will shape future defense budgets. But as the numbers in the tables make clear, one cannot deal intelligently with these choices looking only at the first year. More than most, defense issues demand a multiyear framework. We hope to continue to assist this Committee in dealing with these important defense questions within this long-run context.