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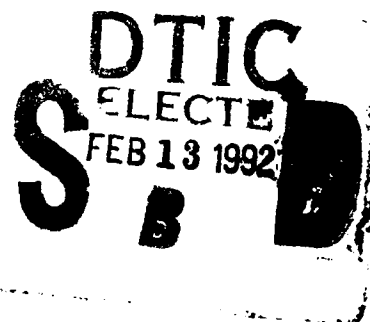


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# NAVAL POSTGRADUATE SCHOOL

## Monterey, California

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### THESIS

FLEET LEVEL BUDGETING:  
1981 TO 1997

by

Lt Peter B. Clark, USN

June, 1991

Thesis Advisor:

Professor L.R. Jones

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**FLEET LEVEL BUDGETING:  
1981 TO 1997**

by

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Lieutenant , United States Navy  
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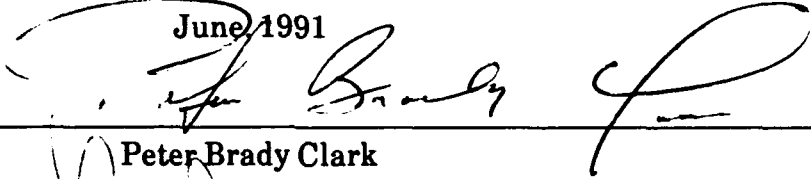
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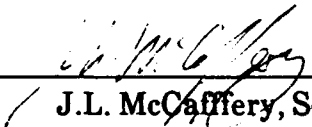
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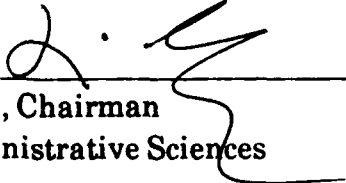
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ABSTRACT

The objective of this study is to identify patterns in past appropriations to CINCPACFLT and to project trends thus identified into the future. The study analyzes budget data, examines trends and patterns, and addresses implications relative to budget expectations for the future. The data and analysis may aid the Navy in formulating strategies to justify future budgets to improve the allocation of financial resources.

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## I. INTRODUCTION

### A. PURPOSE

The purpose of this research is to examine the budgeted funding levels allocated to the Commander-in-Chief, U.S. Pacific Fleet, identify past and present trends in the fleet-level Navy budgeting process, and to examine the actual budgeting of Operation & Maintenance funds for the Pacific fleet. The goal of this thesis is to allow the reader to understand the magnitude of the funds involved in budgeting on a fleet-wide level, to gain an appreciation for possible inter-relationships between appropriations, budget activities, and other funding categories, and to understand how funds are disbursed to keep the Navy fleet operating at an acceptable level of readiness.

This thesis will provide a conceptual framework for the Navy officer's understanding of the role of the fleet commander in the budgeting process, define which funds are controlled by the fleet commander and those that are not, and provide an overview of the budgetary process at a fleet level.

### B. THESIS QUESTIONS

Annually the Navy competes with the Army and Air Force for the funding appropriated by Congress for national defense. Each year a budget is prepared and reviewed by each service

and submitted to the Office of the Secretary of the Department of Defense for compilation, review, and input for the President's budget proposal to Congress for the following fiscal year. One integral part of the Department of the Navy's budget process is budget submission by the Commander-in-Chief, U.S. Pacific Fleet. In view of the changing funding environment, a review of past spending is in order. This thesis will address the following questions:

1. What trends are present in CINCPACFLT budgets in the period FY 1981 to FY 1991?
2. What patterns are projected in CINCPACFLT budgets for the period FY 1992 to FY 1997?
3. Has FY 91 and Desert Shield and Desert Storm funding caused trade-offs with significant operational implications for CINCPACFLT?
4. What are some of the operational and budgeting implications for CINCPACFLT of FY 92 to FY 97 budget projections?

#### **C. BACKGROUND**

The general funding climate within the federal government has changed drastically within the last decade. A large part of this has to do with the public's awareness of annual budget deficits, an ever-increasing national debt, "pork barrel" spending by Congress, and general perceptions of waste, fraud, abuse and mismanagement of public funds in the federal budget.

The federal budget is under close scrutiny, now more than ever. The public has given Congress and the administration

the mandate to reduce the annual budget deficit. In attempting to reduce the budget there is constant pressure for a shift in national priorities away from the large defense budgets of previous years toward deficit reduction and domestic entitlement and social programs.

Previously, the defense establishment and the Navy enjoyed a period of growth that spurred new strategy and goals to maintain greater international influence through military presence on a global scale. As stated by Jacques S. Gansler, a member of the faculty of the John F. Kennedy School of Government at Harvard University and former Department of Defense Official:

"At the end of the 1970's the United States was spending approximately \$150 billion a year on its defense establishment. The public felt that this did not provide a "strong America," and gave Ronald Reagan a mandate for significant increases in the defense budget. Within six years the defense budget had almost doubled and an extra trillion dollars has been spent on increasing America's military power".

This is no longer the case. The dominant issue in federal budgeting is the debate over reduced defense expenditures and spending for domestic social program and entitlements, or "guns versus butter".

Since the end of the Korean war, the annual level of defense expenditures has remained relatively constant, at a level around \$200 billion after adjusting for inflation. The share of the Gross National Product devoted to defense

however, has decreased from 12 percent in the 1950's to approximately 6 percent during the Reagan presidency.

During the same time period, non-defense federal expenditures, including entitlements have increased from a level approximately the same in size of the defense budgets of the 1950's to three times that amount by the 1970's. During the 1980's, national security accounted for approximately 25 percent of the annual federal budget, while entitlements represented more than 45 percent of the budget.

Despite a significant decrease in the size of constant dollar defense budget authority since 1986, there is the misconception that defense represents the largest share of the federal budget. Defense is often the target of cuts and congressional attack.<sup>1</sup> The Budget Enforcement Act of 1990 agreed to by Congress and the President has forged a path of budget cuts for defense for the near future.

In 1985, the Department of Defense was appropriated its largest budget ever, and has experienced decreases in real dollar terms in every year thereafter. The federal government's current budget plan calls for more drastic cuts throughout the defense establishment through fiscal year 1997, with each service decreasing force size, and postponing or terminating procurement programs.

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<sup>1</sup>. A. Wildavsky, chapter 9, pp 363-374, The New Politics of the Budgeting Process (Glenview, IL: Scott, Foresman Co 1988)

#### **D. SCOPE**

The primary scope of this thesis is on the appropriations to the Department of the Navy and the Pacific fleet in the period from fiscal year 1981 to fiscal year 1991, and appropriations projected for the period from fiscal year 1992 to fiscal year 1996. After examination of previous funding levels, projections of future levels will be analyzed.

The second component of the thesis will examine the budgeting of Operations & Maintenance funds within the Pacific fleet by the budget activities of Strategic Forces, General Forces, Intelligence and Communications, Airlift and Sealift, Training-Medical-Personnel and other general costs, and Administration and associated costs. Data will be presented to define a baseline and trends within the O&M account.

The scope of this thesis will be restricted to only Navy active force funding, excluding reserve and Marine Corps funding.

#### **E. METHODOLOGY**

The primary methodology of this thesis is field research. All data analyzed in the thesis was collected through personal contact and interviews with the offices of the Navy Comptroller, CINCPACFLT Comptroller, and review of Navy budget documents. The views expressed in this thesis regarding the CINCPACFLT budget and budget process are those of the author.

Analytical methods appropriate to budget evaluation include common size and other statistical analysis. Data are indexed using a variety of economic measures including Gross National Product, the level of DOD funding, levels of DON funding, levels of Operations & Maintenance funding, and percentage of change of funding over the period 1981-1997. Where appropriate, funding is adjusted to a constant dollar base of fiscal year 1985.

#### **F. THESIS ORGANIZATION**

This thesis is organized as follows: Chapter II discusses CINCPACFLT's budget process in general, and presents historical budget data from fiscal year 1981 to fiscal year 1991. Its purpose is to familiarize the reader with the budget process and key players, and to identify the major budget trends of the period.

Chapter III addresses the operational and future budget impacts of the previous budgets, and includes some of the implications of Operation Desert Shield and Desert Storm budgeting.

Chapter IV presents budget data for the period of fiscal year 1992 to fiscal year 1997, and discusses the impact that these budgets may have on strategy, missions and operations.

Chapter V provides answers to the research questions in Chapter I and identifies areas for further research.

## II. BUDGET PLAYERS AND PROCESSES

### A. THE BUDGET CHAIN OF COMMAND AND KEY PLAYERS

Within the Department of the Navy, the budget process involves a number of different levels of the financial chain of command. To demonstrate this, it is useful to examine the simplified path taken by a submitted budget estimate. In general, as a budget estimate is forwarded up the chain of command, it is reviewed, adjusted, and compiled with other estimates to become the reviewing authority's own budget submission to the next level in the chain. The process of projecting a budget estimate and formulating a service's budget starts at the cost center level, and is then forwarded to a responsibility center for compilation and adjustment. The responsibility center submits its compiled and adjusted estimate to an intermediate level, to a sub-claimant major claimant, or if there is no sub-claimant directly to a major claimant for review, adjustment, and compilation, becoming an integral part of the major claimant's budget submission. From this point the budget estimate is forwarded to the Comptroller of the Navy (NAVCOMPT) and the review and adjustment process is repeated by NAVCOMPT and the Office of the Secretary of the Navy (SECNAV).

The next review and adjustment of the Navy budget takes place outside of the Department of the Navy (DON), within the executive branch of the government. The budget submission is forwarded to

the Office of the Secretary of Defense (OSD) where again there is review and adjustment performed primarily by OSD but also including the Office of Management and Budget (OMB). After joint review and acceptance by OMB, the proposed budget is submitted for inclusion in the President's budget proposal. After approval and review, the President's budget is submitted to Congress for review, approval, and enactment.

The major players in the DON budgeting process are, in descending order, Congress, the President and OMB, OSD, NAVCOMPT, major claimants and sub-claimants, responsibility centers, and cost centers (field activities).

The two levels of the chain of command external to the Navy perform the same general functions as the internal offices of DON, but on a larger scale, reviewing, adjusting, and compiling all three military services and federal agencies that provide specified services for the benefit of the services into a unified defense budget. There are some differences between the internal and external reviewing authorities worth noting.

First, the Office of the Secretary of Defense is comprised of staff advisors to the Secretary of Defense on various areas including budgeting, acquisition, manpower, policy and planning. The primary office responsible for DOD budgeting is the Office of the Department of Defense Comptroller. This office is responsible for conducting a joint budget review with OMB and recommending adjustments as appropriate as noted. During budget execution, this

office also reviews spending plans, releases funds to the Military departments, and monitors execution.

Second, the Office of Management and Budget assists the President in directing and evaluating the organization, management, and operation of the Executive Branch. Primary functions include preparation of the proposed federal budget, formulation of the government's fiscal program and supervision and control of the administration's budget. OMB reviews the DON budget submission jointly with OSD, making recommendations to the President regarding significant issues not resolved during the joint review and forwards the President's defense budget to the Congress. After authorizing and appropriating legislation has been enacted, OMB apportions funds to executive departments and monitors execution of spending and programs.

The other five entities cited, internal to the Department of the Navy, perform separate but similar functions. Again, in descending order they are the Office of the Secretary of the Navy and the Comptroller of the Navy (NAVCOMPT), major claimants and sub-claimants, responsibility centers, and cost centers.

First, NAVCOMPT is charged with all comptroller duties, including the management of all functions of the budget. Budget decisions must be reached and reviewed during all phases of the budgeting cycle, including formulation, presentation, analysis, enactment and execution. During formulation, NAVCOMPT provides substantive guidance and technical direction to lower levels for preparation and submission of the budget. During presentation and

analysis, NAVCOMPT reviews, justifies, and defends its budget submissions to OSD, OMB, and Congress. After enactment, during execution, NAVCOMPT is responsible for the allocation of funds to responsible offices, the review of financial performance measured against budget plans and programs, and the adjustment of allocations when and if needed.

Major claimants are those offices, commands or headquarters designated as an administering office under the operation and maintenance appropriation guidelines issued by NAVCOMPT. Major claimants receive operating budgets directly from the offices of the Secretary of the Navy and Chief of Naval Operations (CNO) via NAVCOMPT. Examples of a major claimant are the Commander in Chief, U.S. Pacific Fleet, Naval Sea Systems Command, and Headquarters, U.S. Marine Corps. Major claimants are also designated as budget submitting offices.

Budget submitting offices (BSO's) are responsible for the preparation of budget estimates within the program, fiscal and policy guidance provided from higher authority. They are responsible for submitting these estimates in the appropriate form and on required due dates to NAVCOMPT. They are responsible for having the necessary personnel attend budget hearings and for providing additional information requested to justify and defend their estimates. Finally, they are responsible for reviewing the adjustments and recommendations made at the NAVCOMPT and SECNAV level review, and defending the original submission when necessary.

As a budget submitting office, CINCPACFLT submits budget estimates only for the Operations and Maintenance, Navy (O&M,N) and Other Procurement, Navy (OP,N) appropriations. Budget estimates from all other elements of the Navy are received from budget submitting offices within their own chain-of-command by the same or similar process. All appropriations are then apportioned and allocated from responsible offices to users, via financial and operational chains of command.

Sub-claimants are offices or commands designated as suballocation holders which receive suballocations from a major claimant. An example of a sub-claimant is Commander, U.S. Naval Surface Forces, receiving an allocation in the form of an "operational budget" from CINCPACFLT.

Responsibility centers are an organizational unit headed by an officer or supervisor responsible for the management of resources in the unit and who, in most cases, can significantly influence the expenses incurred in the unit. In other terms, a responsibility center is defined as a field activity. An example is Naval Station Long Beach. Responsibility centers and field activities receive operating targets, or OPTAR's, from their operating budget holder, in the prior example COMNAVSUREFPAC.

The last element of the budget chain of command is the cost center, defined as a subdivision of a field activity or responsibility center for which identification of costs is desired and which is amenable to cost control through one responsible

supervisor. An example is that of the Public Works Department, Naval Station Long Beach.

In the case of the material presented in this thesis, CINCPACFLT acts first as a budget submitting office, compiling, reviewing and adjusting the budget submissions of COMNAVSURFPAC, COMNAVAIRPAC, COMNAVSUBPAC, and TRAPAC, as well as other activities directly under CINCPACFLT control. The compiled budget submission is then forwarded to NAVCOMPT, and CINCPAC retains responsibility for defense of the budget and for submitting reclamation to dispute marks made at higher levels of review and approval.

After appropriation approval and enactment by Congress and apportionment of the budget by OMB, CINCPAC assumes the role of the major claimant, distributing authority to the commands under its cognizance to incur obligations and contract for services.

#### **B. THE SIMPLIFIED BUDGET FORMULATION PROCESS**

For the Department of the Navy, the budget process may be viewed to consist of four major phases. The first three phases are similar in purpose and process, namely, submission of estimates to higher authority for review and approval. The first phase is the submission of budget estimates to the Comptroller of the Navy by offices throughout the department for review and final approval by the Secretary of the Navy. The second phase is the submission of budget estimates by the Department of the Navy to the Office of the Secretary of Defense and the Office of Management and Budget for review and final approval by the Secretary of Defense and the

President. The third phase is the submission of budget estimates by the President to the Congress for its review and approval. The last phase is the enactment of appropriations by the Congress and execution of the appropriations by the Department of the Navy. At this point a more detailed analysis of each phase of the process is useful.

During the first phase, the starting point for development of the DON budget is the Program Objectives Memorandum (POM). The POM outlines the objectives of the military departments (MILDEP), giving guidance for planning and action of all major offices of the services. After review of the POM, NAVCOMPT issues guidance and financial controls for submission of the budget shortly to subordinate commands. Budget submitting offices then prepare detailed budget exhibits and submit them to NAVCOMPT. After receipt of these exhibits, NAVCOMPT budget analysts review them and conduct hearings to gather additional information. "Mark-ups" or adjustments up or down on each appropriation are then prepared and issued to budget submitting offices as well as to appropriation and resource sponsors. If any of the recipients of these mark-ups disagree with the issues raised in the mark-up, they are permitted to submit reclaims stating their position and reasoning behind the disagreement. All reclaims are reviewed by the NAVCOMPT staff, with unresolved differences adjudicated by the Director and Associate Director of Budget and Reports, consulting with senior officials in the Office of the Chief of Naval Operations. A summary of the budget as it stands after this review, highlights of

changes from the POM, and any unresolved issues are then presented to SECNAV. After final SECNAV decisions, appropriation levels and detailed control numbers are provided to budget submitting offices for preparation of corrected budget to OSD and OMB.

The Department of the Navy budget review is the process of transforming the individual budgets of the various offices within the Department into a "balanced" Department budget. It provides the Secretary of the Navy and his senior advisors an opportunity for decision-making and control of the resources of the Department.

During phase two, budget submission to OSD and OMB and its review, the baseline for budget analysis is the Program Decision Memoranda (PDM). Within DON, the starting point is the issuance of control totals that incorporate PDM decisions along with all decisions that occurred during the DON budget review. NAVCOMPT prepares the formal transmittal memorandum, the summary exhibits, and the reports that constitute the official budget submission. Budget submitting offices prepare detailed exhibits and submit them to NAVCOMPT for consolidation and clearance, and subsequent submission to OSD and OMB. The OSD and OMB staffs review these exhibits and conduct hearing to gather additional information, then prepare Program Budget Decisions (PBD's) which are ultimately signed by either the SECDEF, the Deputy Secretary of Defense or the DOD Comptroller after review by the Defense Planning Resources Board. PBD's are often reviewed in draft form by interested offices and, if necessary, a DON position is forwarded by NAVCOMPT in a formal, coordination document.

Near the end of the review, normally in early December, SECNAV is given the opportunity to discuss with SECDEF or his Comptroller or Deputy Secretary those unresolved PBD's that are deemed most critical to DON in a Major Budget Issues (MBI) meeting. Following the MBI meetings with all the Military Departments, SECDEF meets with the Director of OMB and the President to resolve any issues raised by OMB and to obtain final Presidential decisions. Following this negotiation point, decisions on high priority and previously unresolved issues are released in the form of PBD's. Then conforming controls are issued for final preparation of the President's Budget.

The joint budget review conducted by OSD and OMB transforms the DON budget into part of (first) the Secretary of Defense's budget and (second) the President's budget. This review provides the final control and decision-making opportunities for both the Secretary of Defense and the President prior to submission of the Defense budget to Congress. While the Department of the Navy participates in this review, the process is controlled by OSD and OMB.

In phase three, submission of the President's Budget and congressional review, the starting point is the President's transmittal of the budget to Congress. Within the Executive Branch, preparation of material supporting the President's Budget begins near the end of the joint OSD/OMB budget review. OMB establishes the "top line" agency budget controls after final Presidential decisions, OSD establishes appropriation controls

within this "top line" in the final PBD's, and finally NAVCOMPT establishes line-item and budget submitting office controls within these appropriation controls. These controls are established to allow OMB, OSD, and DON to prepare budget documents and justification material that consistently support the President's Budget down to the individual program and line-item level. After receipt of the President's Budget, Congress conducts hearings with Executive Branch representatives, ranging from the Director of OMB and SECDEF to functional Assistant Secretaries and CNO staff including individual program managers in DON. After reviewing the President's Budget in subcommittee and full appropriation committee, Congress first enacts Budget Resolution legislation which sets ceilings on the total Federal budget and the total National Defense function. It then authorizes programs (Armed Services Committee) to guide decisions on appropriations, and finally enacts appropriations.

Consistent with the policy of decentralization of budgeting in DON, offices and commands also participate in the preparation of justification material and in defending the budget before the Congress.

In the fourth and final phase of the Navy's budget process, enactment of appropriations by the Congress and execution of the budget, the enactment of appropriation bills and their signature by the President provides the legal authority to begin the execution of the budget. If necessary, appropriations acts may be augmented later in the fiscal year by a supplemental appropriation act to

fund unforeseen, underestimated or unknown additional program requirements. Following enactment of appropriations, the Department of the Treasury issues warrants to establish specific appropriation accounts for execution and accounting purposes. NAVCOMPT then requests apportionment of funds, via the Comptroller of DOD, from OMB. After apportionment by OMB, NAVCOMPT allocates funds to the various responsible offices, primarily to the Chief of Naval Operations, the Commandant of the Marine Corps, and the Chief of Naval Research. These offices in turn allocate and suballocate funds to administering offices and operating budget holders. These offices then execute the budget through the signing of contracts, project orders, work requests, and other funding documents. These documents authorize organizations and agencies to provide specified goods and or services and to obligate the government to make payments for the goods and services. Reports are prepared at the appropriation, budget activity and line-item levels and provide for oversight of the execution process. They are compared against financial plans. During the execution phase, funds can be moved to meet unforeseen, urgent, or unanticipated obligations through reprogramming or by transfer of funds either under congressional approval or notification<sup>2</sup>.

In summary, CINCPACFLT is involved in all four phases of the DON budgeting process. Initially, it acts as a budget submitting

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<sup>2</sup>Process descriptions, phases 1 through 4 from Comptroller of the Navy Instruction 7102.2B, Department of the Navy Budget Guidance Manual, Part 1.

office, compiling, reviewing, and adjusting the budget estimates from command and agencies under its control, and forwarding these estimates to NAVCOMPT. CINCPACFLT then acts as a defender of the budget, providing additional information and testimony in support of NAVCOMPT's and SECNAV's approval stage, and answering mark-ups through reclaims. This action may be repeated again for OSD's and OMB's joint review, and then again before the congressional Budget Armed Services and Appropriations Committees. Finally, funds are apportioned to the responsible offices, down to the major claimants, and then allocated to the organizations under CINCPACFLT cognizance.

**C. THE GENERAL BUDGETING TRENDS FROM 1981 TO 1991**

Budget data is presented in this thesis in several different forms, including budget authority (BA), outlays, total obligational authority (TOA), and nominal and real dollars. The definitions of these terms are as follows:

- **BUDGET AUTHORITY:** Authority provided by law to enter into obligations which generally result in immediate or future outlay of Government funds, The basic form of budget authority are in terms of appropriations.
- **OUTLAY:** A budget term used to describe an actual cash payment or issuance of check against the Treasury to satisfy a government obligation. Outlays are results of the present and past years' requests for services and materials.
- **NOMINAL DOLLARS:** Dollars not adjusted to a base year, current dollars.
- **REAL DOLLARS:** Dollars adjusted to a base year through the use of a deflator or inflation factor, adjusted dollars.

- **TOTAL OBLIGATIONAL AUTHORITY:** The total amount of funds available for programming in a given year, regardless of the year the funds are appropriated, obligated, or expended. It includes new obligational authority, unprogrammed or reprogrammed obligational authority from prior years, advance funding for programs to be financed in the future and unobligated balances transferred from other appropriations.

#### **1. National Defense and the Department of Defense**

To gain an appreciation for the complexities of defense budgeting some preliminary analysis is necessary. During any budgeting year, the majority of the federal budget (the base) is relatively fixed, and some of it may be obligated from appropriation legislation passed in earlier budget years. Approximately one quarter of the current year's federal budget is controllable, or "discretionary". Most entitlements, generally involving redistribution of income, benefits or compensations in some kind, are funded automatically and programmed into the future with adjustments by formula, based on decisions made when the legislation was enacted. Entitlements are automatic in nature, and do not have to be adjusted annually, although they often are adjusted in the short-term. The enactment language of entitlements is constructed so that action is required on the part of Congress to stop the distribution of entitlement funds. If no action is taken, entitlements continue as authorized, whether the original assumptions correctly reflect the conditions at hand, e.g, rates of inflation indexed into entitlements.

On the other hand, the defense budget is proposed and passed on an annual basis, and is subject to reduction at all reviews.

Although both defense and entitlement spending have increased in size, their increases have not been proportional. From 1950 to 1970, defense and entitlement spending were almost equivalent in size. Since 1970 non-defense spending has grown to almost 3 times the size of defense spending.

The actual size of the Defense Budget is relatively small in comparison with the remaining federal budget. In 1989, defense spending has accounted for 27 percent of the federal budget, and it has accounted for 82 percent of the discretionary budget.

As a percentage of the Gross National Product, since 1948 (with the exception of the peak of U.S. involvement in Viet Nam) the defense budgets average well under 10 percent. Table 1 illustrates the percentage of GNP (billions of dollars) allocated to the National Defense function (050), and the percentage allocated to the Department of Defense.

Table 1 NATIONAL DEFENSE AND DEPARTMENT OF DEFENSE OUTLAYS  
(as a Percentage of GNP)

FY	81	82	83	84	85	86	87	88	89
GNP	2986	3139	3322	3687	3937	4163	4419	4731	5023
050	5.3	5.9	6.3	6.2	6.4	6.6	6.4	6.1	6.0
DOD	5.2	5.8	6.2	6.0	6.2	6.4	6.2	6.0	5.9

As can be seen, the size of GNP of the National Defense and Department of Defense budgets were relatively constant in the 1980's. The fact that defense budgets are proposed and reviewed annually, and are discretionary in nature cause them to come under

constant examination. This is also because of the misperception that they constitute the largest portion of the federal budget.

It is interesting to note the trends illustrated in table 1. Both the National Defense and DOD components increased in the early 1980's, reached an all-time high in the year 1986, then decreased. Since outlays are the actual release of funds and cashing of Treasury checks, funds often satisfy obligations from previous years. The highest point of appropriation (BA) before decreasing was 1985. In examining the figures, the defense budgeting in the Reagan era ranged from about 5.3 to 6.6 percent of the GNP and approximately 5.2 to 6.4 percent to the Department of Defense directly. Since GNP is estimated beforehand and actually calculated after the budget year has passed, the value of this comparison is limited. However, since GNP has been estimated to continue increasing in the 1990's, it illustrates that a conscious effort has been made on the part of decision makers to control future defense outlays.

During the 1970's, under the Ford and Carter administration, defense experienced only moderate funding when compared to the 1980's. In fact, in 1970, the total national defense outlay was \$81.7 billion, increasing to \$86.5 billion in 1975 and to \$134 billion by 1980. In a matter of 10 years the outlay and total obligation authority levels increased by more than 160 percent from the 1970 figures in nominal dollars. The defense budget exceeded \$300 billion before decreasing.

To demonstrate the relative trends, Table 2 shows the Outlay levels for the National Defense function in nominal and adjusted (to 1985 dollars) for the fiscal years 1981 to 1991 in millions of dollars, and the percentage of change from the previous year's level. Total outlays for the Budget Function 050, National Defense includes funding outside of the Department of Defense. The other funding is for Budget Subfunctions 053 and 054, Atomic Energy Defense activities and "Other" Defense related activities. These, however, account for less than 3 percent of the total funds in table 2.

Table 2 NATIONAL DEFENSE OUTLAYS 1981 TO 1991  
(millions of dollars)

FY	81	82	83	84	85
CURRENT\$	157,513	185,309	209,903	227,413	252,748
1985 \$	124,393	160,362	188,794	214,552	252,748
GROWTH N	12.2	17.6	13.3	8.3	11.1
GROWTH R	19.6	28.9	17.7	13.6	14.3
86	87	88	89	90	91
273,375	281,999	290,361	303,559	299,331	298,910
272,567	273,966	281,935	294,880	289,755	287,451
8.2	3.2	3.0	4.5	-1.4	-0.2
11.2	0.5	2.9	4.6	-1.7	-0.8

(R denotes real, N denotes nominal)

Examining the unadjusted and adjusted outlay figures show increasing defense budgets until fiscal years 1990 and 1991. In the period 1981 to 1989 the nominal figures almost doubled. These figures show an increasing trend in defense topline. When examining the real percentage change based on the previous year's

budget a clearer picture emerges. Early in the decade, defense budgets surged, following the change in administration and its new policy for a stronger defense, sponsoring increasing funding at more than 20 percent of the previous year's budget. Increases continued but at a more moderate pace, at roughly \$20 billion (nominal) per year, growing smaller toward 1985 and 1986, and then decreasing below half the level of earlier annual gains. In percentage terms, increases became negative in 1990. During this period, these levels combined with the prevailing economic state actually resulted in real dollar losses for defense. In summary, impressive real and nominal gains were made from 1981 to 1985, and real losses were sustained from 1986 to 1991.

To demonstrate the size of losses sustained, table 3 shows the annual budget authority voted to DOD from 1986 to 1991, and the percentage of decline in constant year dollars.

Table 3 ANNUAL BUDGET AUTHORITY  
(millions of dollars)

FY	86	87	88	89	90	91
BA	281,390	279,469	283,755	290,837	292,999	272,282
% LOSS	-4.4	-3.8	-2.1	-1.5	-2.4	-11.3

These figures clearly display the results of efforts to control defense spending, with clear deliberate cuts that decision makers could show to the voting public.

The major appropriations within the National Defense Function can be isolated and examined as well. The appropriations for National Defense include *Military Personnel (MP)*, which consists of

pay and allowance for active duty, reserve and retired personnel; *Operations and Maintenance (O&M)*, which buys among other things spare and repair parts, aircraft and ship fuels, and civilian salaries; *Procurement (PRO)* for acquiring major weapon systems such as aircraft, ships, and weapons; *Research, Development, Test and Evaluation (RDT&E)* for testing and developing new materials, components and hardware for future use; *Military Construction (MILCON)* for construction of facilities and housing; and *Family Housing (FH)* for active duty personnel and dependents.

The procurement account is actually a compilation of five separate accounts with specific areas of procurement. They are *Aircraft Procurement Navy*, financing the procurement of Navy and Marine Corps aircraft and related supporting equipment; *Weapons Procurement Navy*, financing the procurement of missiles, torpedoes, guns and supporting equipment for Navy and Marine Corps forces; *Procurement Marine Corps*, financing the cost of Marine Corps ammunition, tracked combat vehicles, weapons, guided missiles, communication and electronic equipment, and equipment for other Marine general purpose forces; *Other Procurement Navy*, financing the procurement, production and modernization of equipment not otherwise provided for; and *Shipbuilding and Conversion Navy*, providing for the construction of new ships and the conversion of existing fleet assets.

The relative size of each year's annual appropriation is displayed by percentage in Table 4, in relation to the overall National Defense (DOD only, subfunction 051). Within each

appropriation certain trends particular to DOD as a whole are evident.

Table 4 BUDGET FUNCTION 050 OUTLAYS BY APPROPRIATION  
(percent of annual total)

FY	81	82	83	85	86
MP	31.2	30.5	29.8	29.0	27.7
O&M	33.7	33.0	31.8	30.5	29.5
PRO	22.9	23.9	26.2	28.0	28.7
RDT&E	9.9	9.8	10.1	10.5	11.1
MILCON	1.6	1.6	1.7	1.7	1.7
FH	1.1	1.1	1.0	1.1	1.1
86	87	88	89	90	91
26.9	26.3	27.2	27.4	26.1	27.9
28.4	27.8	30.0	29.5	30.5	30.0
28.7	29.5	27.4	27.7	27.9	27.5
12.2	12.3	12.3	12.5	12.9	12.4
1.9	2.1	2.8	1.8	1.8	1.6
1.1	1.1	1.1	1.1	1.2	1.2

Within the military pay and allowances accounts the general trend has been that of a decrease. In 1981, 31.2 percent of the total DOD budget was allocated for pay and allowances for manpower. In 1987 that figure fell to a low of 26.3 percent, and climbed slightly before falling to 26.1 percent. Over this same time period DOD experienced a number of federal pay increases, that lessens some the changes in active duty numbers.

Within the operations and maintenance accounts a similar trend has been exhibited. In 1981, O&M accounted for 33.7 percent

of the total budget. Since that time it has decreased to a low of 27.8 percent in 1987, and then remained between 29 and 30 percent. The reductions in the account may have occurred because of increasing costs of critical items, such as repair parts and fuel for ships and aircraft.

In contrast, the procurement and research and development accounts have experienced growth trends. Procurement increased dramatically within the Reagan era, starting at 22.9 percent in 1981, climbing to 28 percent within 3 years, reaching a high of almost 30 percent in 1987, and leveling out at 28 percent at the beginning of the Bush era. In real terms the gains are significant, and in nominal terms this equates to an increase within the procurement account of more than 45 billion dollars in 6 years. The results, however, are contrary to what might be expected. Stated differently,

"constant dollar unit costs for major defense systems have grown much faster than constant-dollar total budgets for these systems. The results has been the purchase of smaller quantities of new systems, delayed modernization, and shrinking capabilities."<sup>3</sup>

It appears that the budget decisions in the area of procurement respond in part to a changing marketplace. The defense marketplace generally has experienced significant increases in price and lead and development times, providing fewer units of desired weapons systems to buyers.

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<sup>3</sup> J. Ronald Fox and James L. Field, *The Defense Management Challenge* (Boston: Harvard Business School Press, 1988), p. 10.

Similarly, research and development experienced a continual increase throughout the period, starting at 9.9 percent of the total DOD budget, growing to more than 12.9 percent in 1990. In nominal terms, RDT&E doubled, from 15.2 billion to 37 billion dollars. Today, military research and development makes up more than 60 percent of the total government investment in R&D.

The accounts for military construction and family housing remained somewhat stable over the period examined. Family housing consumed roughly 1.1 percent of the annual budgets and construction about 1.8 percent. Military construction experienced only one short period of growth between 1987 and 1988, jumping up to 2.1 and 2.8 percent respectively, then returning to less than 2 percent. The result has been little construction of new housing. New facility construction has not been at a level capable of supplying the housing needed, nor at a level capable of meeting new systems requirements.

Overall, it appears as if the increases in the amount of the budget allocated for procurement and research and development has been at the cost of military pay and operations and maintenance accounts through 1987. From 1988 through 1991, all accounts remained relatively stable, suggesting that DOD has attained a baseline level for these accounts. Again, since the data examined is in the form of outlays, reductions actually began in FY 1986.

## 2. Department of the Navy

From the financial standpoint, the Department of the Navy operates much differently than the other services. This is in part due to the fact that the goals and missions of the Navy differ greatly from those of the Air Force and the Army, as do their weapon systems and tactics. This is in turn, reflected in the Navy's budgets.

In general, the Navy prospered in the Reagan era. In almost every year the Navy claimed a larger than expected percentage of the total DOD budget. Assuming that all 3 services have equivalent importance in a strategic sense, one would expect an equal allotment of funding to each service. In addition, several agencies receive funding for DOD-wide activities (3 percent of total budget). A rational assumption then is that each service should expect to receive about 32 percent of the annual DOD budget. Fortunately for the Navy, this has not been the case. Table 5 demonstrates the disproportionate percentage of DOD's annual budget authority allocated to the Navy from 1986 to 1991.

Table 5 DOD ANNUAL BUDGET AUTHORITY  
(millions of dollars)

FY	86	87	88	89	90	91
DOD	281,290	279,469	283,755	290,837	292,999	272,953
NAVY	96,113	93,500	100,281	97,675	99,977	92,158
%	34.2	33.5	35.3	33.6	34.1	33.8

As a side note, under this assumption any service share would sum to an amount of \$544.4 billion for the entire period. Over

this same period the Navy has received the above share plus an additional \$35.3 billion to some extent at the expense of the other services. The percentage of funding allocated to the Air Force also has been disproportionate, but not to the degree of the Navy's.

Table 6 consists of Navy's Total Obligational Authority over the period of 1981 to 1991, the same time frame examined for the DOD in table 3. In order to allow direct comparison of the figures in tables 3 and 6, it is necessary to include the funding received by the Department of the Navy for Marine Corps and Reserve programs.

Table 6 DEPARTMENT OF THE NAVY TOTAL OBLIGATION AUTHORITY

FY	81	82	83	84	85
MPN	21.1	20.5	19.0	17.9	24.1
OMN	34.1	31.4	28.2	27.4	29.5
PRO	34.6	37.3	41.3	34.3	33.8
RDT&E	8.8	8.6	7.7	8.6	9.7
MILCON	1.4	2.2	1.4	1.4	1.7
FH	*	*	0.9	0.7	0.7
86	87	88	89	90	91
25.3	26.2	25.0	27.2	26.9	29.5
27.5	27.6	27.1	28.6	27.6	29.2
33.8	33.7	36.1	32.0	34.5	29.7
10.2	9.8	9.3	9.5	9.5	9.1
1.7	1.5	1.5	1.7	1.2	1.2
0.7	0.7	0.8	0.8	0.8	0.9

(\* indicates zero funding)

Again, the Navy's budget reflects its unique organizational structure and missions, and thus allocations to accounts are not the same as those found in the composite DOD budget. First, from 1981 until 1984, MPN fluctuated between 21 and 18 percent, moving in a downward direction as did DOD MP accounts. However, DOD allocations for military pay hovered between 31 and 29 percent, because of more manpower intensive Army and Air Force strategy requirements. After 1985 the gap narrowed as Navy figures increased, although DON figures still remained lower than the DOD composite. Contrary to statements made by DOD on manpower reductions, it appears as if a greater percentage of the DON budget has been allocated to MPN, increasing slightly every year since 1985, although the size of the fleet has not increased significantly.

The Navy also allocates a greater percentage of its total budget to hardware procurement. From 1981 to 1991, the Navy devoted approximately 34 percent of its budget to procurement, primarily investment, while DOD as a whole devoted only around 27 percent. It appears again as if the basic missions and operating environment of the Navy make it more hardware intensive than the DOD as a composite. Procurement within DON has fluctuated from a high in 1983, sustained around 34 percent after 1984 and then cut only in 1991.

Research and development experienced the same general climb in the early half of the period, growing to over 10 percent, but then decreased in 1987 and remained stable until a cut in 1991.

This is contrary to the DOD pattern of constant increase. Instead, it equates to a relatively stable level in nominal terms, about \$9.3 billion per year until 1991 when \$1 billion was cut. It is also notable that DON R&D is funded at about 3 percent less than DOD as a composite.

Additionally, when examining the DON figures for the period, they appear to be erratic, bracketing DOD figures. This is because of the nature of the problem, examining and comparing a sum of three figures to one individual figure. Additionally, the budget figures for defense are proposed at general levels (rounded), allowing the Department of Defense some degree of flexibility in the actual allocation within the services.

These appear to be the major differences between DOD and DON account allocations. The remaining accounts appear to reflect the same general allocation of funds as those found for the aggregate of DOD.

When an examination of DON allocation levels is made excluding Marine Corps and Reserve programs, the trends shown above are even more visible. Marine Corps and Reserve funding account for anywhere between 9 and 14 percent of the annual budget, reducing the effects of common size analysis of the DON composite budget. With Marine and reserve program excluded, all accounts except MPN, MILCON and FH reflect higher rates of allocation by 2 and 3 percent. MILCON and FH experience gains of approximately 0.1 percent, while MPN actually decreases by almost 4.7 percent.

In this examination, procurement accounts oscillate between 37 and 40 percent of the total budget, manpower between 19 and 22 percent, RDT&E between 10 to 12 percent, and operations and maintenance between 28 and 32 percent. Table 7 shows the effects of omitting Marine Corps and Reserve program funding on the base year 1985, highlighting the importance of specific appropriations.

Table 7 DEPARTMENT OF THE NAVY TOTAL OBLIGATIONAL AUTHORITY (percentage of the total DON budget for active forces only)

MPN	OMN	PRO	RDT&E	MILCON	FH	OTHER
19.4	30.3	36.1	11.0	1.8	0.8	0.6

Recalling the same data from table 4, the differences are readily apparent:

MPN	OMN	PRO	RDT&E	MILCON	FH	OTHER
24.1	29.5	33.8	9.7	1.7	0.7	0.5

In summary, MPN is well below DOD levels because of the less manpower intensive missions and strategy of the Navy, and procurement is higher due to the hardware intensive nature of the Navy, while other DON accounts general reflect the same levels as the DOD average.

### 3. Operations and Maintenance within the Pacific Fleet

In general, the Pacific Fleet consumes a large share of the DON O&M funds. On average, the pacific fleet consumes between 25 and 40 percent of the Navy's entire O&M funds, while the atlantic fleet consumes only 20 to 30 percent.

The Operations and Maintenance appropriations cover a myriad of different accounts (AG/SAG's), from fuel for ships and aircraft, civilian pay, per diem and travel, to repair parts, and maintenance costs.

Within the Pacific Fleet, operations and maintenance allocations have fluctuated. Although the trend has been similar to those discussed earlier, with outlays increasing to a peak in fiscal year 1987 followed by decreases, the disparity between years is greater.

For instance, starting in the year 1981, the total O&M budget was \$4.676 billion, down 8 percent from 1980's O&M budget level. Examining just the topline for O&M, the trend is shown in table 8:

Table 8 PACIFIC FLEET OPERATIONS AND MAINTENANCE TOTALS  
(percentage change from previous year)

82	83	84	85	86	87	88	89	90	91
15.8	7.1	-3.3	12.4	-7.5	9.9	-9.2	8.0	-5.0	-8.0

The trend alternates between flood and drought, swelling by 8 to 10 percent from the previous budget, and contracting by 5 to 9 percent. In nominal terms, the outlay level was lowest at \$3.98 billion in 1981, to a high of \$5.46 billion in 1987, then down to \$4.67 billion in 1991.

Conspicuous in table 6 are the two periods at either end of the spectrum where an increase or decrease has spanned a period of two years. In the case of the increases between 1981 and 1983,

this heralding the new Reagan policy, where the decrease of 1990 and 1991 may be the result of the new policy for the 1990's.

The pacific fleet operations and maintenance funds are accounted for in several manners. One way is within budget activities, or grouping by Major Force Programs. The areas where CINCPACFLT allocates O&M funds are to:

- BA 1: Strategic Forces, consisting of strategic offensive and defensive weapons along with related personnel, headquarters, logistic and support.
- BA 2: General Purpose Forces, consisting of all conventional (non-nuclear) combat units, related organizations, logistics and organic support.
- BA 3: Intelligence and Communications, consisting of intelligence, security, and communication programs, including resources related primarily to centrally directed DOD support functions.
- BA 4: Airlift and Sealift forces, consisting of airlift, sealift, traffic management, and water terminal activities, including command, logistic and support units in this area.
- BA 9: Administration and Associated activities, comprised of resources for the administrative support of departmental and major administrative headquarters, field commands, and administrative activities not counted elsewhere.

By applying common size analysis to these budget activities two major trends are discovered, an increase in the amounts allocated to strategic forces, apparently at the expense of general purpose forces, and increasing allocations to airlift and sealift forces, possibly in development of rapid deployment and prepositioned forces. Table 9 illustrates these trends:

Table 9 PACIFIC FLEET O&M BY BUDGET ACTIVITIES  
(percentage of total annual O&M)

FY	81	82	83	84	85	86	87	88	89	90	91
BA1	1.6	1.7	1.9	2.3	2.3	3.0	2.9	2.9	3.0	3.1	3.8
BA2	98	98	98	93	94	89	89	90	87	92	91
BA4	0	0	0	4.7	4.4	8.2	6.3	5.5	6.2	4.7	5.3

Excluded from this analysis is BA 9, negligible in size when compared to the budget activities in table 9, and BA 11, Special Operations Forces, added to the Major Force Program structure in 1987, and funded at less than 1 percent of the O&M annual budget.

While small in comparison to the overall totals, Administration and Associated costs, BA 9, has a great effect on forces in general. It has doubled in size nominally over the period from \$100,000 to more than \$200,000, an increase of 100 percent in 11 years, surpassing inflation rates, reflecting perhaps an expanding base of administrative requirements for all commands and consequently an expanding administrative structure.

In conclusion, while general purpose forces consume the greatest amount of CINCPACFLT's O&M funding, the rate has diminished. Conversely, strategic force allocations have increased steadily from 1981 to 1991 in the percentage of total funds consumed annually, as have the areas of Airlift and Sealift and Administrative forces. It appears that shifts in strategies have driven the O&M budget, modernizing strategic capabilities, and expanding the capabilities of forces that may be called upon in regional conflicts, and in support of forward deployed forces.

### **III. IMPLICATIONS OF PAST BUDGETS AND CONTINGENCIES**

The processes for formulation, adjustment and enactment of the federal and defense budget have evolved over time, changing as new reforms are put in place in an effort to correct deficiencies in the process. In each new fiscal year, the same complaints are voiced, namely, the process is too complex to comprehend, and too involved to be used effectively. Thus, new reforms are introduced periodically and the existing process is forced to a new direction through enactment of new legislation. The process of formulating and enacting federal budgets has grown into an enormous, repetitive, circuitous, year-long task. In the case of the defense budget, the process is even longer, since armed services are required by Congress to propose budgets in biennial format.

#### **A. IMPLICATIONS FOR DEFENSE IN FEDERAL BUDGETING**

There are several facets of the federal budgeting process that have enormous impacts upon the Department of Defense's budget process and practices. First of all, the defense budget is proposed on a biennial basis, while the majority of the federal budget is not. The majority of federal spending is fixed in the base or "encumbered". Encumbered and non-discretionary funds are those dedicated to programs that are placed into law through specific legislation language that ensures the "life" of the

program. The enacting law is constructed so that it specifically requires deliberate action on the part of Congress to overturn any of the provisions made within the program. If Congress fails to take alternative action then the program receives funding in every subsequent federal budget until legislation is enacted otherwise to alter provisions, correct economic projections, or cancel the program.

Provisions in the initial enactment bills include such things as cost-of-living-allowances (COLA's) to federal employees and retirees and increases to benefits from Social Security. Provisions are based on economic assumptions formulated at the time of the initial enactment and are formally placed into the initial legislation by the legislative program's sponsor.

On the other hand, discretionary funds are those allocated on an annual basis. These funds are provided to defense and general government operations. They tend to be less stable than non-discretionary funds, directed and re-directed on the margin to areas deemed most needy in each year.

As the size of the federal budget has grown, so have the discretionary and non-discretionary budgets. Defense spending has grown but it has not kept pace with the growth of non-discretionary and entitlement spending. The effect has been to "crowd out" defense spending, as the following explanation notes:

"It is convenient to think of the federal budget (which now consumes 22 percent of the U.S. GNP) as consisting of four principal elements: entitlements (money given directly to individuals based on long-term legislative commitments), defense, interest on the national debt, and everything else.

Entitlements now consume roughly 50 percent of the federal budget - a growing fraction. Defense consumes about 25 percent, and if the president's proposed budget is executed, by the mid-1990's defense will represent the smallest fraction of annual government spending and of the GNP since just before Pearl Harbor, with the exception of 1948. Interest on the national debt now consumes about 15 percent - about two thirds of the amount spent on defense and growing as the national debt increases while defense shrinks. The rest of the government's expenditures combined total about 9 percent of the federal budget."<sup>4</sup>

In other words, if the size of the federal budget and taxation are to be held constant, and entitlements and the payments on the national debt continue to grow, defense and the remaining government expenditures must be reduced. Defense spending, consuming 25 percent of the budget and representing over 80 percent of the discretionary budget is where much reduction will be made.

Additionally, because defense spending is discretionary or controllable, it is a relatively easy target for reduction. Generally, discretionary funds are thought of as politically vulnerable. Since defense spending accounts for so much of the federal budget discretionary funds, it becomes a lightning rod for deficit cutters.<sup>5</sup> It is not unrealistic to assume that at some point in the future defense spending may be limited to a figure that is determined by decision makers relative to an "acceptable" deficit level, i.e. using the defense budget to reduce the deficit.

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<sup>4</sup>Kenneth L. Adelman and Norman R. Augustine, The Defense Revolution (San Francisco, ICS Press, 1990), p. 84.

<sup>5</sup>ibid.

The desire of the public to establish control over the national debt and reduce the rate of growth in federal budget expenditures was a major issue in budgeting during the 1980's. One piece of evidence of this desire is the proposal and adoption of the Balanced Budget and Emergency Deficit Act in 1985, also known as the Gramm-Rudman-Hollings (GRH I), and less than 2 years later the Balanced Budget and Emergency Deficit Control Reaffirmation Act (GRH II).

The desired effect of GRH I and II was to control the size of the national debt and budget deficits, setting maximum deficit levels for future budget years until a balanced budget (zero deficit) could be achieved. Each act included a timetable and deficit ceilings for each year, as follows:

Table 1 GRAMM-RUDMAN-HOLLINGS DEFICIT TARGETS  
(billions of dollars)

FY	86	87	88	89	90	91	92	93
GRH I	171.9	144.0	108.0	72.0	36.0	0	NA	NA
GRHII	NA	NA	144.0	136.0	100.0	64.0	28.0	0

(NA meaning not applicable)

GRH II was enacted when GRH I was deemed to be too optimistic, with unrealistic goals in the initial years forcing immediate cuts that would be among the largest in U.S. history. Additionally, GRH was seen as lacking in enforcement of the new process of "sequestration". If deficit targets were not met<sup>6</sup>

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<sup>6</sup>GRH II calls for a budget to be accepted that is actually only within \$10 billion of the mandated deficit target for fiscal years 90, 91, and 92. No cushion was extended for 1993.

within the budget process timetable, sequestration would reduce the budget, with cuts across the board as directed by OMB cuts calculated to meet the set goals.

The public popularity of GRH I and II reflected the direction in which Americans said they want to move in federal budgeting. Contrary to what most Americans want is the actual actions taken. The public as a whole and political decision makers have rejected attempts to raise taxes and reduce entitlements. They have voiced their choice in support of reducing the deficit and spending, but have failed to support actions moving in this direction.

Of a greater consequence to federal budgeting is the bipartisan Budget Enforcement Act of 1990 (BEA). The purpose of the BEA is different from that GRH I and II, (controlling deficits). Instead of controlling the size of the deficit, it changes perspective to controlling the size of expenditures and the total amount of federal spending. The effects of this shift in perspective may have great impact. In short, "it marks a significant departure from recent practice in federal budgeting and moves toward a no fault budget process".<sup>7</sup>

The impetus to change the previous budgeting system was enormous:

"In the summer and fall of 1990, the budget process had become so painful, the potential sequestration amount so large (\$110 billion), the potential cost of the Savings and Loan Bailout so high (\$100 billion for FY 1991) and the gulf between leaders and followers so great, that the old budget process

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<sup>7</sup>Richard Doyle and Jerry McCaffery, The Budget Enforcement Act of 1990: The Path to No Fault Budgeting.

was doomed. New military responsibilities in the Persian Gulf complicated this picture, For example, how could defense be expected to take a sequestration of \$55 billion on approximately \$290 billion while it was building up a military presence in Saudi Arabia? After a period of intense legislative maneuvering in congress, including the repudiation of the President's position by his own party in the House, the Budget Enforcement Act of 1990 was passed. Its immediate effect was to change the deficit targets and cancel the \$110 billion sequestration. Thus it returned some sort of normalcy to federal government operations, but it was more than just and extension of GRH I or II"<sup>8</sup>.

The act is purposely short-term, allowing changes in the near future dependent upon the events in and outside the United States. The BEA contains guidance for the years 1991 through 1995, but the spending authority totals or limits are binding only through 1993.

Perhaps the greatest change made by the BEA is the placement of spending caps on discretionary spending. In the immediate future, FY 1991 through 1993, discretionary spending is divided into three categories: defense, international affairs and domestic spending. The caps are shown in table 2:

Table 2 BEA DISCRETIONARY SPENDING CAPS  
(millions of dollars BA)

FY	91	92	93	94	95
DEFENSE	288,918	291,643	291,785	*	*
INTL AFF	20,100	20,500	21,400	*	*
DOMESTIC	182,700	191,300	198,300	*	*
TOTAL	491,718	503,443	511,485	510,800	517,700

(\* denotes figures to be decided as part of the budget process of those fiscal years)

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<sup>8</sup>ibid.

In the years 1994 and 1995, only caps for the totals of discretionary spending are stipulated, allowing decision makers to allocate funds to areas they deem necessary.

In examining the figures of the earliest years, it can be seen that total discretionary spending between years 1991 and 1992 increases by only about 2.4 percent, and by about 1.7 percent between 1992 and 1993. During this period defense will have minimal increases, 0.9 percent between the first years, and less than .5 percent between 1992 and 1993. However, domestic spending will increase by approximately 4.7 percent.

In terms of the percentage of total discretionary spending consumed by defense (previously around 80 percent), percentage of the total federal budget devoted to defense, and as the percentage of the projected GNP devoted to National Defense, the BEA has the following effects:

Table 3 EFFECTS OF BEA  
(percentage of totals)

FY	91	92	93
DISCRETIONARY	57.4	56.8	54.5
TOTAL FEDERAL	21.5	20.3	19.9
PERCENT GNP	5.3	4.6	4.3

The implications of a future policy such as this are significant:

"The defense spending caps continue the negative real growth pattern that began in 1985. Compared to the baseline, defense spending will be reduced by \$182 billion over five years, a 20 percent reduction in inflation-adjusted growth, More than a third (36 percent) of the total savings in the five year

budget agreement will come from defense. With the notable exception of the off-budget funding for Desert Shield, these defense cuts represent the peace dividend".<sup>9</sup>

The act also has several other impacts on federal budgeting that differentiate it from an extension of GRH. The new deficit limits set by the act are vastly different from the previous limits of GRH (and the way in which the deficit is calculated has been changed):

Table 4 GRH AND BEA DEFICIT LIMITS

FY	GRH	BEA
91	64	327
92	28	317
93	0	236
94	*	102
95	*	83

(\* denotes no provision for this year)

BEA has another feature that provides flexibility. It allows the President the discretion of changing targets three times a year in 1992 and 1993, first adjusting for economic and technical factors, next when OMB releases its initial sequester report on 20 August revising discretionary spending caps, and finally when OMB releases its final sequester report 15 days after the end of the Congressional session.

The major enforcement tool in the previous reforms (GRH I and II) was an annual sequester, whereas the BEA allows the President to use a sequester in three different ways:

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<sup>9</sup>ibid.

1. A general sequester if the maximum deficit target amounts are not met, with adjusted targets through FY 1993 and GRH II procedures in FY 1994-95.

2. A mini-sequester on each of the discretionary spending envelopes - Defense, International Affairs and Domestic spending for fiscal years 1991 to 1993.

3. A mini-sequester of entitlements covered by GRH to make up for any new entitlement spending or tax cuts that are not paid for<sup>10</sup>.

Additionally, the act removes the \$10 billion dollar cushion provided for by GRH in FY 1991-93, and the current GRH sequestration process will go back into effect for FY 1994-95 with a \$15 billion cushion.

The BEA spells out the immediate future in federal budgeting, and the effects for defense will be widely felt.

#### **B. CONSIDERATIONS FOR DEPARTMENT OF DEFENSE BUDGETING**

Separate from the issues above are several major issues for the Department of Defense.

##### **1. General Trends**

In addition to the trend of cost cutting in the defense budget is the issue of base closures. This issue was first introduced to Congress in 1987 when it was pointed out that many of the military's installations have aged significantly, and are a major drain on military funds (operations and maintenance, military construction, and family housing funds in particular). In order to reduce this drain, the Secretary of Defense suggested closing bases as a measure to free-up funds within the defense budget for higher

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<sup>10</sup>ibid.

priority programs. Congress intervened fearing reductions in legislators' districts, agreeing to vote on whether to close bases identified as not contributing to DOD goals by the Secretary of Defense. The concept was good, however, execution of the plan has been less than satisfactory.

Political finger-pointing has been the one result in this matter. The concept found support when proposed, with no major dissention until actual cuts were proposed in decision makers' back yards. Once the size of the cuts were revealed and their impacts on districts calculated the plan stalled, and is still in front of the Congress today, almost 5 years after its initial proposal. While DOD plans to close approximately 15 facilities as a result of decisions in 1989 and 1990, the issue is still being considered and will soon become a reality, now that an independent commission has been appointed to review the Secretary's proposals, and forward recommendations to the President. The initiative is sound but a few pertinent issues were overlooked at the time it was proposed.

The first issue overlooked is an economic one that many people do not quite understand, i.e., that it actually costs money to save money in closing bases. The amount of effort to close bases in the short run is tremendous, as is the cost. It is only in the long run that the cost savings will be achieved. In order to close bases the current and future year defense budgets would have to grow, rather than decline (in accounts related to closure) as they are projected to do.

The second major issue that was overlooked was the cost of toxic waste clean-up, with most costs being absorbed by the services. These costs are estimated to run into the billions, and the time required to do an adequate clean-up is now estimated to run into decades. These funds and time estimates are probably just the tip of iceberg on this issue. Again, the size of defense budgets would have to grow, not decline to meet the requirements.

Because of the perceptions of the size and waste within defense budgets there tends to be greater scrutiny of proposed budgets. Consequently, DOD and Congress have targeted programs construed as waste and abuse, and the MILDEPs have instituted measures to deal with accusations and offenders. Budgeting as a whole has become a more visible facet of military duties.

The greatest implication of adopting a cost-conscious or cost reduction approach is in the area of the DOD's and the military department and services' missions. For example, the Navy is an instrument of national policy, charged with conducting operations at sea in support of national objectives. If the military as a whole is experiencing less funding in all budget areas it appears that the missions charged of any service will be less than those of today, or at least national interests and objectives need to be re-defined. As funds are cut-back, so will be mission areas and spheres of influence around the world.

## 2. Specific Account Trends

In examining Department of Defense budgets, the trends within each of the major appropriations have significant implications.

Within the military pay account, the past trend showed increases through 1987 then tapered down slightly, and jumped back to where almost 28 percent of the DOD total budget was allocated to military pay. The implication here is that with a down-turn in the economy, a large number of non-career active duty personnel may desire to re-enlist for economic security reasons, keeping the size of the forces relatively unchanged, or even increasing it. The percentage of the budget allocated to military pay would then be unchanged or relatively stable. However, the DOD plan is to reduce military endstrength through 1997.

Within the operations and maintenance accounts the implications are several, and are inter-related to other accounts. First, because of the complexity of the weapons systems that the services have been procuring in recent years, and the use of printed circuit boards and "black boxes", maintenance and repair costs will be driven higher. In order to deal with these problems more training and education is needed, driving travel and related costs up. To be proficient at operating complex systems more training is needed, in the classroom and simulators, as well as in actual operating environments. Thus, education costs increase along with increases in flying hours and steaming days. With all these costs taking large bites out of the total O&M allocations, the solution seems to be in a lower operating tempo, mobilizing

fewer numbers of ships for each commitment. In order to continue as we do today, more O&M is needed. However, this also is not projected for future budgets.

In the procurement accounts, DOD responds to market conditions. Producers of major weapons systems have benefitted greatly through the Reagan build-up, winning contracts with large unit orders, keeping their demand high. The market is one where higher prices are the norm, where a large research and development is recoverable through the government, and federal oversight is not as tight as advertised. The costs of new weapons systems are skyrocketing, driving the unit costs up, as well as prices for support systems. In order to buy new systems more funds are needed. In order to "buy cheaply" and modernize existing platforms to meet increased threat capabilities much more funding is needed. The implication is either more funds allocated or less hardware, and less capable hardware will be available. Again, this calls for re-examining national interests and national defense goals.

Research and development funding is an investment in tomorrow, leading the forces with new technology to increase our capabilities, or even reduce costs through new methods and materials. Funding should continue at current levels at least to ensure a technological edge for our forces, or again, a re-examination of our strategy and goals is needed to see if they contradict our capabilities. However, the RDT&E budget will be steady state at best in the period from 1991 to 1997 in real dollars.

Military construction and family housing are small components of the total DOD budget, but will continue to consume more funds as buildings age and new weapon systems are brought on line with special support requirements. If funds are cut below a baseline here then future costs may become grow exponentially, requiring replacement of older facilities. The future budget does not accomodate this demand as reflected in BEA spending targets for DOD and DOD's own budgetary planning.

**C. CONTINGENCIES BUDGETING: DESERT SHIELD AND DESERT STORM**

On August 2, 1990, the national military forces of Iraq, at the direction of their leader, Saddam Hussein, invaded the sovereign country of Kuwait, occupied the nation, and announced the annexation of the country as a part of his own. In response to this wanton act of aggression, the United States reacted with what was believed to be the responsible action by many nations and world leaders. This section of this thesis will not deal with the military operations of Desert Shield and Desert Storm, but will deal with some of the budgetary issues realted to the support of these operations.

Ironic is the fact that this invasion occurred on the same day President Bush announced his new defense strategy for the United States. Even more ironic is that in the face of aggression this new defense strategy called for heavy cuts in funding, manpower, procurement, and a restructuring of the armed services.

In the weeks following the initial invasion, the United States met diplomatically with the leaders of Saudi Arabia, offering the U.S. assessment of the situation, and the offer of using U.S. military forces in defense of Saudi Arabia. King Fahd, requested aid in the form of military assistance, and it was received almost immediately. The U.S. Department of Defense mobilized air, ground, and naval forces immediately. Active units and reservists began touching down in the Persian Gulf within one week of Iraq's actions, and by the middle of October the United States had deployed well over 200,000 military personnel and over 200,000 short tons of cargo by both sealift and airlift<sup>11</sup>.

To augment the immediate response by active duty forces, the President called upon the nation's reserve forces. On August 23, 1990, he exercised his authority under Section 673B of Title 10 of the U.S. Code authorizing the Secretaries of Defense and Transportation to call Selected Reserve units and personnel to active duty for Operation Desert Shield<sup>12</sup>.

The United States then followed a diplomatically circuitous route, seeking assistance from the other nations of the area, and other nations with whom the U.S. has allied with and depended on in the past. The result was a multi-national coalition of military force, defending Saudi Arabia from further aggression on the part of Iraqi forces.

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<sup>11</sup>Secretary of Defense Report to the President and Congress, January 1991.

<sup>12</sup>ibid.

The United States also sought formal condemnation and sanctions against Iraq through the United Nations. This was accomplished, and 12 United Nations Resolutions were formulated, later acting as mission statements in Operation Desert Storm.

Operation Desert Storm commenced on February 27, 1991, expelling the Iraqi forces from Kuwait within a matter of days, liberating the occupied nation.

The cost estimates of the Persian Gulf actions have run as high as \$60 billion for the members of the coalition, with some estimates running higher. The initial cost estimate made by the U.S. armed forces for mobilization of reserve units and increased fuel prices was more \$800 million alone.

Perhaps as important as the actual costs is the way in which this venture was funded. The United States was able to obtain promises of subsidies from coalition nations of sizable amounts. The total amount was initially estimated to cover half of the projected costs, although now they appear to be significantly greater.

Within the United States, funding was provided in a different manner. Initially, the incremental costs associated with Operation Desert Shield and the increased fuel prices were covered by shifts of \$800 million in previously appropriated DOD funds and by a Fiscal Year 1990 supplemental appropriation, totalling more than \$2.1 billion.

The BEA specified that incremental costs directly associated with Operation Desert Shield were to be treated as emergency

funding requirements, and not subject to the overall defense budget limits in the budget agreement.

Furthermore, for fiscal year 1991, the incremental costs of Operation Desert Shield and Desert Storm not offset by the contributions from allies or funds from regular defense appropriations are addressed by a Fiscal Year 1991 supplemental appropriations request. Cash contributions from our allies and from private donors are deposited in a Defense Cooperation Account, with deposits and withdrawals reported to Congress on a monthly basis. The supplemental appropriations request was submitted and enacted by Congress in the first half of fiscal year 1991.

The significance of this funding response is that in the future planned according to the BEA, with reducing budgets, any conflict that requires a mobilization of forces will need to be funded as an emergency, dealt with after troops and equipment are moved, either by a supplemental appropriations or amendments to appropriation bills. Emergency reprogramming can be done by the services, but without the degree of flexibility required. The purse strings for such operations will be held closely by Congress. And given the urgency in which funds need to be released under threat of war, riders of all types may be proposed in an attempt to pass bills that would not otherwise pass, delaying the process, as it did for the FY 1990 supplemental appropriation process.

#### IV. FUTURE TRENDS

As the defense establishment enters a new decade there is uncertainty in funding in the years after 1995. The budget for defense through the year 1993 has been spelled out in no uncertain terms by the Budget Enforcement Act of 1990, and while the future years of 1994 and 1995 do not have concrete spending caps, budgets following the trends set in the fiscal years 1991 through 1993 may be expected. With the recent events in the world leading people to believe the United States no longer faces any direct Soviet threat, only regional threats instead, there is a belief that there is little need for large scale forces. In light of these attitudes, the President announced his new defense strategy for the United States within this "new world" on August 2 1990, ironically, the same day that Saddam Hussein forcibly invaded Kuwait. The new strategy calls for a future of reduced procurement, reduction in manpower, a subsequent reduction in force structure, as well as reductions in the level of operations. This chapter presents budget projections from 1992 to 1997<sup>13</sup>. Data are presented in the same format as in Chapter II to facilitate comparison.

##### 1. National Defense and the Department of Defense

Earlier, it was shown that in the past decade allocations for National Defense and for the Department of Defense averaged

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<sup>13</sup>Based on Department of Defense published assumptions in the FY 1992-93 budget.

approximately 6 to 6.5 percent of the nation's Gross National Product. Recently, projections made by OMB indicate a future of continued economic growth and an increasing GNP, although not at the rate experienced in the mid 1980's. Nonetheless, this leads to a rational expectation of a similar growth within the defense budgets. However, the actions of decision makers in passing the BEA contradict this reasonable expectation. In fact, the Secretary of Defense, in his report to the President and Congress of January 1991, stated:

"By 1995, we expect the defense budget to be less than 4 percent of GNP, the lowest level since before the attack on Pearl Harbor."

The percentage of the GNP devoted in the years 1991 through 1993 are 5.3, 4.9, and 4.6 percent respectively. Table 1 illustrates the total budget authority allocated to National Defense under the BEA:

Table 1 BEA BUDGET AUTHORITY TO NATIONAL DEFENSE  
(millions of dollars)

FISCAL YEAR	91	92	93
NATL DEFENSE	288,918	291,643	291,785
PERCENT GNP	5.3	4.9	4.6

The budget authority for National Defense for fiscal years 1994 and 1995 are not set as part of the BEA, although total spending caps for the total discretionary spending are set. They are \$510.8 billion and \$517.7 billion respectively.

Table 2 shows the projections of outlays the Department of Defense for the fiscal years 1993 through 1996.

Table 2 PROJECTED NATIONAL DEFENSE OUTLAYS 1993 TO 1996  
(millions of dollars)

FY	93	94	95	96
CURRENT \$	291,986	286,666	288,620	293,235
1985 \$	370,484	394,769	392,028	412,132
% CHANGE	1.6	6.6	-.7	5.1

These figures do not represent the funds made available to the DOD, but to all agencies representing National Defense interests. For the year 1993, the remaining funds left in outlays under the BEA is approximately \$70 million.

The figures shown in Table 2 reflect the actions of decision makers mentioned above, restraining defense spending, contrasting the trend set by the first Reagan administration, and following the trends of the second Reagan administration. The funding pattern shown in table 2 is not enough to counteract the effects of annual inflation, meaning that defense will sustain a reduction annually in real terms. In keeping with this trend and in line with the President's statements on the new defense strategy, it appears the administration's policy will be to maintain a force reduced to a predetermined baseline size and capability (base force).

Because budgeting is incremental in nature, table 2 reflects that, the pattern is alternating increases followed by very small nominal increases.

Within the budget function of National Defense there is an expected redirection of funds within appropriations. Table 3 illustrates projected appropriation levels:

Table 3 PROJECTED NATIONAL DEFENSE OUTLAYS BY APPROPRIATION  
(percent of annual total)

FY	93	94	95	96
MP	27.7	27.9	27.6	27.6
O&M	30.2	30.8	30.7	31.2
PROC	24.7	24.6	25.0	25.5
RDT&E	14.2	14.6	14.0	13.2
MILCON	1.7	1.8	2.2	2.3
FH	1.3	1.4	1.4	1.4

In examining the projected levels of the budget allocated for military pay and allowances, absent are the patterns of the early 1980's. The projections reflect a stable population within DOD, consuming about 27.5 percent of the annual budgets. In what appears to be an era of restraint, manpower reduction is the mandate. Today, the total number of uniformed personnel stands at about 1,974,100. By 1995 this number will be cut to 1,633,000, or a reduction of more than 9 percent. The initial brunt of the reductions will be felt by the Army, dropping in the number of divisions from 28 to 12 active and 6 reserve by 1995. Initially, it appears the Navy and Air Force will not suffer the same drastic cuts, although the long term results will be similar.

Included in this same trend is the funding of reserve programs. The military pay and allowances accounts are the source of funds for pay of active duty and reserve personnel. To maintain the same percentage of a relatively stable budget devoted to pay accounts with reduced active duty personnel, means either an

increase in pay levels or an increase in the number of reserves (and retirees) receiving benefits. The former statement is the intended case. The administration has addressed this issue by indicating their desire to increase compensation in order to maintain a high quality, smaller force. The administration has also announced intentions to reduce the reserve forces from today's level by 16 percent in 1993.

As projected, the operations and maintenance accounts will consume roughly 30 to 31 percent of the total annual budget, down from the levels of the early 1980's, and following the baseline levels established in the late 1980's. Operation tempos will reflect those trends in fiscal years 1990 and 1991. While table 3 shows increases in the percentage of the total projected outlays, the topline for O&M will be reduced by more than 2 percent nominally. In real dollar terms the reduction will be greater, approximately 6 to 7 percent.

The most noticeable change in the appropriation levels is in the Procurement accounts. Projected levels increase slightly over the period, but tend to be around 25 percent. This is down from the previous decade, where procurement approached 30 percent in 1987, and then was trimmed to 27 and 28 percent. The average decrease is approximately 3 percent. Based on the total National Defense budget of 1993, this means a decrease of \$8.76 billion from procurement accounts, redirected elsewhere. The Secretary of Defense officially stated his intentions in January 1991 in this area, saying,

"procurement and acquisition programs will receive careful scrutiny and strong support. Major adjustments have been made in the programs for the B-2 bomber, the C-17 transport, SSN-21 submarine, and Milstar communications satellite. Procurement of a number of lower-priority military systems has been terminated. Taxpayers' funds for weapons systems will be spent wisely<sup>14</sup>."

In support of this statement, in 1991 funds for the F-15E aircraft, Apache helicopter, M-1 tank, and the TACIT RAINBOW cruise missile programs have been canceled or redirected.

Next, following the trend set in the earlier decade, RDT&E accounts will grow to a larger percentage of the annual total. In 1991 the appropriation level was 12.4 percent, growing slowly to the peak of 1994 at 14.6 percent, and then decreasing to 13.2 percent in 1996. In the administration's latest defense strategy statement, technological advantage was addressed:

"it is apparent that in the years ahead we will need to strengthen our technological edge. The speed of technological change raises unprecedented challenges. The spread of modern weaponry has supplied the number of sophisticated Third World arsenals that include such items as advanced tanks, attack submarines, and cruise missiles<sup>15</sup>."

Judging from the visibility given to RDT&E by administration officials, and proposals for weapons systems such as the Strategic Defense Initiatives pursued by the Reagan and Bush administrations, it is expected that funding for research and development will continue at least at the levels projected in table 3.

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<sup>14</sup>Annual Report to the President and Congress, by the Secretary of Defense, January 1991.

<sup>15</sup>ibid.

In military construction accounts, a surge is projected in 1995 and 1996, repeating a similar pattern of surge and contraction to baselines like that displayed in 1987 and 1988. Additionally, family housing will have a slight increase in funding, showing a small increase from 1987 through 1996.

## 2. Department of the Navy

As the Department of Defense moves into the future, the Department of the Navy is projected to weather the storm better than the other services. Looking at most of the policies and programs selected to reduce and restructure forces, the Navy seems to suffer the least number of sacrifices. In the new defense strategy of the 1990's the Secretary of Defense has been quoted as saying:

"We need robust naval forces that enable us to exercise our world role across oceans that divide us from allies and trading partners. And we need an offensive nuclear capability along with a strategic defense, to deter and defend against tomorrow's ballistic missile threats<sup>16</sup>."

That statement would tend to indicate the strategy of the 1990's hinges upon a strong Navy and Air Force, so it is reasonable to expect more funding in naval general purpose and strategic forces, and in strategic forces of the Air Force.

In the nearest budget years, 1992 and 1993, the Navy continues to receive a greater share of the total DOD budget than the other services. The relative percentage expected is greater

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<sup>16</sup>ibid.

than the rational baseline of 32 percent of the total DOD budget.

Table 4 shows the percentage share of the total DOD budget:

Table 4 DEPARTMENT OF DEFENSE ANNUAL BUDGET AUTHORITY  
(millions of dollars)

FY	92	93
DOD	278,282	277,894
DON	91,631	92,483
PERCENT	32.9	33.3

Although this disparity is not great, 0.9 and 1.3 percent, the results are significant. In 1992 this amounts to more than \$2.5 billion, and \$3.6 billion in 1993. This trend may or may not continue into years 1994 through 1996, but it has been present as far back as the late 1970's.

An examination of the appropriation levels in the next fiscal years reveals the following:

Table 5 DEPARTMENT OF THE NAVY TOTAL OBLIGATIONAL AUTHORITY  
(percentage of DON total)

FY	92	93
MPN	30.3	30.1
OMN	29.0	28.6
PROC	30.8	29.3
RDT&E	9.0	10.2
MILCON	0.8	0.8
FH	1.0	0.8

The following table reports the same data in nominal dollars:

(millions of dollars)

FY	92	93
MPN	27,633	27,926
OMN	26,466	26,541
PROC	28,090	27,170
RDT&E	8,199	9,488
MILCON	679	771
FH	880	713

In the MPN accounts a slight decrease is shown in table 5. The additional table indicates a slight rise in nominal funding, but this difference is negligible. The standing force of the Navy will actually decline as DOD downsizes, from 551,400 active duty persons in 1992 to 536,000 in 1993, and from 282,700 selected reservists to 254,500 respectively.

Within the operations and maintenance account a similar decrease will be felt. In terms of nominal funding the two years will be almost constant, but will actually experience a reduction in real dollar terms. The majority of the Navy's training opportunities and expenses fall within the O&M accounts, in flying hours and steaming days, as well as in travel funds. A reduction in funds for training in the future seems to contradict the administration's statements to support a more capable, ready force.

The trend in DON procurement will follow that of DOD as a whole. So far, DON has sustained several major losses of significant weapons systems. For example, funds for the A-12 attack aircraft, the V-22 Osprey vertical troop and transport

attack aircraft, the V-22 Osprey vertical troop and transport aircraft and F-14D fighter aircraft production have already been canceled and redirected. Because of the "low priority" of these programs, the Navy and Marine Corps will instead attempt to complete assigned missions using the 25 and 30 year old A-6 Intruder attack CH-53 Sea Knight aircraft. Currently, DOD has no platforms or programs identified or in development for relief for these aircraft. Of course, Congress may alter these programs.

In 1992 and 1993, procurement accounts will again be thinned, terminating the programs of the TRIDENT submarine, the P-7A ASW patrol aircraft, the Navy Advance Tactical Fighter, and the Mark XV aircraft identification systems. The only major procurement programs will be the bringing on line of more AEGIS Weapons Systems platforms, namely the ARLEIGH BURKE destroyers and TICONDEROGA class cruisers. The procurement schedule and program plans for these ships has been slowed in rate and scope as well.

Following the administration and DOD lead, RDT&E will continue to grow in the year 1992 and 1993. The percentage of the DON budget consumed by research and development will grow to 10.2 percent, approaching a level of \$10 billion dollars.

Military construction and family housing will be funded at almost a constant level in terms of percentage of the total budget, experiencing slight nominal increases but real term losses.

### 3. Operations and Maintenance within the Pacific Fleet

The Pacific fleet will experience a loss in funding levels within the O&M allocations in the early years of the 1990's. Reductions will be made in all accounts. From a fleet level perspective, the future is reflected in table 6:

Table 6 PACIFIC FLEET OPERATIONS AND MAINTENANCE  
(millions of dollars, percentage change)

FY	93	94	95	96	97
TOTALS	5,114	4,866	4,561	5,075	5,269
% CHANGE	3.8	-4.8	-6.3	11.3	3.8

In nominal and real dollar terms there is only one increase projected (in 1996) with decreases in nominal and real terms in every other year. The overall effect amounts to a significant reduction in operations and maintenance funds.

Displayed by budget activities, the reductions appear in table 7:

Table 7 PACIFIC FLEET O&M BY BUDGET ACTIVITIES  
(percentage of total O&M budget)

FY	93	94	95	96	97
BA 1	5.8	5.8	6.4	6.0	5.8
BA 2	88.8	87.6	86.2	87.1	87.2
BA 3	0.1	0.3	0.1	0.1	0.1
BA 8	0.4	0.4	0.5	0.4	0.4
BA 9	4.9	5.9	6.7	6.3	6.4

The implications of the data shown above is consistent with the trends analyzed in Chapter 2. An increase in the percentage of the budget is devoted to strategic forces and a much greater

percentage dedicated to administration, at the expense of general purpose forces.

Additionally, the size of the budget allocated to BA 9 is projected to grow, demonstrating the new importance of Administration and associated costs, and possibly indicating new levels of administrative requirements and a new administrative structure.

In conclusion, the size of future budgets for DOD and DON are limited by the spending caps specified in the Budget Enforcement Act of 1990. The trend set in the spending caps for budget authority and outlays is negative real growth over the next three years and, although spending caps are not set in years 1994 and 1995, the total discretionary caps are restrictive enough to force defense to sustain two more years of negative growth.

## V. CONCLUSIONS

### A. GENERAL CONCLUSIONS

The implications of the data presented here are many. However, in general, the obvious fact is that the Department of Defense and the Departments of the Armed Services will be forced to sustain large cuts in funding and force strengths in the future. The immediate future will be driven by the agreements made by the administration in acceptance of the Budget Enforcement Act of 1990, limiting National Defense to a declining percentage of the total federal budget in the fiscal years 1991 through 1993, and then part of the capped discretionary spending in fiscal years 1994 and 1995.

In the past, particularly in the years 1981 through 1985, the Department of Defense and Departments of the Armed Services enjoyed budget abundance. This has changed significantly, and the future appears to consist of budget trends in the opposite direction, down in real terms to the levels of the late 1970's.

The decline in the size of defense budgets started in fiscal year 1986, and although not decreasing in nominal terms, they have decreased in real growth terms. One reason for this decline was the mounting political pressures applied to the administration and Congress to reduce the federal deficit and the rate of growth in the federal budget. This pressure was great enough to spawn legislation designed to control both, changing the process by which

the United States formulates, proposes and enacts budgets. The legislation that has had and will have the greatest effect on the defense budget is the Budget Enforcement Act of 1990 (BEA).

In response to the political pressure on decision makers to correct the nation's budgetary deficiencies, the administration has announced a new defense strategy. It appears as if the budget has driven the change in strategy more than the changing world situation. Although the changes in threat experienced since the 1989 have been significant in nature, changing the social and political schema of the world, the seriousness of the nation's budgetary problems were such that a new strategy was required and inevitable. It was only a matter of time before the United States would change its defense policies.

The fall of the Berlin Wall and the democratic uprisings in Eastern Bloc countries facilitate the restructuring of the nation's Armed Forces. And the USSR as the one opponent that has consumed American thought since the 1950's is diminishing in importance. This may provide the national leadership with some breathing room in the near term, unless the situation within the Soviet Union worsens.

In closing one other point needs to be addressed. The resounding defeat of Iraqi forces in Operation Desert Storm may easily be misconstrued. Although parts of the new defense strategy were utilized, the force structure and hardware of the American forces used in these operations were those that remained from 20 years of preparation to fight the Soviets, a force numerically

superior in all aspects. What will be the consequence of 5, 10, or 15 years of reduced budgets for the Armed Forces? What will our forces be capable of doing then?

## **B. SPECIFIC CONCLUSIONS**

The conclusions of this thesis may be summarized as the following:

- The Budget Enforcement Act of 1990 will be the driving force for the defense budget through 1995.
- Provisions with the BEA call for a reduction in the size of the defense budget as a percentage of GNP from 5.3 percent in 1991, to 4.6 percent in 1993, and expectations are for further decreases.
- Within DOD, funding will be redirected by appropriation to implement the new strategy, specifically more funds to military pay and allowances, to research and development, and away from operations and maintenance, remaining relatively stable in military construction and family housing. Procurement will also decline or remain at relatively steady-state.
- In line with the new defense strategy, funds will also be redirected for the modernization of the nation's strategic defenses, and for rapid deployment by airlift and sealift, at the cost of general purpose forces.
- Although the need for consideration of regional contingencies is reflected in the new defense strategy, it is not appropriately addressed by the federal budgeting system, meaning most contingencies will have to be funded by military department reprogramming and supplemental appropriations or amendments to appropriation bills as part of the annual process.
- Under the new defense strategy, all services will be reduced and funding cut, although on the margin the Navy will not suffer by a slight amount the size of the cuts directed to the other services.

With the reduction of funding for American armed forces, the spheres of influence enjoyed by the United States may be reduced. To maintain the same influence, American needs to develop a new political strategy, whether it be through alliances, through coalition of military forces, or appealing to other nation's moral values. Coercion never has and never will be a viable alternative, although the deterrence value from perceived threat of battle with an armed force of the size and capability of the American armed forces should not be underestimated.

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