

ILLUSTRATIVE EXAMPLES THAT ACHIEVE ZERO REAL GROWTH
IN 1986 DEFENSE BUDGET AUTHORITY

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PREFACE

Recently the Senate Committee on the Budget voted to recommend zero real growth in defense budget authority for 1986 (that is, provide the same budget authority in 1986 as in 1985 plus an amount sufficient to offset the effects of inflation). This paper presents three examples of ways to achieve that level of budget authority for 1986. There are, of course, almost countless ways to achieve a real freeze in defense budget authority, and these examples are only illustrative. They were prepared in response to the request of Senator Lawton Chiles, the Ranking Minority Member of the Senate Committee on the Budget. In keeping with CBO's mandate to provide objective analysis, the paper contains no recommendations.

This paper complements an earlier CBO paper that illustrates alternative ways to reach a nominal freeze in defense budget authority (that is, the same budget authority in 1986 as in 1985). Copies of that paper are available from CBO.

This paper was prepared by John D. Mayer of CBO's National Security Division, under the general supervision of Robert F. Hale. Michael Miller, of CBO's Budget Analysis Division, and Bonita Dombey contributed to the analysis.

Rudolph G. Penner
Director

March 1985

ILLUSTRATIVE EXAMPLES THAT ACHIEVE ZERO REAL GROWTH IN 1986 DEFENSE BUDGET AUTHORITY

At the request of Senator Lawton Chiles, Ranking Minority Member of the Senate Committee on the Budget, the Congressional Budget Office (CBO) has put together three examples of packages that would achieve zero real growth in defense budget authority (that is, the same budget authority in 1986 as in 1985 plus an increase to offset the effects of inflation). Using the economic and other assumptions in the Senate Budget Committee's most recent markup, this leads to a reduction in 1986 of \$19.7 billion in budget authority below the Administration's proposal for the national defense function. 1/ The packages vary in their emphasis on operating savings versus investment savings.

In order to provide concrete examples, CBO has identified changes in specific policies and systems proposed in the Administration's budget that, if enacted, would produce the desired savings. This paper does not constitute a recommendation that those policies or systems be altered. There are thousands of policies and systems within the Department of Defense and hence almost countless ways to combine them into examples. Those included in this paper are meant only as illustrations. 2/

All three examples achieve savings by altering policies and systems; none assume savings from financing reductions stemming from overestimates of past inflation, lower-than-expected contract prices, or similar

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1. Different assumptions would produce different savings. Using the assumptions of the Senate Budget Committee, the zero real growth level in budget authority for national defense is \$302.5 billion. This is \$19.7 billion below the level of budget authority requested by the Administration. Using CBO economic assumptions and freezing military and civilian pay at their current levels produces a zero real growth level of \$303.7 billion or \$18.5 billion below the Administration's request.
 2. The recent CBO report, Reducing the Deficit: Spending and Revenue Options, discusses the pros and cons both for aggregate approaches to budget reduction in the defense area and for specific policies such as cancelling or reducing buys of major weapon systems. Here, no effort is made at repeating those discussions.

factors. In past years, the Congress and the Administration have reduced the defense budget based on financing changes. But CBO has no firm evidence that further savings are possible and therefore has not included them. Moreover, the examples do not assume that further efficiencies will be achieved within the Department of Defense. If achieved, such efficiencies could offset the need for policy changes.

Conclusion

All the examples would lead to less growth in defense capability than would the Administration's proposal. The examples suggest, however, that zero real growth does not require deferral and termination of a large number of major weapons, though that could happen. Should budget authority for the operating accounts (Operation and Maintenance and Military Personnel) be allowed to grow at the rate requested by the Administration--except for a freeze on military and civilian pay at the current level--then the investment accounts, including investment in major systems, would be reduced significantly. Program delays, deferrals, and some cancellations of major systems would probably be necessary. On the other hand, should the operating accounts share in the reductions, then less of the burden would fall on major systems. Indeed, if the operating accounts grow only enough to accommodate increases in the forces, and supporting investment accounts like research and development also grow only modestly in real terms, then the examples suggest that deferrals and cancellations of major weapons could be avoided.

The choice of how to achieve a real freeze in 1986 might also depend on assumptions about what would happen to the defense budget beyond 1986. If the freeze were to be followed by a resumption of real growth, it might be more reasonable to accommodate the one-year freeze by larger cuts in operating costs that would preserve many ongoing investment programs. If, however, there were to be several years of no real growth, it might be more reasonable to make changes in the investment accounts to accommodate this long-term shift.

Cuts with Heavy Emphasis on Investment (Example 1)

One approach to achieving a real freeze in budget authority, while saving \$5.2 billion in outlays in 1986 relative to the Administration's request, would heavily emphasize cuts in investment, including major procurement programs (see Tables 1 and 2 for a summary of Example 1; see

the Appendix for details). ^{3/} Specifically, the operating accounts (Operation and Maintenance and Military Personnel) would be reduced by only \$1.0 billion, the net savings associated with freezing military pay at its current level but not reducing civilian pay by the 5 percent requested by the Administration. The budget authority requested by the Administration to fund increases in the operating tempo of the current forces, and all proposed increases in the military and civilian personnel strengths, would be provided. The remaining \$18.7 billion in savings necessary to achieve a real freeze would all come from investment (in this paper, investment refers to Procurement, Research and Development, and Military Construction).

This approach would presumably be consistent with the view that, in order to continue to improve the readiness of our forces and maintain the quality improvements achieved over the past several years, real increases in the operating accounts are necessary. This approach, however, results in major reductions in investment. Under the CBO illustrative example, total budget authority for investment would actually increase relative to the 1985 level by \$0.7 billion, but this would not cover anticipated inflation and total investment would decrease by 4 percent in real terms (see Table 2). There are many ways to achieve this specific level of reduction. The CBO example assumes major reductions in military construction and supporting procurement. These are held at their 1985 level, with adjustments only for inflation. Ammunition and tactical missile accounts, however, are held at the 1985 level without adjustment for inflation. Research and development grows by 7 percent in real terms, primarily due to the large growth assumed in the Strategic Defense Initiative. The remaining reductions come in major procurement and would result in substantial reductions in buy rates, deferrals of new starts, and some program cancellations. The Appendix presents a list of possible actions. Together these actions would mean a major slowdown in the modernization of military forces relative to the Administration's proposal.

Even after these reductions, however, total budget authority for investment would be 85 percent higher in 1986 than it was in 1980, after adjustment for inflation; hence the United States would still have substantially increased its defense investment. Moreover, as the lengthy list in the Appendix suggests, the procurement reductions in this example need not involve large numbers of cancellations of ongoing weapon systems if the

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3. Outlays associated with zero real growth options including those in these examples or in other Congressional actions will vary depending on the assumed mix of fast-spending versus slow-spending accounts.

Congress and the Administration elect instead to reduce procurement rates, defer new starts, or cancel a few high-cost programs.

Cuts Emphasizing Investment but Minimizing Cancellation or Deferral of Major Systems (Example 2)

Another approach to achieving a real freeze in budget authority, while saving \$7.2 billion in outlays in 1986, would make reductions with less emphasis on investment than in the previous example and with minimal deferrals of major procurement programs. Specifically, changes in the operating accounts would provide roughly half the real growth requested by the Administration. Even given increased force levels, this would allow increased operating tempos, albeit less than the Administration would like, and moderate increases in personnel strengths. The military pay raise would be deleted and the civilian pay raise set at zero. The remaining \$16.0 billion in savings necessary to achieve a real freeze would come from all the investment accounts (see Table 1). This approach would be consistent with the view that readiness spending should continue to increase modestly with most reductions needed to achieve a real freeze coming from the investment accounts.

With these assumptions, total budget authority for investment would increase by \$3.4 billion over the 1985 level but would still decrease by 2 percent in real terms. Again, there are many ways to achieve these reductions. The CBO illustrative example assumes that supporting procurement--items such as communication equipment and trucks--and military construction grow enough in nominal terms to offset the effects of inflation. Funds for ammunition and tactical missiles are held at the 1985 level in nominal terms. Research and development grows by 7 percent in real terms primarily due to the large growth assumed in the Strategic Defense Initiative. The remaining savings would come out of major procurement. To the extent that the remaining savings are obtained through program reductions and deferrals, as the example assumes, no major procurement programs would have to be cancelled. The illustrative example does, however, require deferral of some major systems that would otherwise have procurement beginning in 1985 (see Appendix for details).

Cuts With Less Emphasis on Investment that Avoid Program Deferrals or Cancellations (Example 3)

A third approach to achieving a real freeze in budget authority, while saving \$8.9 billion in outlays in 1986, would make reductions with less

emphasis on investment and without any program deferrals or cancellations. Specifically, the operating accounts would be reduced by \$5.6 billion. This would leave enough operating funds so that, by CBO's estimates, forces in 1986 could be operated at roughly the same levels of operations spending per unit as in 1985, after adjustment for inflation. ^{4/} The military pay raise would be deleted and the civilian pay raise set at zero. These reductions would allow only modest increases in personnel strengths and benefits. (Alternatively, the Congress could preserve more growth in personnel and benefits if it enacted major reforms, such as revision of the military retirement system.) The remaining \$14.1 billion needed for a real freeze would come from all categories of investment (see Table 1). This approach would be consistent with the view that, given recent improvements in readiness and the seemingly low probability of a major conflict in the near term, one should accept some retrenchment in growth in the operating accounts to minimize adverse effects on long-term investment.

Under this approach, budget authority for investment would increase relative to the 1985 level by \$5.3 billion but would still decrease by 1 percent in real terms (see Table 2). Under this CBO illustrative example, reductions in military construction and supporting procurement would be identical to those in the previous examples. Research and development, however, would be limited to only 4 percent real growth as opposed to the 7 percent in the other examples, based on assumed reductions in funding for the Strategic Defense Initiative. Ammunition and tactical missile accounts would be funded at the 1985 level plus an amount sufficient to offset the effects of inflation. Reductions in major procurement under this example

4. This "constant operations" estimate for the operating accounts is based on CBO's Defense Resources Model (DRM). The DRM bases its projection on the current and projected inventory of major items of equipment (ships, planes), force structure (Army divisions), and facilities (military bases). Inventories are adjusted to be consistent with levels proposed by the Defense Department, as amended by the Congress. Any item that remains in the inventory from the previous year receives the same operating dollars (for military personnel and operation and maintenance) as it received last year, adjusted only for inflation. Funding for new additions to the inventory is determined by CBO's best estimate of cost per unit (often derived with the help of the military services). Deletions from the inventory lead to elimination of associated funding. As much as possible, funding for support accounts (such as training and supply) is related to inventories of equipment and facilities.

would be the smallest of any of the three cases. Thus, although this example would still require a slow-down in the rate of procurement for a number of major programs, it would require no program deferrals or cancellations. 5/

These three examples do not, of course, exhaust all the possibilities. In order to protect more investment budget authority, the Congress could make even larger reductions in the operating accounts than those in the examples, though these reductions would have increasingly adverse effects on readiness. Also, to avoid cancellation of systems or large cuts in supporting investment, the Congress could elect to achieve needed reductions in major procurements by slowing procurement rates of more systems below the 1985 level. This approach, however, could decrease many procurement rates below the 1985 level and thus could increase unit costs of weapons above 1985 levels.

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5. Press reports have suggested that the Administration plans to delete funds for the AMRAAM missile (\$0.5 billion) and the Air Force's Low Level Laser Guided Bomb (\$0.1 billion). Should the Congress agree to cancel these programs, less savings would be required in other programs.

TABLE 1. ILLUSTRATIVE EXAMPLES THAT HOLD 1986 BUDGET AUTHORITY AT ZERO REAL GROWTH LEVEL
(Dollars and percents represent reduction below Administration's budget request)

	Example 1	Example 2	Example 3
	• Heavy Emphasis on Investment Cuts	•Cuts Everywhere •Emphasis on Investment •Minimize Deferrals •No Cancellations	•Cuts Everywhere •Less Emphasis on Investment •No Deferrals •No Cancellations
Billions of Dollars			
1986 Budget Authority Savings			
Investment	18.7	16.0	14.1
Operating	1.0	3.7	5.6
Total	19.7	19.7	19.7
Percent Funding Slowed			
Effects on Major Procurement	13	9	5
Other Investment Effects			
Sustainability <u>a/</u>	18	18	13
Supporting procurement <u>b/</u>	12	12	12
Research and Development	11	11	13
Military Construction	18	18	18
Other Effects			
Operating Accounts			
Real improvements in readiness spending per unit <u>c/</u>	Yes	Yes	No
Real decreases in readiness spending per unit <u>d/</u>	No	No	No
Military pay raise allowed?	No	No	No
Civilian pay cut restored to zero?	Yes	Yes	Yes

SOURCE: Congressional Budget Office.

- a. Ammunition and tactical missiles.
- b. Includes all of the Other Procurement accounts except funds for ammunition.
- c. Real improvements in operations spending per unit would require adding money to the military personnel and operating accounts beyond that for inflation and new pieces of equipment.
- d. If funds in an example are not sufficient to operate forces--including new forces--at 1985 real levels of spending, then there are real declines.

APPENDIX

Example 1. CUTS WITH HEAVY EMPHASIS ON INVESTMENT
(Savings in billions of dollars)

<u>OPERATING ACCOUNTS</u>		<u>Savings</u>
O&M	Fund the O&M account at the requested level (except no civilian pay cut)	-0.8
Milpers	Fund the Milpers account at the requested level (except no military pay raise July 1985)	1.8

INVESTMENT ACCOUNTS

Major Procurement

Hold Procurement at 1985 Levels. Examples: a/

- M113 armored personnel carrier
- FAASV artillery ammunition support vehicle
- M88 armored recovery vehicle
- Bradley fighting vehicle
- EA6B early warning plane
- AV8B fighter plane
- F-15 fighter plane
- LCAC landing craft
- C-5 cargo aircraft
- C-20 aircraft
- T46 training aircraft
- TR1 reconnaissance aircraft

Total savings associated with these examples 1.6

Slow Some Major Procurement Programs Below 1985 Levels.

Examples:

- * -Bradley Fighting Vehicle (540 per year)
- M1 tank (720 per year)
- * -SSN-688 submarine (3 per year)
- * -LSD amphibious ship (1 per year)
- * -F-15 aircraft (36 per year)

Total savings associated with these examples 2.0

Defer Systems Not Procured in 1985. Examples:

* -RPV (Aquila)	
-E6A aircraft	
-T34C trainer aircraft	
-VH60 helicopter	
-Acoustic research ship	
-LHD1 amphibious transport ship	
-Mine hunter ship	
-HH60 helicopter	
Total savings associated with these examples	2.6

Cancel Programs. Examples: b/

-AH64 attack helicopter	1.4	
-A-6 aircraft	0.5	
-AV8B aircraft	1.1	
-E6A aircraft	0.5	
-EA6B aircraft	0.6	
-F-14 aircraft	1.2	
-F/A-18 aircraft	2.9	
-P3C aircraft	0.5	
-C-5 aircraft	2.4	
* -F-15 aircraft	2.5	
-KC-135 reengining	0.7	
* -LANTIRN navigation and targeting system	0.5	
-TR1 aircraft	0.5	
-Patriot missile	1.2	
* -MX missile	4.1	
-GLCM cruise missile	0.6	
-CG-47 ship	2.8	
-SSN-688 submarine	2.8	
-Bradley fighting vehicle	1.1	
-M1 tank	2.2	
* -DIVAD air defense gun	0.6	
-JVX aircraft (R&D)	0.6	
* -C-17 aircraft (R&D)	0.5	
-AMRAAM missile	0.5	
		2.0 <u>c/</u>

Other Procurement

Sustainability	
-fund ammunition and tactical missiles at FY 1985 level in nominal terms <u>d/</u>	2.8

Supporting procurement -zero real growth in FY1986 in the remainder of the Other Procurement accounts to include communications equipment and other supporting equipment such as trucks, forklifts and tractors	2.1 <u>e/</u>
Military Construction Zero real growth over 1985 level	1.3
Research, Development, Test and Evaluation Limited real growth in the entire account OR fund SDI fully with zero real growth in all other areas	4.3 <u>f/</u>
Total Savings	<u>19.7</u>

* For a discussion of the advantages and disadvantages of this particular action, see Congressional Budget Office, Reducing the Deficit: Spending and Revenue Options, February 1985.

a/ These examples were obtained from the Procurement Programs (P-1) exhibit provided by the Department of Defense. It excludes programs that are fully funded under multi-year procurement provisions.

b/ The savings associated with the individual programs listed here reflect the 1986 program acquisition cost in 1986 budget authority as provided by the Department of Defense in Program Acquisition Costs By Weapons Systems, February 4, 1985. Only a portion of all of the systems on this list would have to be cancelled to meet the target savings in this category under the illustrative plan. The list contains only programs with 1986 costs above \$0.5 billion.

c/ A total of \$2.0 billion additional savings in the major procurement accounts would be required if all of the procurement savings outlined under program reductions and deferrals in this example were realized. To the extent that larger savings in other areas could be achieved, the savings from cancelling programs could be reduced.

- d/ Fifty to seventy percent of funds for ammunition and missiles are for increasing sustainability. The United States far surpasses its allies in this area. Slowing the rate of growth in this area would, however, delay the Administration's goal of reaching an improved level of sustainability by the end of the five-year period.
- e/ The savings here reflect zero real growth in the Other Procurement accounts excluding ammunition. Ammunition and tactical missiles are treated separately under sustainability. Administration deflators were used to estimate the zero real growth level. This explains differences between these numbers and those in the previous CBO paper on ways to achieve a nominal freeze.
- f/ Administration deflators were used to achieve the real growth level. This explains differences between these numbers and those in a previous CBO paper on ways to achieve a nominal freeze.

Example 2. CUTS EMPHASIZING INVESTMENT BUT
 MINIMIZING CANCELLATION OR DEFERRAL
 OF MAJOR SYSTEMS
 (Savings in billions of dollars)

<u>OPERATING ACCOUNTS</u>		<u>Savings</u>
O&M	Allow roughly half the Administration's requested real growth over 1985 level, more than enough to accommodate past procurement and readiness decisions (assumes no civilian pay cut)	0.7
Milpers	Allow roughly half the Administration's requested real growth over 1985 level, more than enough for manpower increases to accommodate past procurement and force structure decisions (assumes no military pay raise July 1985)	3.0

INVESTMENT ACCOUNTS

Major Procurement

Hold Procurement at 1985 Levels. Examples: a/

- M113 armored personnel carrier
- FAASV artillery ammunition support vehicle
- M88 armored recovery vehicle
- Bradley fighting vehicle
- EA6B early warning plane
- AV8B fighter plane
- F-15 fighter plane
- LCAC landing craft
- C-5 cargo aircraft
- C-20 aircraft
- T46 training aircraft
- TR1 reconnaissance aircraft

Total savings associated with these examples 1.6

Slow Some Major Procurement Programs Below 1985 Levels.

Examples:

- * -Bradley Fighting Vehicle (540 per year)
- M1 tank (720 per year)
- * -SSN-688 submarine (3 per year)
- * -LSD amphibious ship (1 per year)
- * -F-15 aircraft (36 per year)

Total savings associated with these examples 2.0

Defer Systems Not Procured in 1985. Examples:

- * -RPV (Aquila)
- E6A aircraft
- T34C trainer aircraft
- VH60 helicopter
- Acoustic research ship
- LHD1 amphibious transport ship
- Mine hunter ship
- HH60 helicopter

1.9 b/

Other Procurement

Sustainability

- fund ammunition and tactical missiles at FY1985 level in nominal terms c/

2.8

Supporting Procurement

- zero real growth in FY1986 in the remainder of the Other Procurement accounts to include communications equipment and other supporting equipment such as trucks, forklifts and tractors

2.1 d/

Military Construction

- zero real growth over 1985

1.3

Research, Development, Test, and Evaluation

- Limited real growth in the entire account OR fund SDI fully with zero real growth in all other areas

4.3 e/

Total Savings

19.7

- * For a discussion of the advantages and disadvantages of this particular action, see Congressional Budget Office, Reducing the Deficit: Spending and Revenue Options, February 1985.
- a/ These examples were obtained from the Procurement Programs (P-1) exhibit provided by the Department of Defense. It excludes programs that are fully funded under multi-year procurement provisions.
- b/ A total of \$1.9 billion additional savings in the major procurement accounts would be required if all of the procurement savings outlined under program reductions in this example were realized. To the extent that larger savings in other areas could be achieved, the savings from deferring programs could be reduced.
- c/ Fifty to seventy percent of funds for ammunition and missiles are for increasing sustainability. The United States far surpasses its allies in this area. Slowing the rate of growth in this area would, however, delay the Administration's goal of reaching an improved level of sustainability by the end of the five-year period.
- d/ The savings here reflect zero real growth in the Other Procurement accounts excluding ammunition. Ammunition and tactical missiles are treated separately under sustainability. Administration deflators were used to achieve the zero real growth level. This explains differences between these numbers and those in the previous CBO paper on ways to achieve a nominal freeze.
- e/ Administration deflators were used to achieve the real growth level. This explains differences between these numbers and those in a previous CBO paper on ways to achieve a nominal freeze.

Example 3. CUTS WITH LESS EMPHASIS ON INVESTMENT
AND AVOIDING CANCELLATION OR DEFERRAL
OF MAJOR SYSTEMS
(Savings in billions of dollars)

<u>OPERATING ACCOUNTS</u>		<u>Savings</u>
O&M	Zero real growth over 1985 level plus \$.4 billion to accommodate past procurement and readiness decisions (assumes no civilian pay cut)	1.8
Milpers	Zero real growth over 1985 level plus \$.3 billion for manpower increases to accommodate past procurement and force structure decisions (assumes no military pay raise July 1985)	3.8

INVESTMENT ACCOUNTS

Major Procurement

Hold Procurement at 1985 Levels. Examples: a/

- M113 armored personnel carrier
- FAASV artillery ammunition support vehicle
- M88 armored recovery vehicle
- Bradley fighting vehicle
- EA6B early warning plane
- AV8B fighter plane
- F-15 fighter plane
- LCAC landing craft
- C-5 cargo aircraft
- C-20 aircraft
- T46 training aircraft
- TR1 reconnaissance aircraft

Total savings associated with these examples 1.6

Slow Some Major Procurement Programs Below 1985 Levels.

Examples:

- * -Bradley Fighting Vehicle (540 per year)
- M1 tank (720 per year)
- * -SSN-688 submarine (3 per year)
- * -LSD amphibious ship (1 per year)
- * -F-15 aircraft (36 per year)

1.8 b/

Other Procurement	
Sustainability	
-zero real growth in 1986 for ammunition and tactical weapons <u>c/</u>	2.1
Supporting procurement	
-zero real growth in FY1986 in the remainder of the Other Procurement accounts to include communications equipment and other supporting equipment such as trucks, forklifts and tractors	2.1 <u>d/</u>
Military Construction	
Zero real growth over 1985 level	1.3
Research, Development, Test and Evaluation	
Zero real growth over 1985 level except in the SDI account.	4.3 <u>e/</u>
Funds for SDI planned for five years are spread over six years	0.9
Total Savings	<u>19.7</u>

* For a discussion of the advantages and disadvantages of this particular action, see Congressional Budget Office, Reducing the Deficit: Spending and Revenue Options, February 1985.

a/ These examples were obtained from the Procurement Programs (P-1) exhibit provided by the Department of Defense. It excludes programs that are fully funded under multi-year procurement provisions.

b/ A total of \$1.8 billion additional savings in the major procurement accounts would be required if all of the procurement savings outlined under program reductions in this example were realized. To the extent that larger savings in other areas could be achieved, the savings from further program reductions could be reduced.

- c/ Fifty to seventy percent of funds for ammunition and missiles are for increasing sustainability. The United States far surpasses its allies in this area. Slowing the rate of growth in this area would, however, delay the Administration's goal of reaching an improved level of sustainability by the end of the five-year period.
- d/ The savings here reflect zero real growth in the Other Procurement accounts excluding ammunition. Ammunition and tactical missiles are treated separately under sustainability. Administration deflators were used to achieve the zero real growth level. This explains differences between these numbers and those in the previous CBO paper on ways to achieve a nominal freeze.
- e/ Administration deflators were used to achieve the real growth level. This explains differences between these numbers and those in a previous CBO paper on ways to achieve a nominal freeze.

