



INSTITUTE FOR DEFENSE ANALYSES

**Proceedings of the 1st IDA-CIISS Workshop:
Military-to-Military Relations and
Defense Personnel Costs**

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Dennis C. Blair, IDA

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PREFACE

The Institute for Defense Analyses (IDA) prepared this document under its independent research program. The document describes and records the proceedings of a workshop conducted March 27–29, 2006, at the China Institute for International Strategic Studies (CIISS) in Beijing, China.

The document contains presentations by Major General (Ret.) Zhan Maohai, Vice Chairman, China Institute for International Strategic Studies, and Major General (Ret.) Lei Yuanshen, former Chief, Department of Military Systems Studies, Academy of Military Sciences, People's Liberation Army. The CIISS granted IDA permission to include these presentations in this document. The document also includes a presentation by Dr. David Finkelstein, Director, Project Asia, Center for Strategic Studies, CNA Corporation. The CNA Corporation granted IDA permission to include that presentation in this document.

This document has not undergone formal IDA review.

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I. INTRODUCTION

A. BACKGROUND

In 2005, the Institute for Defense Analyses (IDA) and the China Institute for International Strategic Studies (CIISS) agreed to conduct a sequence of workshops with the purpose of strengthening mutual understanding by engaging in dialog on subjects of common interest as well as differences.

Two workshops were to be conducted, the first at CIISS and the second at IDA. Each organization picked one topic for discussion at the first workshop:

- CIISS chose “Military-to-Military Relations” with the intention of enhancing such relations between the United States and China.
- IDA chose “Personnel Costs in the Defense Expenditures of the United States and China” with the intention of clearing up present misunderstandings and false information presented in the press.

During a subsequent visit to Beijing, Dr. Stephen J. Balut of IDA, Special Assistant to the President for International Projects, negotiated the timing, format, and terms of the first workshop. CIISS agreed to IDA’s request to allow representatives from the CNA Corporation (CNAC) participate in the first workshop. CIISS and IDA agreed to prepare separate documents to record the proceedings of the workshop. In subsequent negotiations, the president of IDA, Admiral Dennis C. Blair, agreed to deliver a speech about U.S. national defense policy.

B. AGENDA AND PARTICIPANTS

CIISS and IDA agreed to hold the first workshop on March 27 and 28, 2006, followed by a day of visits to other organizations in the Beijing area. Table 1 provides the three-day agenda, and Table 2 lists the workshop participants. The Chinese delegation included former officials of the People’s Liberation Army (PLA) and the Ministry of National Defense.

Table 1. Agenda

Monday, March 27 Military-to-Military Relations	Welcoming Remarks and Introductions Session I: Objectives and Review Session II: Current State and Future Adm. Blair on U.S. National Defense Policy
Tuesday, March 28 Defense Personnel Costs	Session III: Overview of Defense Budget and Personnel Systems Session IV: Basics of Personnel Costs Concluding Remarks
Wednesday, March 29 Visits to Other Organizations	Institute for Strategic Studies, China National Defense University

Table 2. Participants

Delegation	Name	Title
China	Maj. Gen. (Ret.) Zhan Maohai	Vice Chairman, CIISS (former Director General of the Foreign Affairs Office of the Ministry of National Defense)
	Maj. Gen. (Ret.) Gong Xianfu	Vice Chairman, CIISS
	Maj. Gen. Miao Pengsheng	Secretary General, CIISS
	Maj. Gen. (Ret.) Jiang Shiliang	Senior Advisor, CIISS (former Chief, Military Transportation Department, General Logistics Department, PLA)
	Maj. Gen. (Ret.) Zhang Hanjie	Senior Advisor, CIISS (former Chief, Joint Logistics Department, Beijing Military Command, PLA)
	Maj. Gen. (Ret.) Jiang Hong	Senior Advisor, CIISS (former Deputy Director General, Foreign Affairs, Office of the Ministry of National Defense)
	Maj. Gen. (Ret.) Tang Yinchu	Senior Advisor, CIISS
	Maj. Gen. (Ret.) Li Zhenmin	Senior Advisor, CIISS (former Deputy Chief of Arms Department, General Staff Headquarters, PLA)
	Maj. Gen. (Ret.) Lei Yuanshen	Guest Research Fellow, CIISS (former Chief, Department of Military Systems Studies, Academy of Military Sciences, PLA)
	Mr. Xie Wenqing	Senior Research Fellow, CIISS
	Mr. Zhuang Maocheng	Senior Research Fellow, CIISS
	Sr. Capt. Li Yaqiang	Associate Research Fellow, Naval Research Institute, PLA Navy
	Dr. Chen Wei	Administrative Director and Research Fellow, CIISS
	Mr. Wang Xianyun	Associate Research Fellow, CIISS
	Mr. Liu Yongxuan	Associate Research Fellow, CIISS
	Ms. Xing Haiyan	Secretary and Assistant Research Fellow, CIISS
United States	Adm. (Ret.) Dennis C. Blair	President, IDA
	Dr. Stephen J. Balut	Special Assistant to the President for International Projects, IDA
	Dr. John Hanley	Deputy Director, Joint Advanced Warfighting Program, IDA
	Mr. John Caldwell	Assistant Director, Joint Advanced Warfighting Program, IDA
	Mr. Stanley A. Horowitz	Assistant Director, Cost Analysis and Research Division, IDA
	Mr. David Bonfilii	Special Assistant to the President, IDA
	Dr. David Finkelstein	Director, Project Asia, Center for Strategic Studies, CNAC
	Mr. Kenneth Allen	Research Staff, Center for Strategic Studies, CNAC
	Dr. Dean Cheng	Research Staff, Center for Strategic Studies, CNAC

C. SUMMARY OF PROCEEDINGS

The first day of the workshop concentrated on military-to-military relations between the United States and China. Session I addressed objectives of and a review of military-to-military relations to date. Dr. John Hanley of IDA presented “An Analysis of Objectives of U.S.-PRC Military-to-Military Relations” while Major General (Ret.) Zhan Maohai of CISS presented “Principles of Military-Military Relations.” Session II covered the current state of military-to-military relations and looked forward to future relations. Dr. David M. Finkelstein of CNAC presented “U.S.-PRC Military Relations: Constructs for Assessing the Past.” CISS did not give a separate presentation on this subject because the material was covered by Major General Zhan in his presentation during Session I. Chapter II contains the content of these three presentations.

At the request of General Xiong Guangkai, Deputy Chief of the General Staff of the PLA, Admiral Blair delivered a speech on U.S. national defense policy titled “The Future Strategy of the Armed Forces of the United States.” Chapter III contains that speech and the content of a question-and-answer session that followed.

The second day of the workshop was devoted to the subject of defense personnel costs. Session III provided overviews of the defense budgeting and personnel systems of the United States and China. Major General (Ret.) Lei Yuanshen of CISS presented “China’s Armed Forces Personnel Situation” and Mr. Stanley Horowitz of IDA presented “Overview of the Budgeting, Personnel and Compensation Systems in the United States Department of Defense.” Session IV covered the basics of defense personnel costs. Mr. Horowitz presented “Personnel Costs of the United States Department of Defense” and Major General Lei presented “Military Expenditure Situation.” Chapter V contains the content of these four presentations.

II. MILITARY-TO-MILITARY RELATIONS

A. SESSION I: OBJECTIVES AND REVIEW

1. “An Analysis of Objectives of U.S.-PRC Military-to-Military Relations,” by John Hanley

I am honored to have the opportunity to speak to you today. I first came to the Chinese Institute for International Strategic Studies in 1993, then again in 1994 and 1995, when I was the Deputy Director of the Chief of Naval Operations Strategic Studies Group. The first year, our exchange of views was very structured and a bit awkward. Over the next two years, our exchanges became more open, sincere, and productive as we became old friends. I hope that our exchange today will be among old friends.

Let me begin by being clear that the analysis of the objectives of U.S.-PRC military-to-military relations I am presenting is mine and represents the Institute for Defense Analyses, not the U.S. Government.

To set the context for my remarks, let me begin with a definition of military-to-military contacts from U.S. law. By military-to-military contacts, I mean contacts between members of U.S. and foreign armed forces. This does not include security and policy dialogue between civilian government officials.

Let me pose some principles as the context for military-to-military relations. The principles apply to all military-to-military contacts, not just those between the U.S. and the PRC.

First, national policy is based upon national interests, and any two nations, no matter how closely allied or adversarial, have a mixture of common and conflicting interests.

Second is that military personnel are subordinate to civilian government authority. The civilian authorities set policy. The role of senior military officials is to provide their best independent advice based upon their appreciation of military capabilities, then to execute the policies of the civilian authorities. This implies that dialogue on established policy is not an appropriate objective for military-to-military contacts.

Third, as Sun Tzu teaches us, “know the enemy and know yourself; in a hundred battles you will not be in peril.” Also, as Clausewitz teaches us, “The first, the supreme,

the most far-reaching act of judgment that the statesman and commander have to make is to establish the kind of war on which they are embarking, neither mistaking it for, nor trying to turn it into, something that is alien to its nature.” Miscalculation leads to defeat. This implies that one of the foremost duties of senior military officials is to ensure that armed conflict is not the result of misunderstanding or miscalculation. Military officers have the duty to understand all that they can about both the militaries of the countries that they work with, and those that they may face in battle.

Let me now focus specifically upon the context for U.S.-PRC military-to-military relations. Our two nations have both differences, and common interests. We have clear and well understood policy differences over Taiwan, as expressed in the Taiwan Relations Act, subsequent communiqués, and the dialogue that we have had over Taiwan for almost 30 years. We also have differing interpretations and ways of adhering to the United Nations Convention on the Law of the Sea, which contributes to different interpretations of territory, Exclusive Economic Zones, and the appropriate behavior of armed forces in those areas.

On the other hand, with growing comprehensive national power of the PRC comes greater interdependence with the U.S. and the world. Over the past 13 years that I have been coming to China, I have noticed a marked shift in Chinese attitudes toward participation international and multi-lateral organizations and arrangements. My meetings in the 1990s almost always started with a discussion of the 5 principles of peaceful coexistence, emphasizing non-interference in internal affairs, and the associated implications for limiting multilateral action. In similar meetings this decade my Chinese hosts have not found it necessary to focus on those principles. China has found greater value in economic and security interaction where trades must be made with non-intervention, as demonstrated by its participation in the World Trade Organization and its establishing the Shanghai Cooperative Organization. As China continues to grow in comprehensive national power, not only will China advance its interests through more interaction with the world—which will bring greater interdependence—but the nations of the world will expect China to contribute more to security and peaceful development, both regionally and globally, as it does the United States.

Finally, the character of threats to national security is changing and becoming more common for both countries. The prospect of armies lining up on a border and invading is giving way to more non-traditional threats to national security and peaceful development from terrorists, pirates, and criminals who traffic in people and weapons. No one nation can effectively deal with these threats. Rather it requires concerted

cooperation among nations to prevent such terrorists and criminals from exploiting our borders to evade justice.

I would like to provide an assessment of U.S. objectives. First is a desire for substantive, reciprocal contacts to reduce any potential for miscalculation. Were we to engage in armed conflict, we would want to be sure it was because we meant to do so, not because we misread each other's actions.

A second U.S. objective is the peaceful resolution of disputes. This objective includes elements of dissuasion and deterrence to convince the PLA and the PRC leadership that initiation of armed conflict would in fact be against China's interests and ultimately self-defeating.

A third objective is to promote adherence to the Law of the Sea for the determination of territorial waters and Economic Exclusive Zones, and its conventions for the operations of armed forces outside of territorial waters.

Importantly, U.S. objectives also include cooperative measures. First is cooperation in countering non-traditional threats, with a particular emphasis on international terrorism and the proliferation of weapons of mass destruction. Second is PLA participation in humanitarian assistance and disaster relief, search and rescue operations, and peace operations authorized by the United Nations. The U.S. is well aware of China's increasing contributions to peace operations, including in Haiti, which are consistent with interests in promoting peaceful development in such countries.

An assessment of objectives for military-to-military contacts common to both the U.S. and PRC includes:

- A belief that the PRC shares the U.S. interests in developing the mutual understanding necessary to prevent inadvertent conflict.
- That both countries would like their military relations to be consistent with overall state-to-state relations, not viewed merely as a means to signal pleasure or displeasure with the other's actions.
- And that both countries share an interest in developing capabilities to conduct coordinated operations to achieve common goals where we have shared interests in a particular operation or outcome. This is more likely to be the case in the future as Chinese contributions to humanitarian assistance, disaster relief, and peace operations increase.

The following are areas where U.S. and PRC objectives are assessed as conflicting. In general, the U.S. seeks greater transparency into PLA thinking, planning, and actions. Typically, the PRC responds that its weakness demands that it not let the U.S. understand it fully, but that it must rely upon U.S. ignorance for its security. Balancing mutual

understanding with the lack of transparency is a significant challenge. Also, both sides appear to try to learn from the other without teaching and have an intelligence component to the military-to-military contacts to fill gaps in knowledge about the other on topics that cannot be discussed openly.

In general, the U.S. looks for substantive actions from the contacts and believes that the PRC is satisfied by the symbolism inherent in the interactions rather than the substance. Dave Finkelstein will have more to say on this later. It also appears that the U.S. is more interested in addressing confidence building measures and crisis management mechanisms than their Chinese counterparts. Here the PRC appears to make actions regarding U.S. surveillance a condition for moving forward, where the U.S. desires to put mechanisms in place that would prevent another incident similar to the fighter-EP3 collision and have mechanisms in place to prevent such incidents from escalating. The U.S. seeks the ability for its officials to provide its account of events directly to Chinese counterparts to avoid delays and inevitable distortions that accompany information working its way through bureaucracies. Finally, the U.S. believes that a PRC objective is to gain access to denied U.S. technology through military contacts.

In assessing the common and conflicting interests, we find a large area of common interests that is expanding as the interdependence between the U.S. and China grows (see Figure 1). Though differences remain, there is generally a mutual agreement that the demand for military forces to be able to work together is growing with China's expanding interests and contribution to international humanitarian assistance, disaster relief, peace operations, and operations against transnational threats. I recommend that we reference this slide in the course of our discussions.

In closing, let me say again that I am honored to have had this opportunity to exchange views with you and hope that this will be the first step in open and sincere discussions during our session today and continuing into the future.

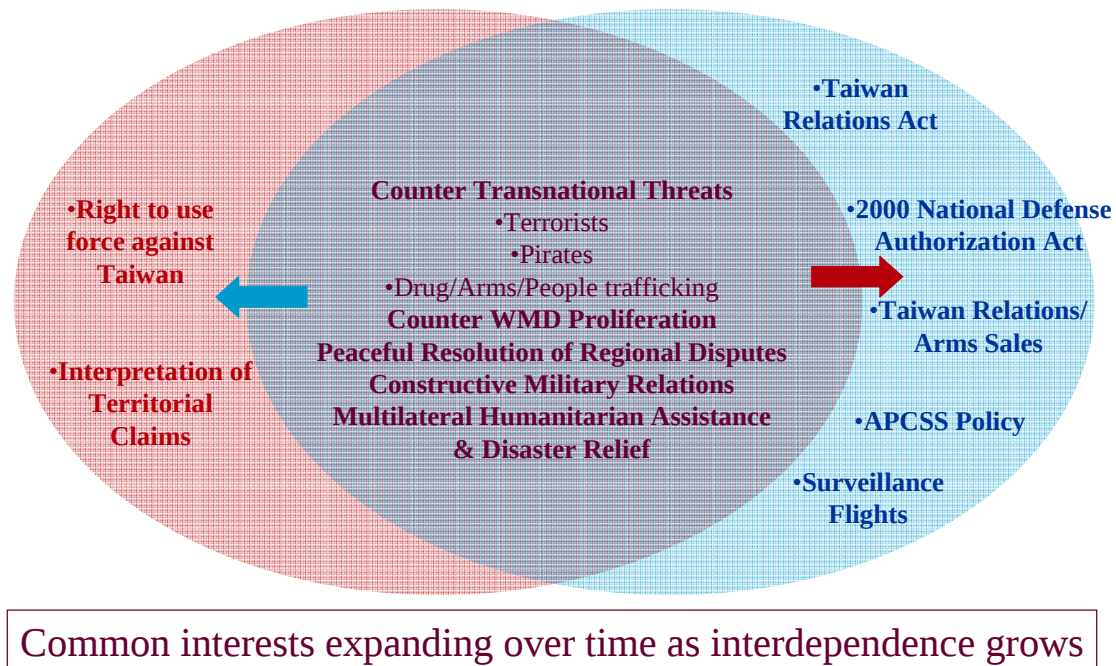


Figure 1. Expansion of Common U.S.-China Interests

2. “Principles of Military-to-Military Relations” by Zhan Maohai

a. Role of Military-Military Relations

The role of military-military relations is in support of overall government relations. From 1979 to now, the People’s Republic of China (PRC) has pursued a policy of reform and opening-up. Our main task is to focus on developing the economy to improve our people’s living standards. In recent years, the guidelines for our government and party have been changing, and our current policy is to pursue scientific outlook in a comprehensive way in order to sustain social and economic development. The PRC is intent on protecting the environment and building a society that stresses energy conservation.

In our foreign policy, we seek to follow the path of peaceful development, to create a peaceful international environment, and contribute to international and world peace.

The overall objective of the PRC’s military-military relationship with other countries is to support our national goals and objectives. In our view, military diplomacy should follow in the steps of foreign policy. Accordingly, China strictly pursues a policy of peaceful coexistence, and we will pursue friendly relations with militaries of other nations. The PRC has not stationed troops abroad and we have no military alliances with

other countries. Our military-to-military relations are in pursuance of peace and stability in the region and the world.

Through military-to-military contacts, we hope to improve our understanding of security policies and increase mutual trust/dispel suspicions with other countries. Through mutual contacts, we seek to improve our military forces. Through a process of “learning from each other”, we hope to enhance mutual understanding, establish friendly relations, and lay the foundation for joint operations and joint UN/multi-national operations in the future.

b. Background/History on U.S.–PRC Military-Military Contacts

The history of U.S.-PRC military-to-military contacts can be described as a series of starts and stops. In the early 1990s, Ambassador Chas Freeman visited the PRC in 1993, followed by Dr. Perry in 1994. However, Li Teng-hui’s visit to the United States impacted on General Chi Haotian’s planned visit to the United States in 1995. The bombing of the Chinese Embassy in Belgrade in 1999 further affected diplomatic relations between the two countries and militaries.

United States and China bi-lateral relations warmed again in 2000 as a result of mutual dialogue. Relations between the two militaries improved after Defense Secretary Cohen’s visit to China in July 2000 and remained so until the EP-3 incident in April 2001.

After 9/11, China cooperated with the United States in many ways. These actions included: sharing of intelligence, sealing our border with Afghanistan and preventing the Taliban from infiltrating into the PRC, and cooperative efforts to help pilots/planes that may have to make an emergency landing in China. These steps are unprecedented in Sino-U.S. relations.

In our view, military-to-military relations are an integral and important part of our two countries’ relations. It contributes to regional and international peace. We are happy to see senior political leaders in both countries sharing this view—and the desire to improve military-to-military relations has been expressed by Chinese Presidents Jiang Zemin and Hu Jintao and by U.S. President George W. Bush.

However, Major General Zhan’s personal view is that the PRC/PLA is more enthusiastic about pursuing military-to-military relations than the U.S. side.

c. Principles for Military-Military Relations

China follows the following principles for the conduct of its military-to-military relations:

- Mutual respect
- Mutually beneficial
- Increase mutual understanding
- Expand cooperation
- Using improved military-to-military contacts/relations as a basis for improving state-to-state relations

d. PLA Organization and Formulation of Military-to-Military Policy

The Foreign Affairs Office (FAO), People's Liberation Army (PLA) Ministry of National Defense (MND) is responsible for developing the policy for military-to-military relations. The FAO is subordinate to the Central Military Commission (CMC) and the General Staff Headquarters of the PLA. FAO is organized into four bureaus:

- 1st Bureau—Asia
- 2nd Bureau—Africa/West Asia (Arabian Gulf)
- 3rd Bureau—Europe/Asia (to include the Commonwealth of Independent States)
- 4th Bureau—Western hemisphere (Americas and Oceania)

All the military Services, General Political Department (GPD), General Staff Headquarters (GSH), General Logistics Department (GLD), Military Regions, and major commands such as the Academy of Military Science and National Defense University, have a Foreign Affairs Bureau. They are all subordinate to FAO, MND.

e. Formulating Military-Military Engagement/Activities

At the end of each year, the FAB formulates tentative engagement plans for military-to-military relations with each individual country. This is done through consultation with relevant departments within the PLA. Depending on the level of activity, the proposed program is either approved within the PLA or submitted to the CMC for approval.

Once the program has been approved, the plan is discussed with each country's Defense Attache. Based on this discussion and concurrence by both parties, a report is submitted to the CMC and authorized for execution.

f. Issues for Discussion/Consideration

Ongoing Military-to-Military Activities:

- Several senior PLA officers (to include Guo Boxiong, Zhang Dingfa) plan to visit the United States in the near future. The PLA is also planning a ship visit. On the U.S. side, PACOM Commander, Admiral Fallon, and CJCS, General Pace, are planning to visit China.
- Policy dialogues are occurring on a periodic basis.
- Intelligence sharing between the two countries is ongoing.
- Continual cooperation in humanitarian efforts. Although the PLA (military) did not go to support the tsunami relief effort, the military was responsible for collecting and transporting \$60 million RMB (\$7.5 million U.S. dollars) of supplies for tsunami relief. Chinese civil aviation flew it to the tsunami area.
- Communications and Search and Rescue procedures are discussed through the Military—Maritime Consultative Agreement (MMCA) channels.
- Cultural exchanges, a responsibility overseen by the PLA's General Political Department, are ongoing.

Areas for Discussion/Areas of Concern:

- Transparency. In July 2003, Assistant Secretary of Defense Rodman visited China to discuss transparency. On this issue, the PRC has a different interpretation of transparency than the U.S. side. However, the PRC's national policy on transparency is very clear. All of our guidelines and policies are clearly stated in our strategy. However, technical details cannot be revealed. For example, would the United States reveal the details of the F117 stealth fighter? The primary problem is that the U.S. side does not believe what we say. This is an issue of trust—the United States simply doesn't trust the PRC's/PLA's words.
- Addressing Mutual Concerns. There is a discrepancy between how the United States and PRC military view concerns raised by the other side. In bi-lateral discussions, the United States remains "resolute" when the PRC raises its concerns on some issues. However, the United States balks at addressing concerns raised by the Chinese side—and many PRC concerns are simply not addressed at all.

In summary, the PRC places trust in the words of President Bush and U.S. senior leaders who are in favor of resuming military-to-military contacts. When President Bush raised this issue, the PLA took action. In the United States, perhaps there is some reluctance because some people are concerned about China's intentions versus its capability.

B. SESSION II: CURRENT STATE AND FUTURE—“U.S.-PRC MILITARY RELATIONS: CONSTRUCTS FOR ASSESSING THE PAST” BY DR. DAVID M. FINKELSTEIN, CNAC¹

1. Three Propositions for Consideration

By way of organizing my remarks, I would like to offer three major propositions about past military relations between the United States and China in this brief section and then work my way through each of them in the remainder of the paper.

- **Proposition 1:** Of all of the elements in the overall bilateral relationship between the People’s Republic of China and the United States, military-to-military relations have proven to be the most unstable.
- **Proposition 2:** Since the mid-1990s finding the right balance in military relations, or determining what kind of military relationship to have, has been difficult because of increasing disagreements over various security issues
- **Proposition 3:** Even in the best of times, the systemic and institutional differences between the Chinese approach to military relations and the U.S. approach has often caused a certain degree of frustration in the military relationship

a. Proposition 1

U.S.-China bilateral military relations were formally established in 1980 with the visit to China by then-Secretary of Defense Harold Brown.

When reviewing the record since that time it becomes clear that the military dimension of bilateral relations between the United States and China has been the least stable of the various elements in the overall bilateral relationship.

The highs and lows in the military relationship have been extreme highs and extreme lows. Military relations are the only element in the bilateral relationship that has undergone periods of complete suspension. At the other end of the spectrum, it was likely the only element in bilateral relations in which sensitive technologies were once shared.

High of Highs: Weapons and Tech Transfer. The 1980s was a period of pressing strategic concerns shared by the United States and China. As such the military

¹ This presentation offers an interpretive assessment of past military relations between the United States and the People’s Republic of China. Its purpose is to serve as a vehicle for discussion among participants at our seminar. The views in this paper are strictly those of the author and it would be helpful if our seminar participants, both American and Chinese, were to correct any mistakes or misunderstanding herein or help to refine the concepts.

relationship at that time included the transfer of defense technologies from the United States to the PLA. Examples include: (1) the transfer of several units of AN/TPQ-37 Counter-Battery Fire-Finder Radars that the PLA intended to use along the frontier with Vietnam; (2) the sale of some two dozen Black Hawk helicopters; (3) the Large Caliber Ammunition Fuse Plant (LCAMP) program; (4) the Mark 46 Torpedo program; and (5) the Peace Pearl program whereby Chinese aircraft would have their avionics suites upgraded by U.S. defense contractors.

As we know, some of these programs went forward and some were subsequently halted after 1989. But given how relations have been over the past few years it is amazing to even recall that there were days when these types of activities were possible. So I would say that weapons and technology transfers were the “high of highs.”

Low of Lows: Suspension of Military Relations. Of course, the low points in the military relationship have been extremely low. After June 1989 there was almost no contact between the two military establishments until about 1994. So the low of lows has been “zero military relationship” for periods that have sometimes lasted years at a time.

Since 1989 military relations between our two countries have been cut off completely or seriously curtailed on 4 occasions:

- In the aftermath of June 1989 relations were suspended by the U.S. side and military technology transfer programs were halted
- In 1996, in the wake of the PLA missile launches across the Taiwan Strait and the U.S. response, both countries temporarily pulled back from military relations
- In 1999, after the errant U.S. attack on the PRC Embassy in Belgrade, the Chinese side suspended contacts
- In the wake of the April 2001 EP-3 incident, and up until recently, it has been the United States that has been slow to move forward on reconstituted military relations.

Last to Move Forward; But First to Be Sacrificed. In retrospect it is also possible to say that in times when the overall U.S.-China relationship has moved forward, military-to-military relations have, more often than not, lagged behind. Conversely, when bilateral relations have been strained the military relationship has been the most vulnerable to being rolled back.

What this brief overview suggests is that the United States and the PRC have had trouble creating a military relationship that is sustainable during periods of bilateral duress or that is “in sync” with the rest of the bilateral relationship.

b. Proposition 2

Throughout the decade of the 1990s, U.S.-China military relations started to become increasingly problematic as differences over various security issues came to the fore.

At some point in the 1990s both nations seemed to be finding it more and more difficult to ignore or paper over security differences—some that had always been in the background, such as Taiwan, and others that began to bubble to the surface in the post-Cold War period of strategic adjustments.

This particular group is well aware of the long list of concerns that both Beijing and Washington bring to the table as regards each other's actions and activities, or their intentions—real, assumed, or imagined—toward the other. There is no need to go into that long list at this point or in this venue.

At the end of the day, for the two militaries, and for crafting a feasible, realistic, and sustainable military relationship, the central issue always seems to boil down to Taiwan.

How do you craft a military relationship that accounts for the fact that both militaries are hedging against each other if the worst comes to pass? This is likely the biggest challenge faced by both sides in coming to grips with military relations.

c. Proposition 3

Even during the best and most active periods of military-to-military relations, the differences between China and the U.S. in (1) their respective conceptual approaches to military relations, and (2) the institutional management of military relations, has caused the military relationship to be fraught with a certain degree of mutual frustration. Let us quickly compare some of the more salient features of each system (mostly self-described by each side).

2. Open versus Closed

PLA officials are usually quick to point out that the PLA is the least open sector of the Chinese government. It is not only closed to foreigners, but also to the average Chinese citizen. Therefore, they would argue, the U.S. concept of transparency in the military relationship does not transfer to the Chinese system.

For their part, U.S. defense officials believe that the DOD is relatively open. Its budgets, the basic facts and figures about it, its soldiers and its leaders are an open book. And until the events of 9/11, almost all U.S. military facilities were open to the public

within certain parameters. U.S. military officials have traditionally felt that the U.S. side has always been more forthcoming than the PLA when hosting visiting delegations.

(China's continuing series of Defense White Papers are heartily welcomed by many foreign observers as initial steps towards defense transparency. At the same time, other foreigners complain the white papers do not go far enough).

3. Central Control (PRC) versus Relative DOD and Service Autonomy (U.S.)

Official contacts with foreigners by the PLA appear to be carefully controlled, supervised, and monitored centrally. The PLA Navy and Air Force appear to have nearly no independent authority at all to conduct programs of military relations. Moreover, for the most important types of military exchanges, even the Central Military Commission may have little autonomy to make key decisions. Anecdotes suggest that many military-to-military programs must be discussed in venues such as the Central Committee's Foreign Affairs Leading Group. This is open to discussion.

In the United States, the Pentagon, while expected to coordinate in the "interagency process," has a good deal of authority to act on both the general and specific nature of military relations with most countries. The U.S. services (Army, Navy, Air Force) and Unified Commands (PACOM, CENTCOM, etc.) likewise have some degree of latitude in their engagement programs under the larger decisions made by the Office of the Secretary of Defense.

As a result of differences in the two systems, activities to be negotiated in the military relationship have been staffed at different paces in the Chinese and U.S. systems.

4. The Weak versus the Strong

Since 1949, China's most forthcoming foreign military relations seem to have been with those nations that are smaller, weaker, and generally non-threatening to Chinese national interests—the so-called Third World and developing world, or some countries on China's periphery.

Because the PLA considers itself the weaker party vis-à-vis the U.S. military, the basic PLA approach appears to be showing relatively little, because, as the PLA might say, "the weak do not expose themselves to the strong."

For its part, the U.S. defense establishment has allies and it has non-allied friendly countries with whom it conducts military relations. It does not conduct military relations with antagonistic nations. Consequently, the nature of U.S. military relations with any

particular country is usually a function of where it fits into the “ally-friend-other” paradigm.

In the past, this approach has proven problematic for the United States vis-à-vis China. China is not an ally but it is not considered an antagonistic country. China has sometimes been treated as a non-allied friendly country and sometimes not. So where does China fit in the U.S. paradigm? The U.S. approach has basically been to try to craft a military relationship for China that is unique.

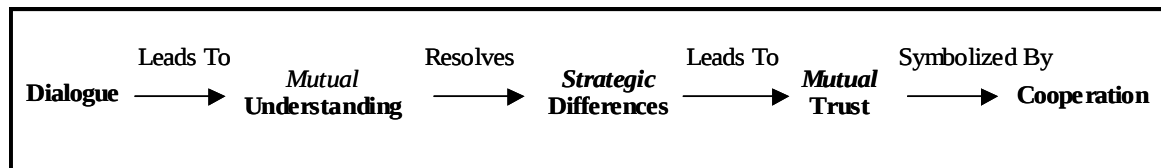
The basic differences in the respective approaches by each side to military relations have resulted, over the years, in some interesting misperceptions in both the United States and China.

- The U.S. side has often said that it does not understand why the PLA is unwilling to be more open, transparent, and reciprocal in military relations.
- For its part, the PLA has in the past rejected the proclaimed “openness” of the U.S. defense establishment as a ploy—the argument being that the United States is only willing to be relatively more transparent because, as the stronger partner, Washington wants to scare and deter the PLA by flaunting its capabilities.

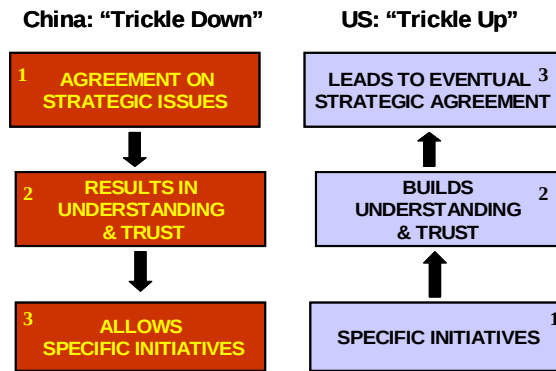
5. “Principles First, Action Later” versus “Action First, Big Issues Later”

The PLA appears to be reluctant to engage in a host of activities with a foreign military counterpart in the absence of first achieving agreement on basic principles—the big issues. Once there is basic agreement on the big issues, the details of future activities can be worked out later on.

This approach by the PLA is what one might call the “Mutual Understanding and Trust” approach, which could be diagramed thusly:



The American approach is different—especially with U.S. military culture being action-oriented. In the past, the American approach had been quite opposite to the PLA approach. It was one that offered the following, “Let’s first find some activities our militaries can engage in together and we can eventually get down to the big issues later on.” The result of these two opposing approaches (although admittedly grossly oversimplified) has been mutual frustration because the starting points for relationship-building have been different.



In the PLA's paradigm the most important starting point is high level visits to attempt to establish agreement on the big issues. It is about "who they see." For the U.S. side, the high level visits are also important, but the essence is about activities at the lower levels. For the United States, it is about "what we can do together or what we can see when we visit." The fundamental difference in relationship building might be referred to as the "Trickle Down (PRC), Trickle Up (U.S.) Contradiction."

6. Lessons Learned from the Past

In this last section, I will advance some "lessons learned" from past interactions and, in so doing, also make a few personal suggestions.

1. The most important thing that the military relationship should strive to achieve is stability and "survivability."
We simply cannot afford to have military relations remain hostage to each and every crisis in bilateral relations, be suspended or cut back, only to have to start it up anew once again.
2. We do need a serious strategic dialogue in order to frankly discuss areas of disagreement as well as find ways to do away with misperceptions that can cause either side to miscalculate the intentions of the other.
3. Related to the above, the strategic dialogue should occur on a regular and more frequent basis; the once-a-year Defense Consultative Talks cannot possibly be sufficient, in my view, to grapple with the host of issues our two nations must discuss. Perhaps the addition of some working groups that meet on a regular basis should be considered.
4. The strategic dialogue between our defense officials should be frank and should be a real discussion—reading talking points at each other will do nothing to help build mutual understanding. Both sides already know the others' official position on this issue or that.

5. Both sides should be realistic in their expectations. Both sides realize that the boundaries of what is possible between our militaries are a function of what domestic politics will allow. But within those constraints, both sides should try to expand contacts.
6. Both sides need to find different metrics for measuring the success of the relationship other than those used in the past.

In the past, the U.S. side used “reciprocity” and “transparency” as metrics. In the past the Chinese side has used access to technology and the ability to “deliver messages” as metrics. By these metrics the military relationship will *never* meet expectations.

I seriously doubt that the PLA is going to repay U.S. openness with exact reciprocal access. At the same time, the PLA should not expect U.S. military officials to be eager to be the recipients of canned speeches about the Taiwan issue every time a PLA general has a chance to meet a U.S. counterpart.

Today’s challenge for each side, then, also encompasses determining what the metrics for a meaningful military relationship should be.

7. We need to find ways to expose more of our younger generation officers to each other; either through our current program of exchanges between institutions of Professional Military Education (academies) or in some new venues. In this regard, “Track 2” events specifically designed to advance contacts might be an interesting adjunct to the official program.
8. Both sides should insure the other side understands how the military relationship is “staffed” in their respective systems, if for no other reason than to insure that “systemic” peculiarities are not read as disinterest, forestalling, or “stone walling” suggestions from the other side.

III. U.S. NATIONAL DEFENSE POLICY

A. “THE FUTURE STRATEGY OF THE ARMED FORCES OF THE UNITED STATES” BY ADMIRAL DENNIS BLAIR, IDA

In recent weeks, the U.S. Government has published two important documents. The first is the National Security Strategy, signed by President Bush. The second is the Quadrennial Defense Review, signed by Secretary of Defense Rumsfeld.

Both are serious documents. They are required by law, written and reviewed at high levels within the Executive Branch. Their purpose is to inform both Americans and foreign governments.

The documents are written by an administration that has been in office for five years. They therefore reflect not only the political ideas of the Bush administration, but its experience in government. That experience has included the terrorist attacks of 9/11, the war in Afghanistan and the ongoing war in Iraq. In addition, that experience includes the international response to avian flu, the tsunami in Indonesia, the earthquake in Pakistan, and political developments in Lebanon and Palestine. All these events have affected American national security views and policies.

This afternoon I will summarize the significant points of American policy in both documents, and I will discuss U.S. policy towards China described in these documents.

The National Security Strategy, signed by the President, is the authoritative statement of overall U.S. international policy. The document lays out the goals of U.S. policy, and its diplomatic, economic and military components.

The National Security Strategy commits the United States to the protection and expansion of personal freedom and democracy around the world. It argues that the extension of freedom is both consistent with American values and in the American interest. It names countries that are repressing their citizens—North Korea, Iran, Syria, Cuba, Belarus, Burma, and Zimbabwe.

China is not on the list of repressive countries. Does the United States seek to impose its democratic values on China? I will quote the document:

We will encourage all our partners to expand liberty, and to respect the rule of law and the dignity of the individual, as the surest way to advance the welfare of their people and to cement close relations with the United States. While we do not seek

to dictate to other states the choices they make, we do seek to influence the calculations on which these choices are based. We also must hedge appropriately in case states choose unwisely.

The National Security Strategy also outlines the long-term battle the United States is waging against international terrorism, and against the spread of nuclear and biological weapons. It is clear that the United States and China agree on these issues.

The National Security Strategy states the American commitment to the maintenance and expansion of market-based economics and free trade. It believes that these policies will bring prosperity to the greatest number of people around the world.

In this area, too, China and the United States are in accord. While there are many disputes in specific areas of investment, trade and intellectual property rights, both support the principles and practices of the World Trade Organization.

Finally, the National Security Strategy addresses U.S. relations with China directly. Here is what it says:

China and Taiwan must also resolve their differences peacefully, without coercion and without unilateral action by either China or Taiwan. Ultimately, China's leaders must see that they cannot let their population increasingly experience the freedoms to buy, sell, and produce, while denying them the rights to assemble, speak, and worship. Only by allowing the Chinese people to enjoy these basic freedoms and universal rights can China honor its own constitution and international commitments and reach its full potential. Our strategy seeks to encourage China to make the right strategic choices for its people, while we hedge against other possibilities.

In summary, the National Security Strategy outlines a high-level strategy that seeks to continue the current mutually beneficially and friendly relationship with China.

The Quadrennial Defense Review explains the military component of American policy. It is the result of a major study by the Department of Defense required every four years by the Congress.

The 2006 QDR is very different from its predecessors. The first sentence reads: "The United States is engaged in what will be a long war."

This phrase must be significant to a Chinese military audience. You have in your history a "Long March." Much of the concept is the same—a grinding, difficult, protracted struggle against a determined adversary.

The U.S. armed forces are committed to making a transition from a single focus on rapid victory in high intensity conflict to a dual focus. There will be a second emphasis on defeating groups that use international terror tactics to destabilize countries and to attack the United States itself.

Most of the QDR discusses this new second focus. Its increasing importance is reflected in changes in policy and force structure:

- Special forces will be strengthened—these forces are most relevant to the long war.
- There is increased emphasis on officers and other specialists learning foreign languages, and increasing regional and cultural knowledge.
- The Army is reorganizing on the brigade level, rather than the division level.
- Increased resources are being spent on intelligence, reconnaissance and surveillance against small targets in difficult terrain.

The impetus for these changes is understandable. In the Iraq War the United States was spectacularly successful in the high-intensity, major combat phase of operations. However it has found itself poorly prepared, trained and equipped for the current stage of restoring security, economic and political life to Iraq. As it looks to the future, and thinks about the long war, the United States sees more and more likelihood that it will be involved in assisting countries threatened by ethnic, religious and tribal divisions, abetted by terrorism. It is building a better capability to respond to those situations. It is shifting resources and attention to this second focus from its previous attention on high-intensity conflict.

While the United States is building a greater capability for the long war, it is not neglecting its capabilities for high intensity conflict. But no longer does it believe that forces specialized for this form of warfare can handle low intensity prolonged conflict as a lesser included capability.

What countries are potential adversaries in high-intensity conflict?

The QDR, like the National Security Strategy, discusses China directly:

Of the major and emerging powers, China has the greatest potential to compete militarily with the United States and field disruptive military technologies that could over time offset traditional U.S. military advantages absent U.S. counter strategies.

It also states, “The pace and scope of China’s military buildup already puts regional military balances at risk.”

The United States is continuing to modernize its high-intensity warfare capability. The F-22 is in production, advanced anti-submarine systems are in development, and, most important, command and control networks are being fielded that will make individual sensors and weapons more effective. In addition, some American air and maritime forces have been stationed forward in the Western Pacific.

The QDR makes it clear that it considers these measures to be a hedge, or an insurance policy against a hostile China, a China that either attacks Taiwan without provocation, or else becomes a regional military aggressor.

It states clearly that the United States does not seek confrontation with China, or to contain China, but expects to cooperate with China on “common security challenges, including terrorism, proliferation, narcotics and piracy.... The United States’ goal is for China to continue as an economic partner and emerge as a responsible stakeholder and force for good in the world.”

So let me summarize the Quadrennial Defense Review.

Its primary emphasis is to improve American capability for the long war, to prevent terrorism from destabilizing weak countries and to help rebuild them from the ravages of natural disasters, and ethnic, religious and tribal strife. It seeks to accomplish this both with international partners, and, if necessary, through its own actions.

In addition, it is ensuring it has the capability to deal with a major country, including China, if it takes aggressive action against American interests or those of its allies.

I know from my study of China, and my many conversations with Chinese political and military leaders, that China itself is committed to peaceful development. China believes it is building a military capability for its defense needs commensurate with its increasing economic power, and in order to prevent Taiwan’s independence.

However suspicions remain on both sides. Chinese developments can be interpreted as the beginning of a campaign to eliminate American military power and influence in East Asia. American developments can be interpreted as the beginning of a campaign to contain China and prevent its power and influence from growing. These suspicions can reinforce one another, and become a reality, despite the actual intentions of leaders on both sides.

The challenge to the leaders, officers, officials and people of both great nations is to communicate clearly across the Pacific so that intentions are not misunderstood and so that suspicions do not become convictions that drive policies that neither side intended.

Only honest and deep communication will accomplish this purpose. It must go beyond policy speeches, slogans and propaganda to detailed discussions of facts and interpretations of facts. While both sides will of course protect secret military information, they should be very forthcoming on subjects such as capabilities and doctrine. If they do, they will understand one another’s true intentions.

I believe that the actual intentions of both sides are peaceful, and that their development of military capabilities can reinforce those peaceful intentions if they are properly explained and understood.

It is for this reason that I believe that our discussions this week are important, and can contribute to a peaceful and prosperous future for both China and the United States.

Thank you.

B. QUESTIONS AND ANSWERS

Question 1: Is the U.S. military buildup in the Pacific directed at China? If the United States considers China as an enemy, it may become a real enemy.

Answer: We must separate policy from war plans. China policy says China will use force against Taiwan. The PLA is building up and making plans (for example, buying equipment). U.S. policy is to prevent a change in Taiwan's status by military means. The United States is making changes in the Pacific to carry out that order if necessary. U.S. military officers do not want war but will carry out their orders. So will PLA officers. As the United States observed Chinese developments, it had to take certain actions to prepare. This included forward stationing in Guam. This does not mean the United States intends to go to war with China, any more than the Chinese buildup means China intends to make war on the United States.

Question 2: The 2006 QDR says the war on terrorism is a long term war and U.S. tactics are changing. It says the United States is stressing the long term and that the United States cannot defeat the enemy by only military means. What role will the United States play in the international war on terror, and how?

Answer: The United States has recently published its strategy for the war on terrorism. Military action plays a limited role in the overall effort. One role is to kill or capture terrorist leaders. This is a role primarily for special forces. Also, we may take actions against countries harboring terrorists, as we did against Afghanistan. More important actions include economic development and ideological development in the Muslim world. The United States must support Muslim leaders who believe terrorism is wrong and who tell their followers that Muslims can both follow their religion and succeed in the modern world. This is work for the State Department, the Agency for International Development and religious organizations in the United States. This must be an international effort. We must work with other countries and groups.

Question 3: I hear you, Admiral Blair, are doing research on U.S. policy on China. When will your report be completed and what are the results?

Answer: We have completed only the first draft of our report. Members of the study team are mostly from the economic and financial side. They are talking about two different Chinas. Those with security backgrounds think one way, the way you see described in the press. The other group—the business people—think investment, trade, property rights, etc. Both components come together in the White House. Blending these two perspectives into a consistent policy is the objective of our study.

Our report will present a balanced set of recommendations that address both sides, with recommendations for progress. We will argue against linking the various areas of our relationship, although politics makes it difficult to keep them apart. For example, most in our group disagree with the recent reaction in our country in which a Dubai-based company was denied permission to purchase a company that operated port reception facilities.

The report will be out in a couple of months.

Question 4: The United States is undergoing a global military deployment adjustment. Please talk about redeployment plans and expected effects on the U.S. military strategy.

Answer: Our objective in redeployment is to leave some of our Cold War locations and adjust our deployed locations to be better positioned for the missions we see in the future. We will have fewer forces in Western Europe and more at expeditionary bases in Eastern Europe. We will have fewer ground forces in Korea. Regarding Japan, ground forces will leave southern Okinawa and move to where there is less pressure on large urban populations and also position to increase transportation flexibility. We want to be able to move forces more quickly.

We used to count capability in terms of numbers of people (for example, 100,000 in Asia, etc.). In modern operations, numbers of people are less important—capabilities are important.

Redeployment of forces takes long negotiations with host nations, to include consideration of specific bases, responsibility for funding the moves, and timeliness. Our plans won't be known for several years. Our biggest unknown is what our force posture around the Persian Gulf will be. That will take time.

IV. DEFENSE PERSONNEL COSTS

A. SESSION III: OVERVIEW OF DEFENSE BUDGET AND PERSONNEL SYSTEMS

1. “China’s Armed Forces Personnel Situation” by Major General (Ret.) Lei Yuanshen

The following six issues address the written questions submitted to CIISS during mid-March 2006. For purposes of putting the information below in context, the PRC’s armed forces are composed of three components: the active and reserve units of PLA, the People’s Armed Police (PAP), and the militia (which consists of ordinary and primary units).

a. Total Personnel (*Jundui Zong Yuane*)

From the middle of the 1980s to the end of the 1990s, the PLA completed two large-scale force reductions, totaling 1.5 million people. As a result, by the end of the 1990s, the PLA had a total of 2.5 million personnel. In September 2003, the Chinese government decided to reduce the PLA by an additional 200,000 by the end of 2004. Today, the PLA has a total of 2.3 million personnel.

b. Military Personnel Structure (*Jundui Renyuan Jiegou*)

As the PLA reduced its scope and number of personnel [over the past decade], it focused on enhancing the structure, making relationships between organizations work smoothly, and raising the quality of personnel. Within these issues, one important special point is for the PLA to implement a policy to use science and technology to strengthen the military, using mechanization as the base and informationalization as the guide, with each interacting to pull each other forward. The main components of the PLA’s adjustments to its structure are: increasing the number of special technical officers and civilian cadre; increasing the number of special technical NCOs; and gradually transferring officer billets one group at a time to NCOs, such as company-level mess officer billets. Today, the PLA has about one-third officers, one-third NCOs, and one-third conscripts, with the ratio of the enlisted force growing in relation to the number of officers. The PLA has a civilian cadre of about 100,000.

c. The Militia (*Minbing*)

The militia is the armed organization drawn from the masses involved in production work. It is an important component of the armed forces. It is the support and reserve forces of the PLA. Today, China is trying to control the number of personnel in the militia and to improve their quality. Currently, the total number of primary (*jigan*) militia stands at about 10 million, with about 100 million people registered as ordinary (*putong*) militia. The number of infantry elements (*fendui*) in the primary militia is being reduced in comparison to the number of special technical elements, with special emphasis being placed on developing antiaircraft artillery, missile, ground artillery, signals, chemical defense, engineering, reconnaissance, and information special technical elements. As such, special technical elements now comprise 41% of the primary militia.

d. Reserve Units (*Yubeiyi Budui*)

China's reserve units were created in 1983; they are an important component of the PLA and serve as the reserve force of China's national defense. Within the armed forces, the reserves are a component of the PLA's organizational structure. According to the unified organizational structure, the reserves come under the leadership of the provincial military district or garrisons during peacetime. After they are mobilized during wartime, they come under the command of active duty units or they can carry out independent combat missions. During wartime, the reserves transition to active duty status. The reserve forces serve as a backbone force and foundation for active duty units. Over the past 20 years, China has gone from having only ground force reserve units to developing PLA Navy, Air Force, and Second Artillery reserve units. Today, China has more than 500,000 reserve personnel. The special technical level of the reserve forces is also being raised, so that "doctoral-degree squads" and "master's-degree platoons" are appearing, and 80% of the specialized personnel can use their skills in their civilian job and their military specialty.

e. Retired Personnel (*Tuiyi Renyuan*)

The PLA has four categories for its officers when they retire from active duty (*tuichu xianyi*): transferred to a civilian job (*zhuan ye*); demobilized (*fuyuan*); retired (*lixiu*); and retired (*tuixiu*). In 2001, the PLA implemented two types of methods to transfer officers to civilian jobs: a planned reassignment (*jihua fenpei*) and self employment (*zizhu zeye*). Specifically, officers who are division- or regiment-grade officers and battalion-grade officers who have served 18 years, including equivalent

grade civilian cadre and special technical officers who receive similar treatment, can choose to be either reassigned to a civilian job or self employment. Battalion-grade and below officers who have not completed 18 years of service have only the option of a planned reassignment to a civilian job. For officers who are transferred under the planned reassignment mode, the government (i.e., not the PLA) provides some training and is the responsible for arranging a job for them. For officers who are eligible for and choose the self employment option, the government helps them obtain employment and gives them monthly retirement money for the rest of their lives, and they are exempt from personal taxes. Basic- and intermediate-grade NCOs, which includes the first four service periods, either receive a planned reassignment or are demobilized and returned to their home of origin, where the local government receives them and helps place them in a job. Over the past decade or so, the PLA has had more than 700,000 personnel, which equates to 50,000 to 60,000 per year, leave active duty service.

f. The People's Armed Police Units (*Wujing Budui*)

The People's Armed Police (PAP) was established in 1982. The PAP belongs within the organizational structure of the State Council and is under the dual leadership of the State Council and the Communist Party's Central Military Commission (CMC). The PAP has eight types of troops. Of the eight, the PAP Headquarters leads and manages five types—internal security, gold mine, forests, hydroelectric, and transportation—which have a combined total of more than 600,000 troops. The Ministry of Public Security leads and manages the remaining three types—border guards, fire fighters, and security guards—which have a total of more than 200,000 people. In each administrative region, the PAP's troops are divided into provincial-level PAP divisions (*zongdui*), the local level has PAP regiments (*zhidui*), and the county level has battalions (*zhongdui*). Internal security units are organized into provincial-level divisions and mobile divisions.

2. “Overview of the Budgeting, Personnel and Compensation Systems in the United States Department of Defense” by Stanley A. Horowitz

Our purpose is to discuss personnel and particularly expenditures related to personnel. My goal here is to start that discussion, but first to put it in the context of the overall process for allocating defense resources.

I want to start with that for two reasons—it provides the context for decisions about personnel and also because we are very interested in finding out more about the Chinese resource allocation process for defense to improve mutual understanding.

So, after a brief overview of the defense budget process, where personnel and other resource allocation decisions are made, I'll discuss the many different kinds of personnel the resource allocation system has to manage, the numbers of personnel of various kinds, and finally elements of the compensation system—the mechanism by which personnel are managed.

Figure 2 shows how the Defense Department's resource allocation system has to fit into the overall U.S. Government resource management process. The President's Office of Management and Budget (OMB) gives the Defense Department overall fiscal guidance. The Defense Department allocates the money with the approval of OMB, Congress modifies and approves this allocation and the President signs it into law.

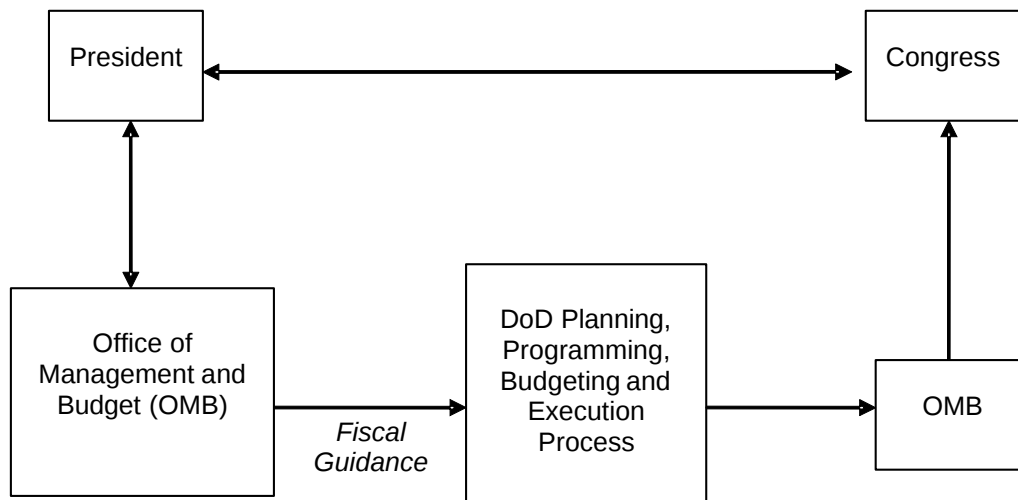


Figure 2. Defense Department in the U.S. Government Budget Process

Figure 3 shows the people and organizations that play the biggest roles in making DOD resource allocation decisions. The two biggest players are the military Services and various organizations in the Office of the Secretary of Defense.

The DOD resource allocation process has four phases—and the process is named after them.

The first, planning, identifies the capabilities the Department is striving to achieve and the resources that will be made available to particular organizations.

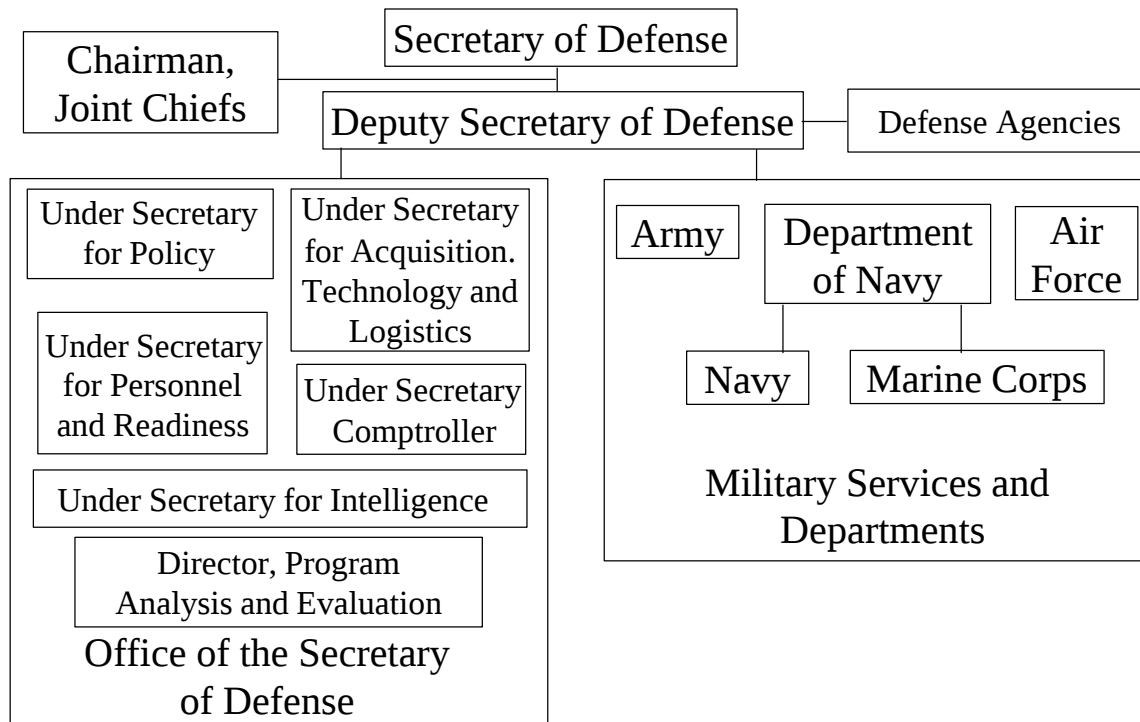


Figure 3. Organization of the Department of Defense

The next two phases, programming and budgeting run in parallel. Programming determines what DOD's course will be over the next six years and embodies the decisions in a detailed Future Year's Defense Program. Budgeting adds even greater precision to the first year of the program, which becomes next year's budget.

Execution assures that money is being spent as it is supposed to be.

The planning, programming, budgeting, and execution (PPBE) process is the primary means through which DOD resource allocation decisions are made.

The planning phase is run by the Under Secretary of Defense for Policy.

Both the Services and the Office of the Secretary of Defense (OSD) are involved in both programming and budgeting. A key point about both these phases is that the Services have the initiative in developing the details. This gives them great influence. OSD's Program Analysis and Evaluation Directorate reviews the program. The Office of the Under Secretary (Comptroller) reviews the budget. OSD raises issues in its reviews. The Secretary makes the final determination.

Then, with OMB approval, the defense budget goes to Congress in February as part of the President's budget.

The Comptroller's office monitors execution.

Congress is an active participant in the process. As Figure 4 illustrates, both Houses of Congress must approve exactly the same budget. In fact, they have to do it twice—once in bills authorizing expenditures and then again in bills providing the money for them. Typically Congress makes many changes to the proposed budget.

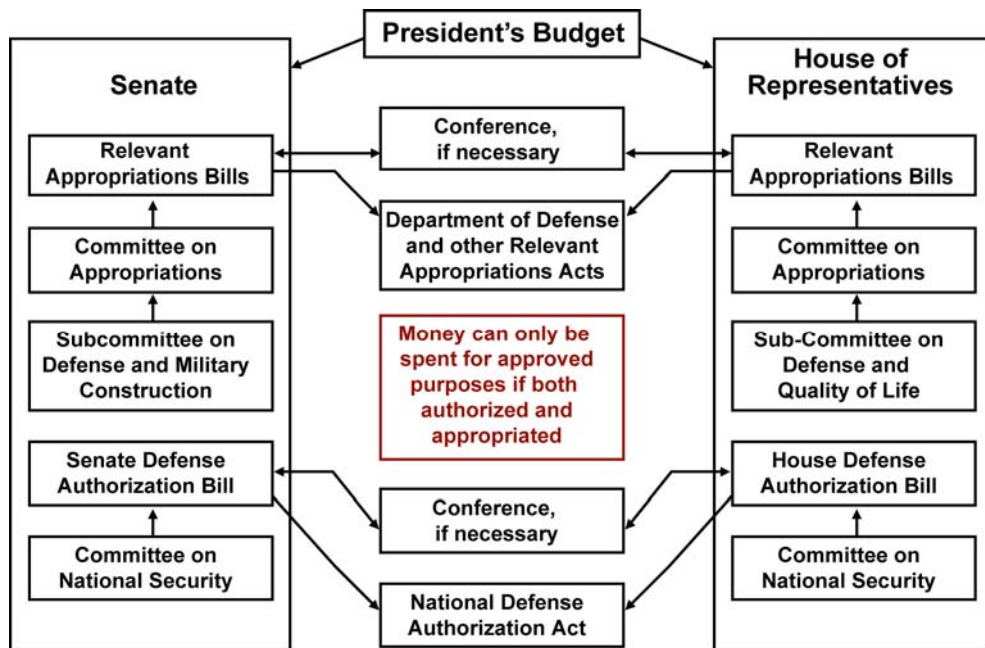


Figure 4. The Congressional Role in Defense Budgeting

What comes out is a budget with the structure shown in Figure 5. Budgeted expenditures are identified by Service, by what are called major force programs, depicted on the front of the cube above, and by the kind of resources being bought. The resource categories are called major budget titles, or appropriation categories. Military Personnel is one of the appropriation categories.

Now we will turn to discussing the various kinds of personnel the DOD has to spend money on.

Mostly we will discuss people who are currently employed, by one of the four Services and by Defense Agencies and other organizations that support all the Services. Active military personnel are employed full time while reservists, including personnel in the National Guard, are employed part time.

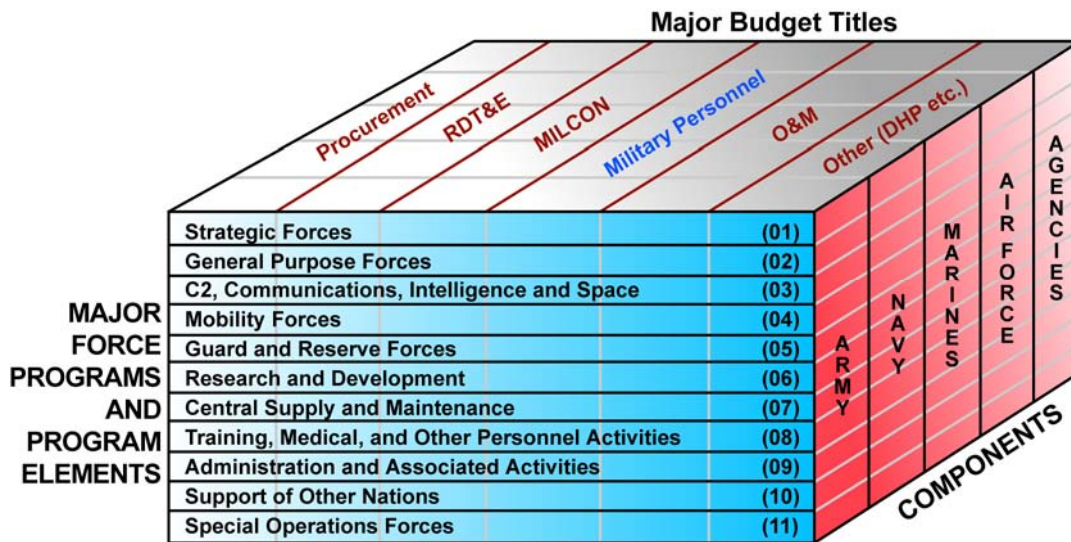


Figure 5. How Personnel Spending Fits into the Defense Budget

Within this structure there are many military occupational specialties.

In addition the Defense Department also has a large number of civilian employees.

Finally we can't forget former personnel, who are relevant because we still spend money on them. Most significant are retirees, people who have served a complete career in the military, but other veterans, who served for shorter periods are eligible for significant service-related benefits.

Table 3 shows the number of people currently working for the Department of Defense. There are 1.36 million active duty personnel and 850,000 reservists. Notice that the Army has most of the reservists; indeed, it has more reserve personnel than active personnel.

Table 3. Personnel in the U.S. Department of Defense, FY 2006

	Army		Navy		Air Force		Marine Corps		Other	Total	
	Active	Reserve	Active	Reserve	Active	Reserve	Active	Reserve		Active	Reserve
Enlisted	403,750	474,340	300,805	56,304	281,222	149,524	156,600	36,029		1,142,377	716,197
Officers	78,650	80,660	51,895	16,796	70,578	31,276	18,400	3,571		219,573	132,303
Total Military	482,400	555,000	352,700	73,100	351,800	180,800	175,000	39,600		1,361,900	848,500
Civilians	228,714		178,241		166,362		18,218		110,474	702,009	

There are 1.14 million active enlisted personnel and 220,000 active officers. The ratio of officers to enlisted personnel varies significantly by Service, with the Marines having the smallest fraction of officers and the Air Force the largest.

Over 700,000 civilians work for the Department of Defense. In addition to almost 600,000 who work for the Services, over 100,000 work for DOD-wide organizations, mostly for Defense Agencies, such as the Defense Logistics Agency.

Not shown in the table are the numbers of people who used to work for the military. There are 1.9 million retirees from military service and 22.2 million other veterans.

Figure 6 demonstrates that enlisted personnel work in a very wide range of occupations. Notice that there are more people serving in the field of electrical and mechanical repair than there are in the infantry and seamanship category.

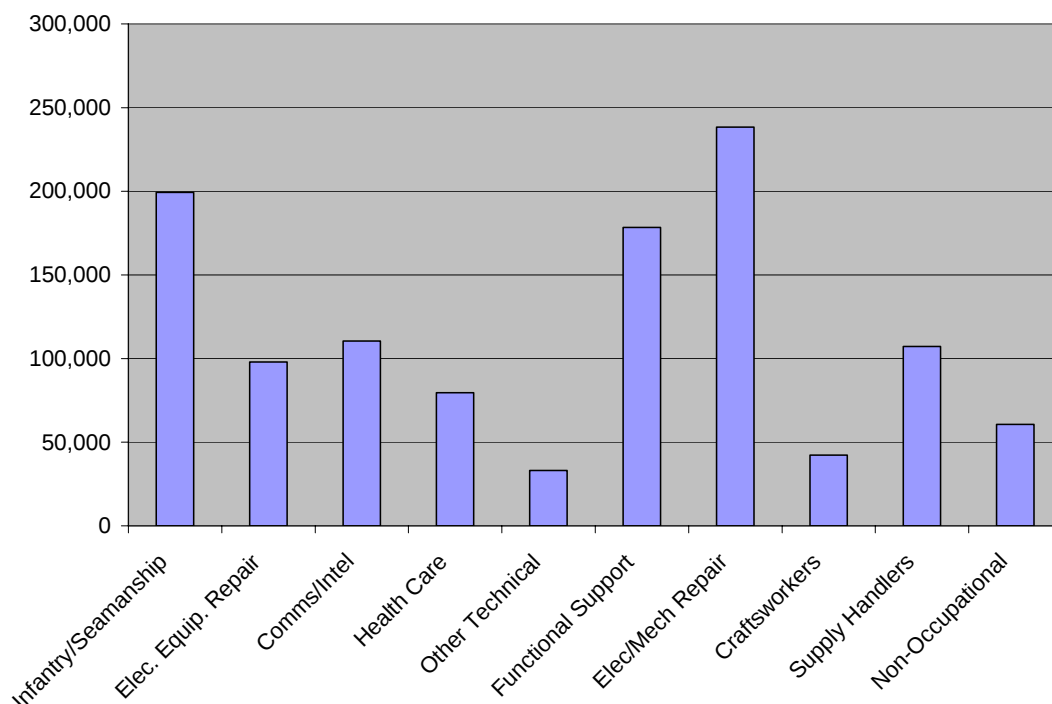


Figure 6. Occupational Distribution of Enlisted Personnel

Officers are less occupationally diverse than enlisted personnel, but tactical officers still make up less than half of the total. Figure 7 shows that the second largest group of officers works in the area of health care.

These occupational distributions are important because we have to manage the force to get and keep people with the skills we need. And we do.

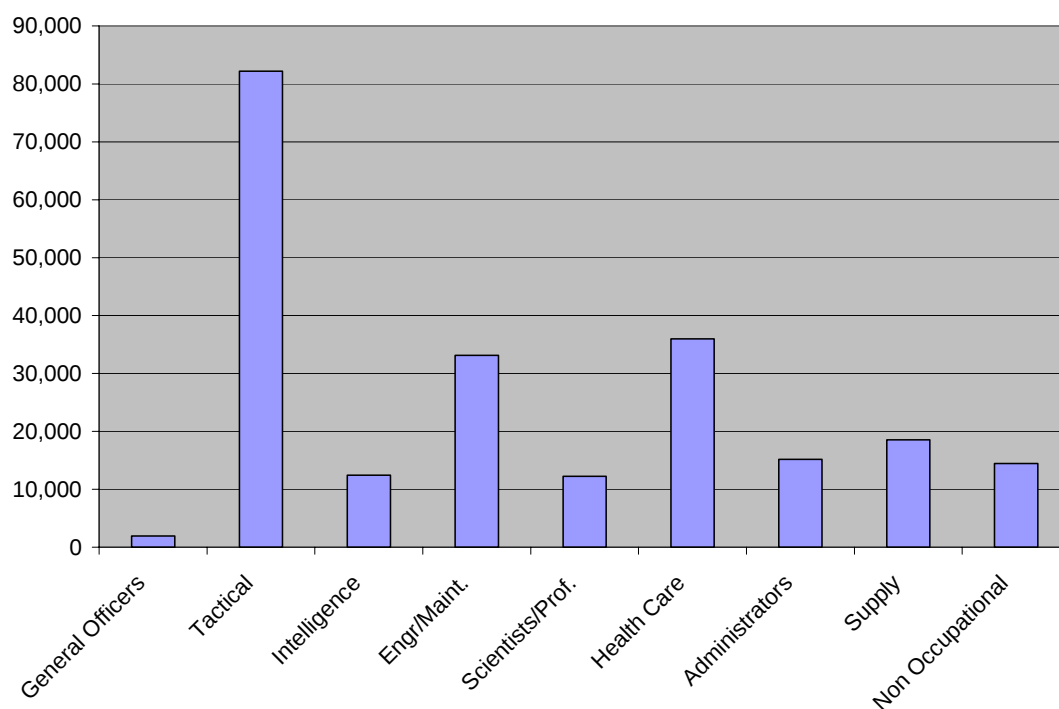


Figure 7. Occupational Distribution of Officers

For both officers and enlisted personnel the system is market driven. It has to be because all personnel are volunteers.

Basic pay varies only with rank and years of service, but total compensation must be adjusted to meet market conditions that vary by occupation and by area of the country. Some high-wage occupations get additional pay to keep too many personnel from leaving. Accession and retention bonuses are also offered as needed.

Most personnel do not live in military-provided housing, but housing allowances vary very substantially by area, depending on local housing costs.

Retirement pay is an important part of the compensation system. With some contractual constraints people can leave service when they choose, but they only get retirement pay if they stay in for at least 20 years. They receive 50% of their basic pay if they retire at that point. This rises to 75% for people who stay for 30 years.

This compensation system leads to the experience mix shown in the next two figures.

Figure 8 is the experience distribution for enlisted personnel.

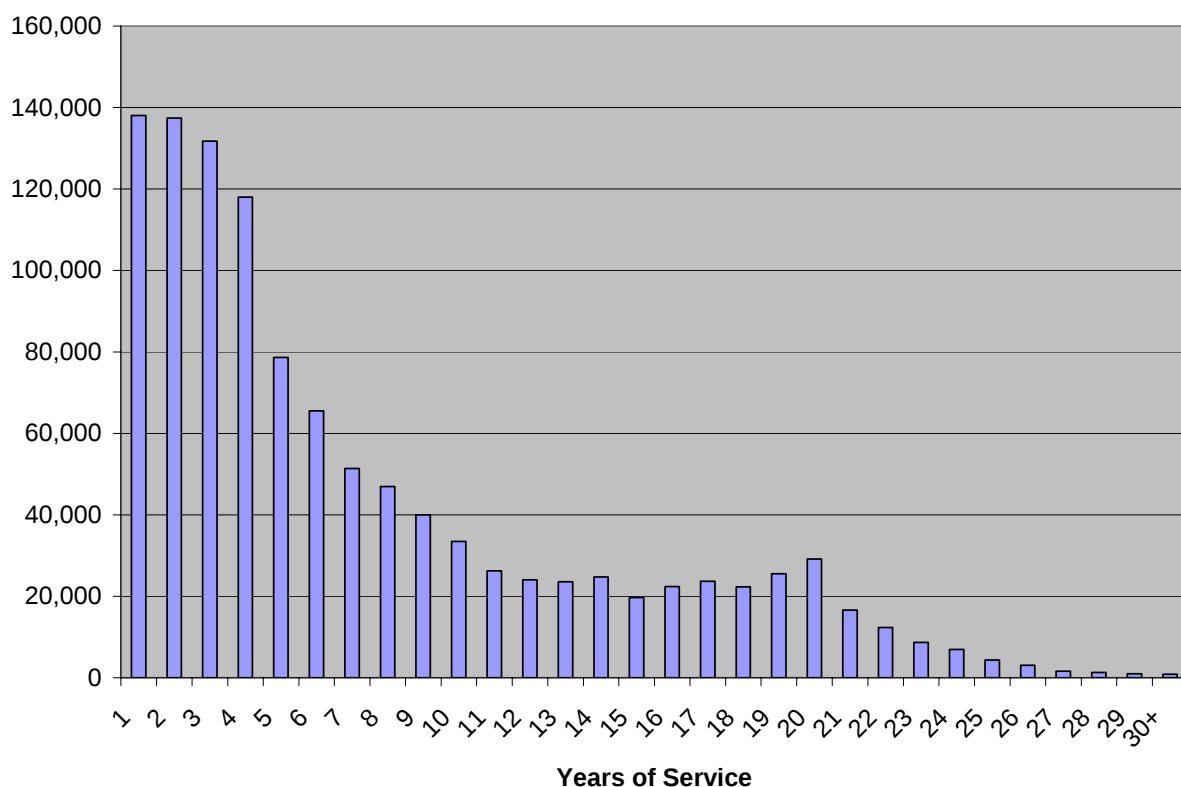


Figure 8. Experience Distribution of Enlisted Personnel

For enlisted personnel the initial enlistment period is usually four years. Many leave at that point. Retirement eligibility induces many to leave at 20 years.

Note that the figure is a snapshot of the experience mix at a point in time. There are some bumps that reflect differences in the initial size of cohorts of people that began service in different years, and differences in the earlier retention experience of cohorts. A chart like this that reflected the retention of a single cohort as it aged would have to be continuously declining with years of service.

The experience mix of officers is fairly similar. Notice in Figure 9 that once they reach 10 years of service there is little attrition. This is due to the attraction of retirement which keeps attrition low between 10 and 20 years of service.

Figure 10 shows how the experience mix of enlisted personnel has changed since 1975. The experience mix in 1975 still reflects the behavior of personnel under conscription, which ended in 1973. Naturally when many personnel are conscripted, few choose to remain in the military. That contributed to keeping the proportion of senior personnel low.

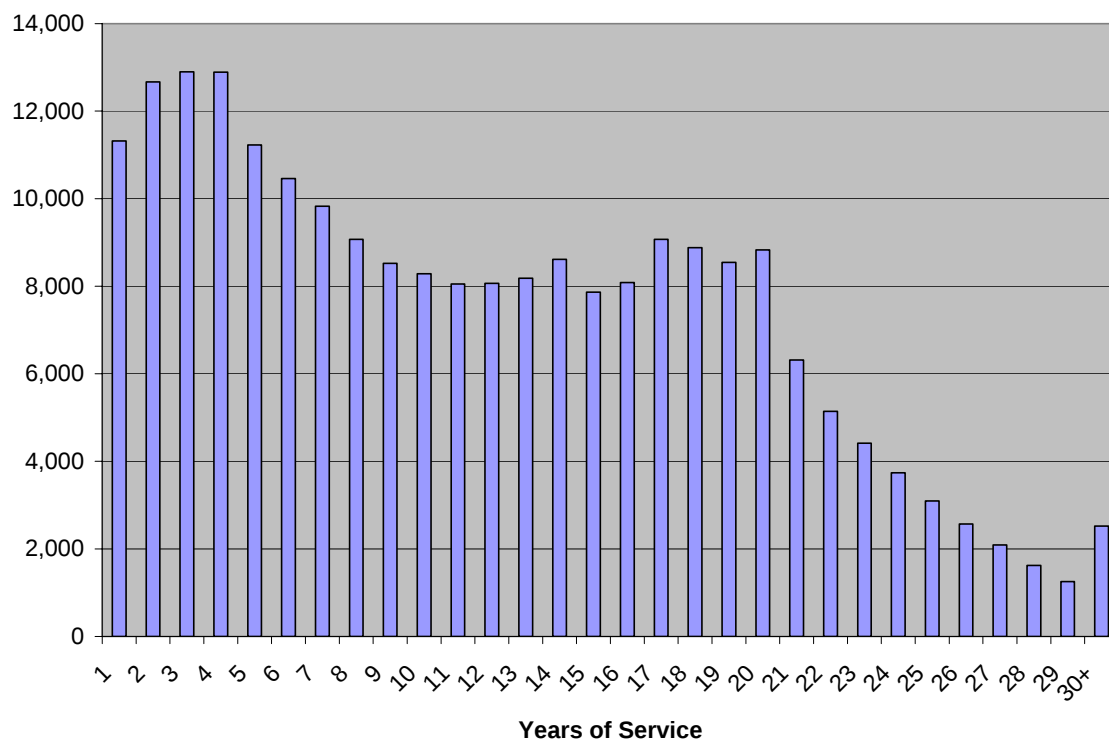


Figure 9. Experience Distribution of Officers

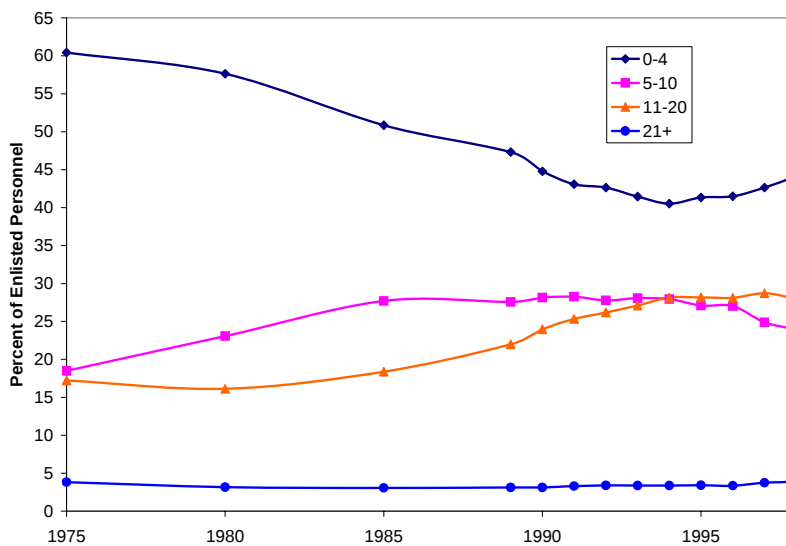


Figure 10. The Evolution of the Enlisted Experience Mix

After conscription ended the level of experience rose, which we think is a good thing, more experienced personnel are more skilled.

The point is that management of the experience mix and the mix of occupations are important goals of compensation policy. The personnel compensation system and its attendant costs must be tailored to get and keep the kind of personnel we need.

B. SESSION IV: DEFENSE PERSONNEL COSTS

1. “Personnel Costs of the United States Department of Defense” by Stanley A. Horowitz

The purpose of this talk is to quantify the amount of money the United States spends annually on personnel employed by the military. My intent is to be as inclusive as possible by including personnel-related expenditures that are not part of the Department of Defense’s military personnel appropriations category.

I am going to address four categorizations of personnel costs in order to assure that all relevant costs are addressed.

The first is the distinction between military and civilian personnel. Military personnel will be addressed first and in more detail, but both will be covered.

The second distinction is between direct and indirect costs. Direct costs have to do with money that goes right into people’s pockets; indirect costs refer to other expenditures to support military personnel.

The third distinction is between expenditures related to current military personnel and deferred expenditures related to people who used to be in the military. While deferred expenditures are not directly relevant to the cost of today’s personnel, today’s personnel are likely to be responsible for deferred expenditures in the future. A full costing of today’s personnel must take account of that fact.

Finally, we should include those expenditures of the federal government outside of the Department of Defense that are related to the compensation of military personnel.

Figure 11 is an overview of the sorts of costs considered direct and those I am calling indirect.

Direct costs are clearly linked to individuals and include all these things. I am going to show you spending broken out by this categorization of direct costs.

Let me note that retirement pay is financed by an accrual charge associated with today’s active duty personnel. The funds raised by this accrual charge are placed in an account in the Treasury Department which accumulates interest and will be used to pay the retirement benefits of today’s service members when and if they become eligible. This funding technique has been used since 1985.

Direct costs Clearly linked to individuals In Military Personnel appropriation	Indirect costs Not linked to individuals Draws on all appropriation categories We must be careful to not double-count
• Basic pay • Retired pay & benefits accrual • Basic allowance for housing • Basic allowance for subsistence • Other allowances • Special pays • Incentive pays • Permanent change of station costs • Separation pay • Social Security • Other	• Personnel support • Medical support • Personnel benefits • Child and family support • DoD schools • Family housing • Educational impact aid* • Personnel administration • Recruiting • Personnel management • Training and education • Basic & initial skill training • Educational activities

Figure 11. Direct and Indirect Costs

Indirect costs are clearly related to people, but usually one cannot tell how much is related to any particular person. Indirect costs include medical costs and some other personnel benefits as well as personnel management and recruiting. They also include the education and training of individuals. Unit-level training is not included.

The direct costs shown in the figure are the elements of DOD's military personnel appropriation. Usually they are the only costs included in discussions of military personnel costs.

Table 4 shows all the different kinds of pay and allowances paid to members of the U.S. military. I will not go into the details of this categorization. My only point is that the system is quite complex. Some say that this complexity is excessive. Others say it facilitates the tailoring of compensation to market conditions.

Table 5 defines the basic pay of uniformed personnel. It covers enlisted personnel and officers, including warrant officer, who are highly experienced enlisted personnel in some technical fields, including Army helicopter pilots.

Basic pay varies with rank (also called pay grade) and the length of time served. It does not vary with occupation, geographic location, or the degree of danger faced. It is the only part of compensation relevant to the calculation of retirement benefits.

Table 4. Kinds of Pay and Allowances

Enlisted	Officers
Basic Pay	Basic Pay
Hardship Duty Pay	Saved Pay
Overseas Extension Pay	Saved Pay Health Professional
Enlistment Bonus	Variable Special Pay
Selective Reenlistment Bonus	Board Certified Pay
Career Sea Pay	Additional Special Pay
Career Sea Premium Pay	Incentive Special Pay
Hostile Fire/Imminent Danger Pay	Multi Specialty/Nurse Bonus
Diving Duty Pay	Aviation Career Incentive Pay
Hazardous Duty Incentive Pay	Aviation Continuation Pay
Basic Allowance For Subsistence	Misc Officer Pay
Basic Allowance For Housing	Career Sea Pay
Family Separation Housing	Career Sea Premium Pay
Family Separation Allowance	Hostile Fire/Imminent Danger Pay
Overseas Housing Allowance	Diving Duty Pay
Uniform/Equipment Allowance	Hazardous Duty Incentive Pay
Accrued Leave Paid	Basic Allowance For Subsistence
Conus Cola	Basic Allowance For Housing
Overseas Cola	Family Separation Housing
Foreign Language Proficiency Pay	Family Separation Allowance
	Overseas Housing Allowance
	Uniform/Equipment Allowance
	Accrued Leave Paid
	Overseas Cola
	Conus Cola
	Foreign Language Proficiency Pay

Table 5 shows basic pay in dollars per month. The cost and compensation levels in this paper are in 2005 dollars.

The Basic Allowance for Housing (BAH) is one of the largest elements of direct personnel costs. BAH varies by pay grade and geographic area as well as dependency status. Table 6 shows BAH levels for various locations in the states of North Dakota and New York.

Notice that there is substantial variation even within a state, since housing costs can be very different. The BAH in Rome, NY is often less than half that in New York City. Note that for junior enlisted personnel (up to pay grade E-4) the BAH in New York City is greater than their basic pay.

The basic allowance for housing is not taxable.

Table 5. Basic Pay

BASIC PAY—EFFECTIVE JANUARY 1, 2005 ^{1/}														
Pay Grade	Cumulative Years of Service													
	2 or less	Over 2	Over 3	Over 4	Over 5	Over 6	Over 7	Over 8	Over 9	Over 10	Over 11	Over 12	Over 13	Over 14
O-10 ^{2/}	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
O-9	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
O-8	8,022.30	8,285.10	8,459.40	8,508.30	8,725.50	9,089.40	9,173.70	9,519.00	9,618.00	9,915.30	10,345.50	10,742.40	11,007.60	11,007.60
O-7	6,060.00	6,975.00	7,119.00	7,233.00	7,439.10	7,642.50	7,876.30	8,113.50	8,349.00	8,689.40	9,114.60	9,714.60	9,714.60	9,763.60
O-6	4,940.70	5,427.90	5,784.00	5,784.00	5,805.90	6,054.90	6,087.90	6,087.90	6,433.80	7,045.50	7,404.60	7,763.40	7,967.70	8,575.50
O-5	4,118.70	4,639.80	4,961.10	5,021.40	5,221.50	5,341.80	5,605.50	5,799.00	6,048.60	6,431.10	6,613.20	6,793.20	6,997.50	6,997.50
O-4	3,553.80	4,113.90	4,388.40	4,449.60	4,704.30	4,977.60	5,317.50	5,682.70	5,768.60	5,872.20	5,933.70	5,933.70	5,933.70	5,933.70
O-3	3,124.50	3,542.10	3,823.20	4,168.20	4,387.70	4,588.70	4,726.80	4,962.00	5,093.20	5,093.20	5,093.20	5,093.20	5,093.20	5,093.20
O-2	2,699.40	3,074.70	3,541.20	3,660.60	3,738.20	3,738.20	3,738.20	3,738.20	3,738.20	3,738.20	3,738.20	3,738.20	3,738.20	3,738.20
O-1	2,343.60	2,439.00	2,848.10	2,848.10	2,848.10	2,848.10	2,848.10	2,848.10	2,848.10	2,848.10	2,848.10	2,848.10	2,848.10	2,848.10
O-3E ^{3/}	0.00	0.00	0.00	4,168.20	4,387.70	4,588.70	4,726.80	4,962.00	5,158.50	5,271.00	5,424.60	5,424.60	5,424.60	5,424.60
O-2E ^{3/}	0.00	0.00	0.00	3,660.60	3,738.20	3,855.30	4,055.70	4,211.10	4,326.60	4,326.60	4,326.60	4,326.60	4,326.60	4,326.60
O-1E ^{3/}	0.00	0.00	0.00	2,948.10	3,148.80	3,264.90	3,383.70	3,600.70	3,600.90	3,600.90	3,600.90	3,600.90	3,600.90	3,600.90
W-5	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,648.20	5,738.40	5,929.20
W-4	3,228.60	3,473.40	3,573.30	3,671.40	3,840.30	4,007.10	4,176.30	4,341.00	4,511.70	4,779.00	4,950.00	5,117.40	5,290.80	5,461.80
W-3	2,948.40	3,071.70	3,197.40	3,238.60	3,371.10	3,522.30	3,721.60	3,918.60	4,128.30	4,265.50	4,442.10	4,609.30	4,878.90	4,730.10
W-2	2,593.50	2,741.70	2,871.30	2,965.50	3,046.20	3,268.20	3,438.00	3,564.00	3,687.00	3,771.30	3,842.40	3,977.40	4,111.50	4,247.40
W-1	2,290.20	2,477.70	2,603.10	2,684.40	2,900.40	3,030.90	3,146.40	3,275.40	3,360.90	3,438.30	3,504.30	3,659.70	3,659.70	3,659.70
E-9 ^{4/}	0.00	0.00	0.00	0.00	0.00	0.00	3,901.20	3,989.70	4,101.00	4,232.40	4,384.10	4,575.00	4,755.00	4,943.70
E-8	0.00	0.00	0.00	0.00	0.00	3,193.60	3,394.80	3,422.10	3,527.10	3,640.50	3,845.40	3,949.20	4,125.90	4,224.00
E-7	2,220.00	2,423.10	2,516.80	2,638.80	2,734.60	2,899.50	2,992.20	3,084.60	3,249.60	3,332.40	3,410.70	3,458.70	3,620.40	3,725.10
E-6	1,920.30	2,112.80	2,206.90	2,296.50	2,391.00	2,604.30	2,667.10	2,779.20	2,899.60	2,899.60	2,908.20	2,908.20	2,908.20	2,908.20
E-5	1,759.50	1,877.10	1,967.70	2,060.70	2,205.30	2,329.80	2,421.60	2,450.70	2,450.70	2,450.70	2,450.70	2,450.70	2,450.70	2,450.70
E-4	1,612.80	1,695.60	1,787.10	1,877.70	1,957.80	NOTES: 1. While serving as JCS/Vice JCS, ONO, CMC, Army/Air Force CS, commander of a unified or specified combatant command, basic pay is \$16,144.40 (See note 2). 2. Basic pay for an O-7 to O-10 is limited by Level III of the Executive Schedule which is \$12,483.20. Basic pay for O-4 and below is limited by Level V of the Executive Schedule which is \$10,860.60. 3. Applicable to O-1 to O-3 with at least 4 years & 1 day of active duty or more than 1440 points as a warrant and/or enlisted member. See DODM for more detailed explanation on who is eligible for this special basic pay rate. 4. For the MCPO of the Navy, CMSgt of the AF, Sergeant Major of the Army or Marine Corps, basic pay is \$8,504.20. Combat Zone Tax Exclusion for O-1 and above is based on this basic pay rate plus HFP/DP which is \$226.05.								
E-3	1,456.20	1,547.70	1,641.00	1,641.00	1,641.00									
E-2	1,384.50	1,384.50	1,384.50	1,384.50	1,384.50									
E-1 4 mos +	1,235.10	1,235.10	1,235.10	1,235.10	1,235.10									
E-1 4 mos	1,142.70													

Table 6. Basic Allowance for Housing in Nevada and New York Locations
(Rates for Personnel with Dependents)

MHA	E01	E02	E03	E04	E05	E06	E07	E08	E09	W01	W02	W03	W04	W05	O01E	O02E	O03E	O04	O05	O06	O07
North Dakota																					
ND186	BISMARCK, ND																				
	711	711	711	711	796	820	826	833	861	820	829	837	870	908	827	836	876	801	820	837	924
ND189	FARGO, ND																				
	701	701	701	701	807	1070	1122	1179	1262	1071	1145	1214	1267	1329	1133	1204	1277	837	1064	1211	1366
ND190	GRAND FORKS, ND																				
	740	740	740	740	862	933	1013	1102	1196	934	1060	1157	1211	1272	1031	1141	1220	870	931	1153	1299
ND191	MINOT AFB, ND																				
	629	629	629	629	696	786	820	856	905	769	835	878	915	958	827	872	922	708	766	876	976
New York																					
NY215	BALLSTON SPA/ALBANY, NY																				
	1053	1053	1053	1053	1144	1436	1490	1646	1616	1437	1514	1556	1626	1674	1801	1574	1633	1177	1429	1582	1694
NY216	BUFFALO, NY																				
	877	877	877	877	971	1206	1246	1299	1365	1207	1263	1316	1383	1461	1254	1306	1395	998	1201	1314	1494
NY217	WEST POINT, NY																				
	1401	1401	1401	1401	1537	1926	2015	2113	2236	1927	2056	2174	2256	2356	2034	2156	2273	1581	1917	2170	2397
NY218	LONG ISLAND, NY																				
	1949	1949	1949	1949	2125	2555	2592	2622	2690	2565	2606	2641	2709	2787	2698	2636	2721	2175	2555	2640	2821
NY219	NEW YORK CITY, NY																				
	1990	1990	1990	1990	2036	2075	2093	2113	2181	2075	2101	2125	2203	2293	2097	2121	2217	2040	2074	2124	2331
NY221	ROCHESTER, NY																				
	973	973	973	973	1098	1121	1148	1178	1258	1121	1160	1196	1282	1380	1164	1191	1297	1101	1120	1196	1422
NY222	ROME/GRIFFISS AFB, NY																				
	745	745	745	745	834	1008	1071	1141	1206	1009	1100	1184	1215	1251	1085	1171	1220	854	1004	1161	1266
NY223	SENECA ARMY DEP/SYRACUSE, NY																				
	829	829	829	829	899	916	1004	1100	1198	917	1043	1160	1212	1272	1023	1142	1221	901	916	1166	1296

Table 7 shows some additional small allowances. Some think that pay is pretty much the same for everyone who has a given rank, experience level, location of assignment, and dependency status, but it is not. It can vary substantially with occupation.

Table 7. Separation, Clothing, and Subsistence Allowances

Family Separation Allowance								
All Grades: \$250								
Standard Initial Clothing Allowances (Enlisted Members Only)								
	Army		Navy (E-1 to E-6)		Air Force		Marine Corps	
	Male	Female	Male	Female	Male	Female	Male	Female
	1,227.44	1,484.44	1,161.46	1,416.19	1,252.09	1,463.58	1,191.50	1,505.23
Cash Clothing Replacement Allowances (Enlisted Members Only)								
Type	Army		Navy		Air Force		Marine Corps	
	Male	Female	Male	Female	Male	Female	Male	Female
Basic	327.60	386.20	291.60	295.20	298.60	331.20	266.40	296.60
Standard	468.00	560.80	414.00	421.20	428.40	471.60	378.00	424.60
Special	0	0	597.80	628.40	0	0	0	0

Basic Allowance for Subsistence	
Officers:	175.23
Enlisted:	267.18

Table 8 provides examples of pays related to career field and conditions of service.

Aviators can get as much as an extra \$840 per month. Submarine officers can get almost as much.

The table also shows pays related to particularly hazardous jobs.

Table 9 presents information on the special pays available to health professional officers. These are quite substantial and include re-enlistment bonuses for agreeing to extend their stay in the military. Incentive pay for medical officers depends on their specialty. In addition to the variable special pay that all medical officers get, some specialists who are very highly paid in the civilian sector get much more. For example, military officer anesthesiologists get an additional \$36,000 per year.

Table 8. Special and Incentive Pays

Air Force Incentive Pay																	
Aviation Career Incentive Pay																	
Years of Aviation Service																	
2 or less	Over 2	Over 3	Over 4	Over 5	Over 6	Over 14	Over 22	Over 23	Over 24	Over 25							
125.00	156.00	188.00	206.00		650.00	840.00	585.00	495.00	385.00	250.00							
Hazardous Duty Incentive Pay (Crew Member- Non-AWAC)																	
Pay Grade	Amount	Pay Grade	Amount	Pay Grade	Amount	Pay Grade	Amount	Pay Grade	Amount	Pay Grade	Amount						
O-10	150.00	O-5	250.00	W-5	250.00	E-9	240.00	E-4	165.00								
O-9	150.00	O-4	225.00	W-4	250.00	E-8	240.00	E-3	150.00								
O-8	150.00	O-3	175.00	W-3	175.00	E-7	240.00	E-2	150.00								
O-7	150.00	O-2	150.00	W-2	150.00	E-6	215.00	E-1	150.00								
O-6	250.00	O-1	150.00	W-1	150.00	E-5	190.00										
Hazardous Duty Incentive Pay (Non-Crew Member)						Imminent Danger Pay/Hostile Fire Pay											
ALL GRADES – 150.00						ALL GRADES – 225.00											
Diving Pay						HDIP (Parachute, Flight Deck, Demolition, & Others)											
Officers – 240.00 (Max)			Enlisted – 340.00 (Max)			All Grades – 150.00 (Member qualified for HALO pay 225.00).											
COMBAT ZONE TAX EXCLUSION																	
Basic pay for the MCPO of the Navy, CM1gt of the AF, Sergeant Major of the Army or Marine Corps, basic pay is \$4,644.25. Combat Zone Tax Exclusion for O-1 and above is based on this basic pay rate plus HPIP (\$225). For other pays or specific requirements for the pays cited in this table, go to the web at: http://www.dtic.mil/comproller/mr/07a/index.html																	
Submarine Duty Incentive Pay (Effective October 1, 2004)																	
Cumulative Years of Service																	
Pay Grade	2 or less	Over 2	Over 3	Over 4	Over 6	Over 8	Over 10	Over 14	Over 16	Over 18	Pay Grade	2 or less	Over 2	Over 3	Over 4	Over 6	Over 8
O-6	\$95.00									\$36.00	E-9	\$25.00					
O-5	\$95.00							\$90.00	\$35.00		E-8	\$15.00					
O-4	\$95.00			\$26.00	\$96.00	\$70.00		\$90.00			E-7	\$40.00					
O-3	\$95.00			\$10.00	\$65.00	\$70.00					E-6	\$55.00	\$70.00	\$75.00	\$300.00	\$25.00	\$75.00
O-2	\$95.00						\$26.00				E-5	\$140.00	\$155.00		\$250.00	\$275.00	
O-1	\$230.00						\$26.00				E-4	\$60.00	\$85.00	\$100.00	\$245.00		
W-5	\$285.00	\$375.00	\$425.00								E-3	\$60.00	\$80.00	\$95.00		\$90.00	
W-4	\$285.00	\$375.00	\$425.00								E-2	\$75.00	\$90.00				
W-3	\$305.00							\$425.00			E-1	\$75.00					
W-2	\$230.00							\$425.00									
W-1	\$285.00	\$375.00	\$425.00								Submarine Duty Incentive Pay for O-7 through O-10 is \$350.00						

Table 9. Special Pays for Health Professional Officers

Variable Special Pay (Medical Officers)									
Pay Grade	Under 3	3 But Less Than 6	6 But Less Than 8	8 But Less Than 10	10 But Less Than 12	12 But Less Than 14	14 But Less Than 18	18 But Less Than 22	22 and Over
Intern	100.00								
Thru O-6 (not an intern)		416.67	1,000.00	958.33	916.67	833.33	750.00	666.67	583.33
Above O-6	583.33	For other pay or specific requirements for the pay cited in this table, go to the web at: http://www.dtic.mil/comptroller/fmr/07a/index.html							
Variable Special Pay (VSP) (Dental Officers)									
Pay Grade	Under 3	3 But Less Than 6	6 But Less Than 8	8 But Less Than 12	12 But Less Than 14	14 But Less Than 18	18 & Over		
Intern	250.00								
Thru O-6 (not an intern)		583.33	583.33	1,000.00	833.33	750.00	666.67		
Above O-6	583.33								
Board Certified Pay Special Pay (Medical and Dental Officers)					Additional Special Pay (ASP) (Dental Officers)				
Pay Grade	Under 10	10 But Less Than 12	12 But Less Than 14	14 But Less Than 18	18 & Over	Pay Grade	Under 3	3 But Less Than 10	10 & Over
All Grades	208.33	291.67	333.33	416.67	500.00	All Grades	4,000.00	6,000.00	15,000.00
Incentive Special Pay (Medical Officers)									
Specialty	Annual Amt	Specialty	Annual Amt	Specialty	Annual Amt	Specialty	Annual Amt	Specialty	Annual Amt
Anesthesiology	\$36,000.00	Internal medicine	14,000.00	Otolaryngology	30,000.00	Subspecialty Category I	36,000.00		
Dermatology	18,000.00	Neurology	14,000.00	Pathology	16,000.00	Subspecialty Category II	28,000.00		
Emergency medicine	26,000.00	Neurosurgery	36,000.00	Pediatrics	12,000.00	Subspecialty Category III	23,000.00		
Family practice	13,000.00	OB/GYN	31,000.00	Preu/Occ/Phys Med & Aero Med	13,000.00	Subspecialty Category IV	14,000.00		
Gastroenterology	26,000.00	Ophthalmology	28,000.00	Psychiatry	15,000.00	Urology	28,000.00		
General surgery	29,000.00	Orthopedics	36,000.00	Radiology	36,000.00				
Multiyear Special Pay (Medical Officers)									
	Level 1	Level 2	Level 3	Level 3					
4 Year Agreement	14,000.00	10,000.00	8,000.00	0					
3 Year Agreement	13,000.00	9,000.00	7,000.00	0					
2 Year Agreement	12,000.00	8,000.00	6,000.00	0					

Table 10 shows all the direct costs of military personnel. Reservists who are not on active duty do not get most allowances and special pay. Here allowances and special pays have been associated with active duty personnel, slightly overstating their cost at \$68,000 per year. The average for reservists is roughly \$20,000 per year.

**Table 10. Direct Costs of Military Personnel
(Thousands of Dollars)**

Basic Pay	43,161,023
Retired Pay and Benefits Accrual	19,067,509
Basic Allowance for Housing	11,957,481
Basic Allowance for Subsistence	4,412,740
Other Allowances	2,441,108
Incentive Pays	928,595
Special Pays	2,601,811
Permanent Change of Station Costs	3,237,261
Separation Pay	1,036,188
Social Security	3,265,582
Other	589,030
Total Active Duty Personnel Costs	92,698,328
Reservists	17,287,458
Total Direct Cost	109,985,786

The total direct cost shown here of \$110 billion is usually treated as the total cost of military personnel, but it is not.

Indirect costs of current military personnel are about half as large as the direct costs. Spending associated with various kinds of indirect costs is presented in Table 10.

Only 40% of medical support costs are attributed to current personnel and their families because retirees and their families in fact get more medical support.

Educational impact aid is a small category that reflects payments to school districts with a large number of military dependents. It is paid from the budget of the Department of Education, not DOD.

Military education and training is the most expensive of these indirect costs at \$29 billion per year.

Less than a third of these costs, in the top of Table 11 (but not including educational impact aid), are forms of compensation to individuals, but all are expenditures the U.S. Government makes because of military personnel.

**Table 11. Indirect Costs of Military Personnel
(Thousands of Dollars)**

Medical Support	10,775
Schools for Dependents	1,586
Commissaries	1,148
Family Housing	4,187
Educational Impact Aid	1,228
Total Personnel Support	17,696
Personnel Administration	10,097
Military Education and Training	29,403
Total Indirect Cost	57,196

It should be noted that \$22 billion in the indirect categories is associated with the direct compensation of military personnel, mostly medical personnel, training personnel, recruiting personnel, and other personnel involved in personnel management. These military personnel costs have been included in Table 10 and should not be counted twice. Thus, indirect costs not included in the direct costs shown in Table 11 amount to \$35 billion. Direct plus indirect costs are \$145 billion.

Many costs are associated with military personnel after they leave the Services. As noted earlier, retirees and their families continue to be eligible for medical care through the Department of Defense. They also continue to be eligible to use military commissaries and an unknown quantity of commissary costs should have been moved here.

Additional costs are borne by other government departments. Most of these are paid by the Department of Veterans Affairs that has an extensive medical care establishment and also pays disability compensation to veterans suffering from injuries or diseases first incurred during military service.

The Treasury Department covers retirement payments associated with military service before 1985, when the accrual accounting system was initiated. An additional cost to the Treasury Department, and a form of direct compensation to personnel, flows from the fact that many benefits paid to military personnel in combat zones are not subject to tax.

The Department of Labor pays for employment and training assistance for veterans.

Table 12 shows the magnitude of the deferred costs discussed on the previous slide. They total \$106 billion.

Table 12. Deferred Costs of Military Personnel

Medical Costs for Retirees and Their Families*	12,044
Department of Veterans Affairs—Total Budget	70,410
Department of Labor—Veterans Employment and Training	222
Department of the Treasury—Unfunded Retirement Liabilities	23,180
Total Outside Department of Defense Budget	93,812
Total Deferred Costs*	105,856

The vast majority of these costs fall outside the DOD budget, with the largest share being the budget of the Department of Veterans Affairs. Since Veterans Affairs exists solely to provide benefits to veterans it is appropriate to treat its entire budget as related to the compensation of former military personnel.

The 700,000 civilian employees of DOD cost \$54 billion in FY 2006. This covers both their pay and other benefits, including retirement accrual costs.

Adding up all the cost elements we have discussed yields a total level of personnel-related expenditures of \$305 billion, almost triple the amount most often cited. The breakdown among cost categories is shown in Figure 12.

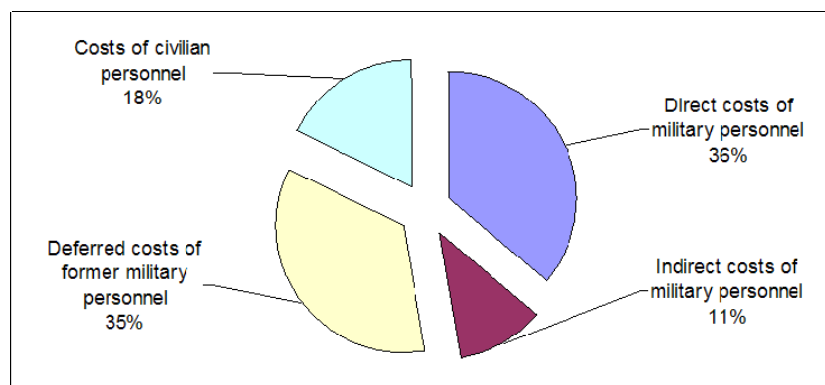


Figure 12. Breakdown of Personnel-Related Expenditures, FY 2006

The indirect costs of current personnel are about one-third the direct cost. Civilians are over a quarter of DOD employees and account for 18% of expenses.

Over one-third of the total is accounted for by expenditures related to people who are no longer employed by DOD. Most of these expenditures are outside the DOD budget, particularly in the budget of the Department of Veterans Affairs.

2. “Military Expenditure Situation” by Lei Yuanshen

a. Military Expenditures (*JunFei*)

Building on the foundation of increased revenues from our country’s economic development and public revenues, the PRC, in accordance with our National Defense Law, has pursued moderate increases in the military budget over the past few years in order to coordinate and carry out the guiding principles for national defense and economic construction and adapt to changes in national defense matters. In the 21st century, the military budget in 2001 was 144.204 billion RMB, an increase of 19.42% over the previous year. In 2002, it was 170.778 billion RMB, an increase of 18.42% over the year before. In 2003, it was 190.787 billion RMB, an increase of 11.54% over the previous year. In 2004, it was 220.001 billion RMB, an increase of 11.54% over the year before. In 2005, it was 247.5 billion RMB, an increase of 13%. In 2006, it was 280.729 billion RMB, an increase of 14.7% over the previous year.

The proportion of our military budget relative to GDP is roughly 1.5-1.7% (much less than the U.S. proportion of the military budget to its GDP, which is more than 3%). (PRC) Military expenditures represent about 7% of the overall national budget (much less than the 16% the U.S. military expenditure stands relative to its national budget).

In terms of American dollars, China’s military expenditure expenses in 2004 were \$25.6 billion. The military budget of Japan is 1.62 times that of the PRC. On a per capita basis, China spends about \$23 U.S. dollars per person on military expenditures, whereas Japan spends more than \$1300 per person—56.5 times that of China. As for military expenditures per military person, China’s average is \$13,000 U.S. dollars—while Japan averages approximately \$200,000 per soldier—15 times that of China’s. In 2006, China’s military budget is planned to be a little more than 34 billion U.S. dollars. In those terms, China’s per capita military spending is roughly 1/77 of that of the United States

b. Structure of Military Expenditure (*JunFei Goucheng*)

Our country’s military expenditure is primarily divided into three parts: Personnel costs; Operations and Maintenance costs; and Equipment costs.

1. Personnel (*renyuan shenghuo*) costs: includes costs associated with pay increase and better treatment for military personnel; establishing and improving the military personnel support system (such as living quarters, death/injury insurance programs, etc.); military retirement, transition, demobilization and personnel discharge costs (to include the reduction of 200,000 personnel over the last two years).
2. Operations and Maintenance (*Huodong weizhi*) costs: includes military training; office automation; organizational realignment/adjustment costs; facilities construction/security; and peacekeeping operations costs.
3. Equipment (*zhuangbei*) costs: includes acquisition and repair.

Currently, each of these three elements constitute approximately one-third of the military expenditure.

c. Expenditure for Reserve Forces and Militia Forces (*YuBeiYi he MinBing FeiYong*)

Our military expenditures include several billion RMB for Reserve and Militia forces. Local governments and local party organizations are also concerned about these forces, and depending on their individual financial situation, contribute different levels of (fiscal) support to these units. We do not have a clear picture of local (fiscal) contributions.

d. Expenditures for the People's Armed Police (*WuZhuang Jingcha di FeiYong*)

The expenditures for the People's Armed Police are funded through the State Council system. We do not have the specifics.

e. Military Budget Development Process (*JunFei Huabo ChengXu*)

The military budget is a part of the national budget. According to the PRC National Budget Law, the implementation and management of the military budget and the fiscal accounting of revenues and expenditures are examined and approved by the National People's Congress.

Each year, the military budget development process takes place generally as follows:

First, each (military) department, military region, and other large organizations conduct a review of their current year expenditures, examine the circumstances/

requirements for the follow year, examine and research mission requirements, and submit a funding requirement request for the next year.

The General Logistics Department (primarily the Fiscal Division) collects the budget request submissions from the various organizations. Based on their synthesis of current year obligations, subsequent year requirements, and national economic conditions, they provide a proposal for the military budget. After the Central Military Commission leadership approves the draft plan, the Fiscal Division of the GLD will consult with the State Council's Ministry of Finance regarding the proposed military budget. After consultation and agreement, and upon formal approval by the State Council and Central Military Commission, the military budget is placed within the draft national budget.

In March of each year, the National People's Congress will discuss and deliberate on the proposed national budget. The military budget is ratified as a part of the overall national budget.

There will be occasions when the military will be required for the conduct of important contingencies, like the floods in 1998. It is difficult to anticipate and formulate military budget requirements for these types of contingency missions. In these circumstances, the military will first use its authorized funds, and after the event, submit a request to the State Council for a special funding allocation. If negotiations are successful for the purchase of foreign advanced military equipment, we would certainly not overlook these types of opportunities. In these cases, we would submit a special request to the State Council.

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