

Statement of
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Congressional Budget Office

before the
Committee on the Budget
United States Senate

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I appreciate the opportunity to testify today about the costs and the effects of possible changes in the structure of U.S. military forces.¹ I will focus first on long-run effects in military forces. Then, I will discuss how quickly savings might be achieved.

The United States and the Soviet Union are currently negotiating the Strategic Arms Reduction Talks (START) treaty. NATO and the Warsaw Pact are negotiating the Conventional Forces in Europe (CFE) treaty. At the same time, many of the Warsaw Pact nations are undergoing far-reaching political changes that are moving them toward democratic governments.

These momentous changes could significantly reduce the threats to U.S. security. But there remains considerable uncertainty about future events, which is reflected in the wide range of reductions in military forces that the Congress may consider. This testimony examines several reductions in this range, including:

- o The minimum changes in forces required by the CFE and START treaties;
- o Possible Administration plans for reductions in active and reserve forces;

1. More details about this analysis are contained in a CBO paper titled "Meeting New National Security Needs: Options for U.S. Military Forces in the 1990s." The paper reflects the efforts of many people. Robert F. Hale and John D. Mayer coordinated the analysis. Other contributors include Michael B. Berger, **Bonita J. Dombey**, Richard L. Fernandez, Jonathan E. **Ladinsky**, Corey D. Luskin, Frances M. Lussier, William P. **Myers**, V. Lane Pierrot, and Amy **Plapp**.

- o Large active-duty reductions coupled with the flexibility to rebuild forces quickly; and
- o Large active and reserve troop reductions that assume a major, permanent reduction in security threats.

These alternatives would eventually reduce the annual U.S. defense budget by between \$9 billion and \$80 billion. Reductions in active-duty manpower range from about 100,000 to almost 600,000.

My testimony today will discuss these estimates of budget and manpower reductions as well as the effects of the alternatives on military capability. Although the statement focuses primarily on long-run effects, I will also discuss how quickly the Congress might be able to make changes in the defense budget.

ALTERNATIVE FORCE STRUCTURES AND MILITARY STRATEGY

It is not my purpose today to propose an alternative military strategy for the United States. Nevertheless, the alternatives listed above would imply changes in some aspects of U.S. strategy. In keeping with the reduced security threat implied by the CFE treaty and recent political changes, all of the alternatives assume larger percentage reductions in military forces

designed primarily to defend Europe. Thus, percentage reductions are larger in the budgets of the Army and the tactical Air Force than in the budgets of the Navy and Marine Corps. Moreover, all of the alternatives are designed to provide adequate numbers of active-duty military personnel to handle smaller military contingencies, such as the recent action in Panama. All of the alternatives are also intended to provide adequate active and reserve forces to permit mobilization for a future large war.

The alternatives differ in the amount of flexibility they retain to rebuild military forces quickly in the event of a major war. They differ most widely in the overall amount of reduction in military forces they assume can prudently be made, an important strategic decision that the Congress must face.

ALTERNATIVE I: MAKE MINIMUM CHANGES REQUIRED TO CARRY OUT TREATIES

The United States could decide to make only the minimum changes required by the proposed CFE treaty and to make only the minimum reductions in warheads required by the START treaty while continuing to modernize all of its strategic weapons. These minimum changes would be consistent with the view that, while the reductions in threats to U.S. national security are potentially great, they could be transitory.

For the **CFE** treaty, a minimum response could mean withdrawing from Europe and demobilizing two heavy Army divisions and two tactical fighter wings. For **START**, the United States could retire older strategic systems but continue all of its modernization programs-buying more Trident submarines, rail MX missiles, small **ICBMs**, and B-2 bombers (see Tables **A-1** and **A-2** at the end of this testimony for details).

CBO's analysis of the **CFE** and **START** treaties assumes that the NATO and U.S. proposals for the treaties are carried **out.**² The **CFE** analysis reflects the lower U.S. and Soviet personnel ceilings recommended by President Bush in his 1990 State of the Union message.

Budgetary and Manpower Effects

Eventually, the changes in forces directly related to the treaties would reduce the annual budget of the Department of Defense (DoD) by about \$9 billion (see Table 1). After the reduction, DoD would have a budget of \$282 billion in 1990 dollars, roughly 3 percent below the 1990 budget level. Most of the savings would be associated with conventional force cuts.

2. The analysis does not reflect **proposals**, recently **submitted** by NATO, which may exclude some trainer and interceptor aircraft from the **CFE** treaty. The analysis assumes that U.S. troops withdrawn from Europe to comply with the **CFE** treaty are demobilized even though the proposed treaty may not require demobilization of all the troops.

Under this alternative, active-duty personnel would eventually fall by about 107,000 below their level in 1990, a reduction of 5 percent (see Table 2). Civilian personnel would be reduced by 16,000 or 2 percent.

Dollar savings and personnel estimates for this and the other alternatives discussed in this statement are long-run estimates. All force changes

TABLE 1. LONG-RUN BUDGETARY SAVINGS (In billions of 1990 dollars)

Category	Alternatives				
	I Required Cuts Only	II Possible Administration Cuts	III Large Cuts with Cadres	IV Large Cuts More Reserves	V Large Cuts
Operating Costs					
Direct and indirect Overhead	7 a/	13 A	20 11	20 13	31 19
Subtotal b/	7	21	33	33	50
Procurement	2	5	10	9	18
RDT&E	0	0	0	0	10
Military Construction/ Family Housing	0	1	1	1	2
Total	9	26	43	43	80

SOURCE: Congressional Budget Office.

NOTES: Numbers may not add to totals because of rounding.
RDT&E = Research, Development, Test, and Evaluation.

- a. Because reductions are assumed to be made in a manner that responds to the treaties with only minimum **changes**, no overhead reductions are assumed.
- b. Operating costs include funding for some spare parts that are bought out of procurement funds.

TABLE 2. LONG-RUN MANPOWER EFFECTS
(Number of personnel in thousands)

Category	1990 End Strength	Reductions (-)/Additions (+) under Alternatives				
		I Required Cuts Only	II Possible Administration Cuts	III Large Cuts with Cadres	IV Large Cuts, More Reserves	V Large Cuts
Active-Duty Personnel						
Army	744	-77	-132	-199	-240	-272
Air Force	545	-22	-61	-101	-115	-139
Navy	591	-9	-57	-82	-99	-127
Marine Corps	<u>197</u>	<u>0</u>	<u>0</u>	<u>-20</u>	<u>-36</u>	<u>-56</u>
Total	2,076	-107	-251	-401	-491	-594
Selected Reserves						
Army ^{a/}	756	0	-130	0	+75	-149
Air Force ^{a/}	201	0	0	0	+25	-19
Navy	153	0	0	0	+11	0
Marine Corps	<u>44</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>+14</u>	<u>0</u>
Total	1,155	0	-130	0	+125	-169
DoD Civilian Personnel						
Army	334	-15	-79	-103	-89	-132
Air Force	249	-1	-8	-15	-6	-44
Navy	337	0	-18	-29	-33	-49
Marine Corps	<u>b/</u>	<u>0</u>	<u>0</u>	<u>-2</u>	<u>-4</u>	<u>-7</u>
Total	1,018 ^{c/}	-16	-105	-149	-132	-231

SOURCE: Congressional Budget Office.

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

- a. Includes changes to both the Reserves and National Guard components.
- b. Included in Navy numbers.
- c. Includes civilians in the defense agencies.

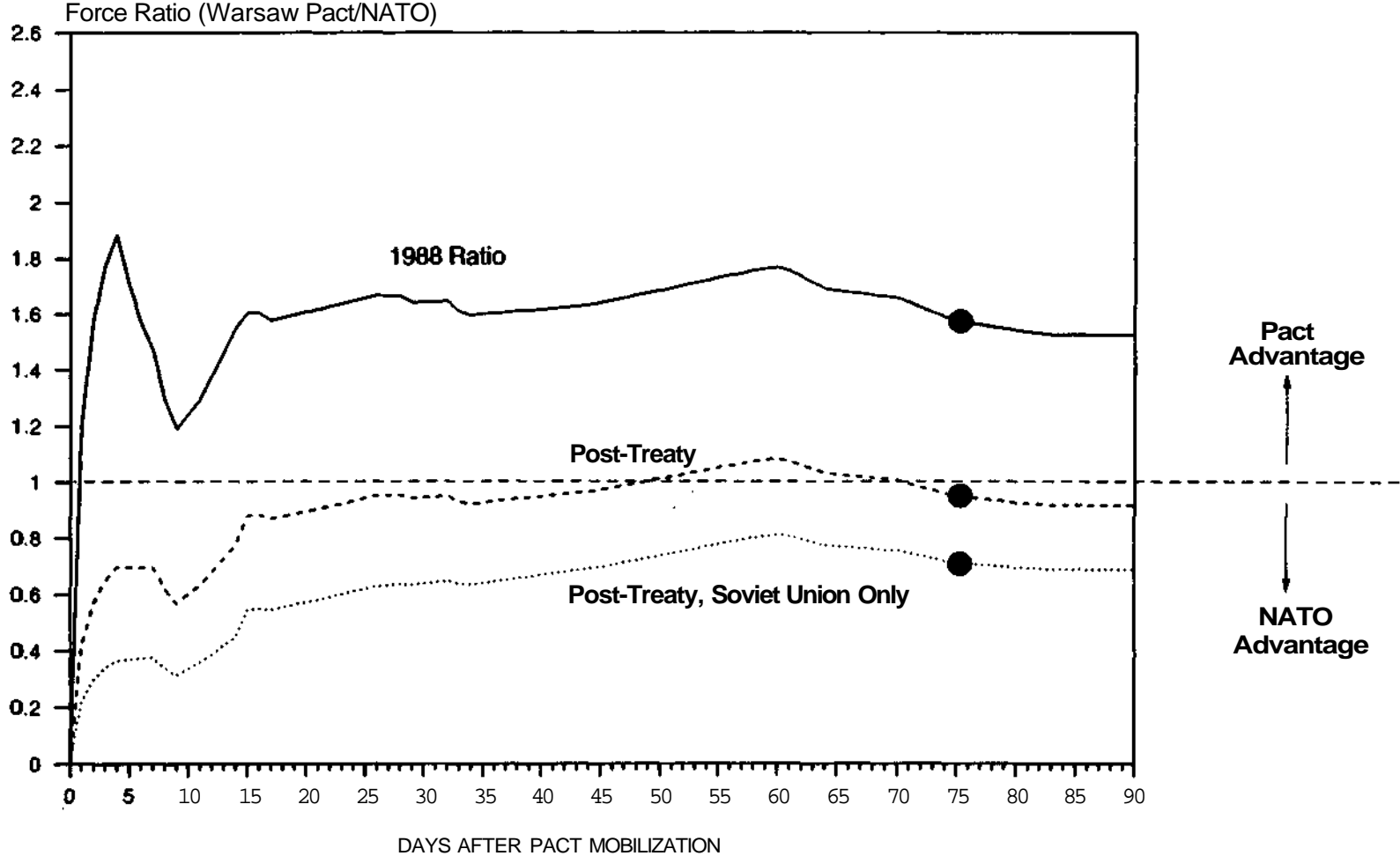
envisioned under the alternatives are assumed to have been made, and procurement budgets are assumed to have been adjusted to accommodate the smaller forces. Long-run savings are expressed in 1990 dollars of budget authority and represent savings relative to the 1990 level of the defense budget. Estimated savings reflect reductions in both operating and procurement costs. But the estimates do not reflect the added costs of verifying the proposed treaties, which cannot yet be determined with confidence.

Effects on Military Capability

How would this alternative affect military capability? The response to the START treaty envisioned under this alternative would maintain the rough parity in numbers of strategic warheads that exists today between the United States and the Soviet Union, but at the lower START levels. That would leave the United States with about one-quarter fewer warheads than it has today (see Table A-3). Most remaining U.S. strategic systems would be of **modern** vintage, having been deployed after 1980.

This alternative would also substantially reduce the risk that the Warsaw Pact nations could successfully invade NATO with conventional forces. Figure 1 illustrates this point. It shows the balance of Warsaw Pact and NATO ground forces in Central Europe at various periods after mobilization

FIGURE 1. EFFECT OF ARMS CONTROL ON GROUND FORCE RATIO IN CENTRAL EUROPEAN THEATER



Source: Congressional Budget Office

for war begins. Consider a period in Figure 1 about 75 days after mobilization begins, when both sides would have most of their forces in place (see the black dots in Figure 1). In 1988, before any of the unilateral force reductions now being made by the Soviet Union and other Warsaw Pact nations, the **Pact-to-NATO** balance of ground forces in Central Europe favored the Warsaw Pact by a ratio of 1.6 to 1--a figure that some viewed as unacceptable. After both sides carry out the treaty, however, the ratio would be roughly equal. If, because of political changes in Eastern Europe, NATO need only worry about an attack by Soviet forces, then this ratio of ground forces falls to 0.7 to 1, a level that would be highly favorable for a defensive alliance.

Ratios for tactical air forces under this alternative would be even more favorable to NATO (see Table A-4). Ratios for both ground and air forces are based on scoring methods that account for the quantity and quality of major weapons.

ALTERNATIVE II: IMPLEMENT POSSIBLE ADMINISTRATION PROPOSALS

The reduced military **risk**, coupled with recent political events, may permit larger force reductions than the minimum ones required to respond to the treaties. Indeed, DoD has said it will propose larger reductions. The

department has not yet submitted a long-term plan that fully reflects the treaties and political events. However, in recent testimony before the Congress, the Secretary of Defense has suggested the elements of such a plan. The Congressional Budget Office (CBO) used this testimony as the main basis for constructing a possible Administration plan.

Under this plan, DoD would eliminate five Army divisions and five tactical fighter wings. The department would also comply with the START treaty but, judging from its 1991 budget proposal, would continue modernization of all strategic forces in the aggressive manner assumed under Alternative I. The Secretary has not yet been specific about Navy cuts but has indicated they are possible. For illustration, CBO assumed the elimination of 1 aircraft carrier and a total of 50 ships (see Tables A-1 and A-2 for details).

Effects on Military Capability

Under this possible Administration plan, strategic capability would remain substantial, but the plan would forgo part of the improvement in the balance of conventional forces available to NATO if it only makes the minimum reductions required by the treaty. For example, under this possible Administration plan, the Pact-to-NATO ratio of ground forces would be slightly higher (1.0 to 1) than the ratio if NATO makes only the cuts required by the treaty (0.95 to 1). But the ratio would still be substantially better than

the 1988 ratio of 1.6 to 1. Moreover, if NATO need only worry about countering Soviet forces, then the ratio of ground forces under this alternative is a favorable 0.8 to 1.

Budgetary and Manpower Effects

Moreover, this possible Administration plan would eventually reduce the annual DoD budget by about \$26 billion, leaving the department with a budget of about \$265 billion in 1990 dollars. If carried out in even increments over five years, this budgetary reduction would result in real cuts of nearly 2 percent a year, the amount recently proposed by the Administration. Almost all the savings (\$23 billion out of \$26 billion) would be achieved through cuts in conventional forces, and percentage reductions in the budgets of the Army and the tactical Air Force--whose forces are designed primarily to help defend Europe--would be significantly larger than those in the budgets of the Navy and Marine Corps.

Under this possible Administration plan, active-duty manpower would be reduced by 251,000, about 12 percent of the 1990 level. Civilian personnel would be cut by 105,000 or 10 percent. There would also be a reduction of 130,000, or 11 percent, in the number of personnel in the selected reserves.

Roughly 30 percent of the dollar reductions represent cuts in what CBO labels "overhead," which raises an important issue for the Congress.

Overhead **costs--which** include portions of costs for activities such as headquarters, the training establishment, and the operation of military bases--are often assumed not to vary with relatively small changes in numbers of forces. They should vary with larger changes, but achieving reductions in overhead will require difficult choices beyond the decision to eliminate a military unit. For example, large reductions in overhead would certainly require closing and realigning military bases. If overhead reductions are not made, however, then cost savings associated with any particular force cut would be smaller, and more military units would have to be eliminated to achieve a specific target for savings in the defense budget.

ALTERNATIVES III and IV: MAKE LARGE ACTIVE FORCE
REDUCTION BUT RETAIN THE FLEXIBILITY TO REBUILD

In response to recent political changes, the Congress could decide to reduce military forces more substantially than what might be proposed by the Administration. For example, the United States could maintain numerical parity with the Soviet Union in numbers of strategic warheads by keeping older systems, thus buying fewer modern Trident submarines, B-2 bombers, and small **ICBMs** (see Table A-2 for details). As for conventional forces, reductions could include 7 active Army divisions, 10 active tactical fighter wings, and 58 active ships (plus some strategic submarines that bring the

total reduction of ships to 72).³ For forces of the Army and the tactical Air Force, these reductions represent cuts of about 50 percent in forces planned for use in a European war—roughly the percentage reduction that the Warsaw Pact would be required to make under the proposed CFE treaty.

While opting for a large cut in active forces, the Congress could judge that the political situation in the Soviet Union and Eastern Europe will remain uncertain for many years. Thus, the United States might seek to retain the flexibility to rebuild its military forces in less time than would be required if all the trained personnel and equipment associated with these active units is eliminated. CBO examined two alternative means of retaining flexibility to rebuild: establishing cadre divisions (Alternative III) and making greater use of selected reserves (Alternative IV).

Establish Cadre Divisions

The cadre approach would convert five Army divisions from full active-duty status to cadre status. Instead of the roughly 12,000 troops assigned to an active-duty heavy **division**, each of these cadre divisions would retain on active duty about 3,000 commissioned officers (paygrades O-2 and above) and senior noncommissioned officers (paygrades E-6 and above). The mission of these cadre personnel would be to remain ready to fight a war in Europe by

3. In some **cases**, larger active-force reductions are made under the selected reserve alternative because reserve forces would be available after mobilization (see Table **A-1**).

maintaining up-to-date war plans, performing limited training, and maintaining equipment. In the event of war, the unit would be filled out with individual ready reservists (personnel who have had active duty service but are not in the drilling reserve). Only those individual ready reserve (**IRR**) personnel who have been off active duty for fewer than 18 months would be assigned to fill out these cadre divisions.

The Federal Republic of Germany currently maintains cadre units and apparently plans to expand their use. German cadre units are quite similar in concept to those proposed here, though they differ in some of the details of their design.

Add to Selected Reserves

Alternatively, the United States could retain flexibility to rebuild its forces by increasing the number of selected reserve units. (Selected reserves are paid to drill part-time in peacetime.) The number of reserve units that could feasibly be added may be limited by recruiting problems. Nevertheless, the United States should be able to add 2 Army divisions, 5 tactical fighter wings, and 35 ships to its reserve forces.

The Similarities in Costs and Effects of Cadre and Selected Reserves

The approaches using cadre and selected reserves to maintain flexibility would be similar in many of their effects on costs and military capability. Coupled with cuts in active-duty forces, these approaches would each eventually reduce the annual defense budget by about \$43 billion. Reductions in active-duty personnel would amount to 401,000 for the cadre approach and 491,000 for the selected reserve approach. Of course, the selected reserve approach would add a substantial number of reserve personnel (about 125,000).

The two approaches would also be similar in their effects on military capability. Both would result in the same changes in strategic capability—changes that should retain rough numerical parity with the Soviet Union in total warheads but provide somewhat less modern forces than Alternatives I and II. As for conventional capability, both would result in a Pact-to-NATO balance of ground and tactical air capability that is more favorable to NATO than the 1988 balance. The degree of improvement would differ somewhat between the two approaches, however, notably in the additional tactical air capability afforded by the selected reserve approach (see Tables A-3 and A-4 for details).

Differences in the Cadre and Selected Reserve Approaches

Important differences exist, however, between these two approaches, some of which argue against the cadre concept. It might be difficult to keep up peacetime maintenance and morale in a cadre division that has no junior troops. Also, the Army might have to move toward shorter initial enlistments in order to have enough IRR personnel to man the cadre units. Finally, unlike the selected reserves, the cadre units would not have trained together in peacetime, even in small groups. This might slow the cadre's mobilization or reduce its capability after mobilization.

However, there would also be advantages to cadres. After mobilization, cadre divisions would be manned entirely with experienced personnel, including an experienced active-duty corps of commissioned officers and senior noncommissioned officers. This factor could reduce the time needed to mobilize and enhance **warfighting** capability. Moreover, cadre divisions may be the only means of maintaining some capability to rebuild as many as five Army divisions quickly. It would probably be impossible to recruit enough personnel to maintain another five divisions of selected reserves.

The potential advantages of cadre divisions, coupled with the risks inherent in what for the United States would be a new concept, suggest the need for a test. The Army might, for example, create one or two cadre

divisions and evaluate the success of the concept before attempting to create five of them.

ALTERNATIVE V: MAKE LARGE ACTIVE AND RESERVE CUTS

Responding to recent changes in world politics, the Congress could decide to begin now to make large reductions in active U.S. forces and some reductions in reserve forces. This final alternative would be consistent with a judgment that the **CFE** and **START** treaties are likely to be carried out and that the extensive political changes in the Soviet Union and Eastern Europe could not be reversed without substantial warning. The large force cuts under this alternative would also be consistent with a desire to reduce the annual defense budget by about \$80 billion.

For strategic systems, the alternative would terminate all future buys of major systems, including rail MX missiles, small **ICBMs**, B-2 bombers, and Trident submarines. Older strategic systems would be retained in sufficient numbers to remain at the **START** limits (see Table **A-2**).

Cuts in active conventional forces would include 8 Army divisions, 10 tactical fighter wings, 91 Navy ships (plus 17 strategic submarines for a total reduction of 108 ships), and 1 Marine expeditionary force (3 brigades). Reserve forces would be reduced, though by smaller amounts--the equivalent

of three Army divisions and a total of five tactical fighter wings. This **alternative** would also reduce spending for research and development.

Budgetary and Manpower Effects

In the long **run**, the changes under this alternative would cut the annual DoD budget by about \$80 **billion**, leaving DoD with a budget of about \$210 billion in 1990 dollars. Larger percentage reductions would come out of budgets for conventional forces and budgets of the Army and the tactical Air Force. Eventually, 594,000 personnel would be eliminated from active duty, leaving DoD with about 15 million active-duty **personnel--a** reduction of 29 percent below the 1990 level. Reductions in civilian personnel would total 231,000 or 23 percent. The selected reserves would also be reduced in size by 169,000 persons or 15 percent.

The savings under this and the other alternatives discussed in this statement would be altered, but not greatly, by changes in the proportion of the active-duty troops that are withdrawn from Europe. Roughly 150,000 or one-quarter of the troops demobilized under this alternative are assumed to be withdrawn from Europe (see Table A-5). The estimated savings of \$80 billion would not change much in percentage terms if the fraction of troops based in Europe is altered. For purposes of estimating savings, the key decision is the number of units and troops, not their peacetime location.

Effects on Military Capability

Under this alternative, the United States should continue to maintain rough parity with the Soviets in total warheads but would have substantially fewer modern forces than in the alternatives I discussed earlier. Thus, fewer U.S. warheads would be likely to survive a Soviet attack and be available for retaliation (see Table A-3). Nevertheless, under the most likely type of Soviet nuclear ~~attack--an~~ attack with ~~warning--the~~ United States would still have 5,800 surviving warheads. This number of warheads would be substantial and would be about the same number as would have survived in 1982, a year before the effects of the strategic buildup of the 1980s were realized. In an era of reduced tensions, this strategic capability may be adequate.

Similarly, if the Warsaw Pact makes only the reductions in its conventional forces required by the CFE treaty, then the ratio of Pact-to-NATO ground forces under this alternative could climb back to 1.4 to 1, near the 1988 level. In view of the political changes in Eastern Europe, however, NATO might only have to worry about the threat from Soviet forces. In that case, even after the large reductions assumed under this alternative, the ratio of ground forces would be 1.1 to 1, much more favorable than the 1988 ratio and one that may well be acceptable to a defensive alliance like NATO (see Table A-4).

The forces available under this option should also be adequate to meet smaller military contingencies. Since World War II, military interventions (excluding the Korean and Vietnam Wars) required many fewer active-duty military personnel than would be available under this alternative. In the largest of these operations, the recent military action in Panama, the troops attributable to the operation numbered 27,000. Under Alternative V, the United States would have 15 million people on active duty, which should be adequate to meet such needs.

The large reductions under this alternative raise more difficult questions about the ability of the United States to mobilize for a future, major war. The key issue would be warning time. If the United States has made major reductions in its military, and a security threat begins to build up again, would this country recognize that change and allow **itself** the substantial time that would be required to reestablish a large, trained military? No one can know for sure. The risk of failing to act in time must be weighed against the costs of retaining a large military in a period when it may not be needed.

TIMING OF SAVINGS

Up to this point in my testimony, I have focused on changes in military capability and savings in the long run. But how quickly could these savings be realized?

Unfortunately, I cannot give you a precise answer because the appropriate timing depends on political judgments. For example, what pace of defense reductions is correct in view of the uncertainty about future developments in the Soviet Union? Also, what pace would be fair to military employees and to defense industries and affected communities in the civilian sector?

Reductions Over Five Years

From a management perspective, the alternatives discussed in this statement--including the largest **one--could** arguably be carried out fully, or nearly so, within the next five years. The largest **reduction**, if carried out in even increments over five years, would require annual real reductions in defense budget authority of 6.4 percent a year. That would be about the same as the reductions in the five years that followed the peak of the Vietnam War (which averaged about 6 percent a year) and much less than those that followed the Korean War (which averaged about 20 percent from 1952 to 1954).

Moreover, the personnel reductions under these alternatives should be manageable, even though they are larger than those the Administration proposes or has recently carried out. The largest alternative discussed in this statement would require **reductions** in active-duty personnel of about 120,000 a year for five years. Other alternatives would require personnel reductions

averaging 20,000 to 100,000 a year. The Administration proposes a cut of 38,000 people in 1991 and cuts averaging 45,000 a year in the 1990-1991 period.

As for demobilizing military units, the largest alternative discussed in this statement would require demobilizing one and one-half Army divisions a year for five years. The Administration proposes demobilizing two divisions in 1991.

Reductions in 1991

Knowing that large reductions could be achieved over five years, however, may not meet all of this Committee's concerns. The Committee must also worry about meeting the Balanced Budget Act (**Gramm-Rudman-Hollings**) targets for 1991, which would require outlay reductions in defense and other parts of the budget. Therefore, at the Chairman's request, we have assessed the effects of a reduction in 1991 defense outlays of \$15 billion below the CBO baseline. This cut is \$12 billion larger than the reduction in outlays proposed by the Administration in its 1991 budget.

CBO can analyze the broader, longer-term policy changes that were the focus of the first part of my testimony with the tools and models that we have available. In contrast, we cannot fully assess the effects of a substantial reduction in outlays in a specific budget year, without making judgments for

which we have neither the tools nor the expertise. The amount of outlays in the budget year that can be achieved from a particular policy **change--and** therefore the amount of policy change that is needed to achieve a \$15 billion **cut--depends** on the details of program execution. How quickly, for example, could the military services discharge personnel or cut back on operating tempos in an effort to hold down outlays? Could a particular procurement or research contract be managed in a manner that holds down 1991 outlays? We are not experts in these details and so cannot fully assess the effects of the \$15 billion cut.

We can, however, illustrate the kinds of changes you might have to make to achieve such a reduction in outlays. As a starting point, for example, consider the numbers in Table 3. They indicate how many dollars of budget authority would have to be eliminated in order to achieve an outlay reduction of \$15 **billion--the** illustrative approach specified in the Chairman's letter of request. Table 3 also shows the reductions in each appropriation proposed by the Administration in its 1991 budget. To reduce outlays by \$15 billion in 1991 would require reducing budget authority by about \$35 billion below the CBO baseline, which is roughly \$26 billion more than the reduction recommended by the Administration. In accordance with the Chairman's request, this approach makes larger reductions in the investment accounts--procurement and research and **development--than** in the operating and support accounts.

The relative size of these illustrative reductions would vary according to the category of defense spending. Let me discuss the general effects of these reductions on each major category. To reduce outlays by \$15 billion, the appropriation for military personnel in 1991 would have to be reduced by slightly more than \$4 billion in budget authority below the CBO baseline.

TABLE 3. ILLUSTRATION OF REDUCTIONS IN DEFENSE BUDGET AUTHORITY IN 1991 RELATIVE TO THE CBO BASELINE
(In billions of dollars)

	Budget Authority		
	CBO Baseline	Illustrative Reductions ^a	Administration Reductions ^b
Military Personnel	81.6	-4.2	-2.6
O&M	91.0	-7.4	-0.9
Procurement	85.9	-17.5	-8.0
RDT&E	38.3	-5.2	-0.4
Military Construction	5.5	-1.4	+0.1
Family Housing	3.4	-0.2	+0.1
Other DoD	<u>-0.6</u>	<u>+1.5</u>	<u>+1.7</u>
Subtotal DoD	305.1	-34.4	-10.0
DoE	10.0	-0.4	+0.9
Other Defense	<u>.6</u>	<u>-0.0</u>	<u>+0.1</u>
Total Defense	315.8	-34.8	-8.9

SOURCE: Congressional Budget Office.

NOTE: Table is based on the request of the Chairman of the Senate Budget Committee.

a. Outlay savings under this illustrative approach would total \$15 billion.

b. Outlay savings under the Administration's plan would total \$3 billion.

The Administration's plan for pay raises and personnel reductions and the transfer of funds for **subsistence-in-kind** to the O&M appropriation would achieve \$2.6 billion of these savings. Additional reductions of 100,000 personnel would save about \$1.4 billion in budget authority if the personnel reductions were made primarily through reductions in accessions. Savings would be **less--and** these additional personnel reductions would be **larger--** if the cuts involved involuntary separations, particularly if the Congress authorizes separation pay for enlisted personnel. The need for additional personnel reductions might be offset somewhat if the military pay raise was delayed or held below what was proposed by the Administration or if there were fewer promotions or permanent change of station moves than are envisioned by the Administration in its budget proposal.

Because a dollar of reduced budget authority for procurement results in only about 15 cents of outlay savings in the budget year, the procurement appropriation would have to be cut heavily to achieve outlay savings of \$15 billion. Indeed, budget authority for procurement would have to be reduced by \$17.5 billion below the CBO baseline. The Administration's budget proposal contains about \$8 billion in savings. If the Congress accepted this proposal as a starting point, it would then have to reduce procurement by an additional \$9.5 billion. As a guide to what choices you face if you want to cut procurement, Table 4 lists the 15 procurement programs for which DOD has requested the largest amount of money in its 1991 budget proposal. The table also lists other general categories of procurement spending that could

TABLE 4. THE ADMINISTRATION'S 1991 MAJOR PROCUREMENT PROGRAMS AND OTHER PROCUREMENT FUNDING
(In billions of dollars of budget authority)

Program	Budget Request
Aircraft	
B-2 Bomber	3.8
F-16 Fighter	2.9
F/A-18	2.1
C-17 Transport	2.1
F-15E Fighter	1.8
F-14 Fighter	1.0
Ships^a	
DDG-51 Destroyer	3.6
SSN-21 Submarine	3.5
Trident Submarine	1.4
LHD-1 Landing Craft	1.0
Missiles	
MX^b	2.0
Trident	1.5
AMRAAM	1.3
Patriot	0.9
Tomahawk	0.8
Subtotal	29.8
Other Major Procurement	29.2
Other Procurement	<u>20.0</u>
Total	79.0

SOURCE: Congressional Budget Office based on Department of Defense budget documents for 1991.

NOTE: Costs include initial spares and financing adjustments for advance procurement.
Numbers may not add to totals because of rounding.

- a. Includes outfitting and post delivery costs for ships.
- b. Includes costs for rail garrison basing.

be reduced. Of course, you will need to assess the national security implications of any such reductions in procurement funds.

Cuts in budget authority in the research, development, **test**, and evaluation (RDT&E) appropriation would produce larger outlay savings in the budget year than procurement cuts. On average, a reduction of \$1 of budget authority for RDT&E reduces the outlays in the budget year by 53 cents. Table 5 lists the 15 largest RDT&E programs. A few--most notably the Strategic Defense **Initiative--are** quite large. But most are relatively small. Thus, RDT&E savings of more than \$5 **billion--which** would be required under the illustrative **approach--could** only be achieved by changing a large number of programs.

In the operation and maintenance (O&M) appropriation, a major reduction of more than \$7 billion below the CBO baseline would be required to achieve outlay savings of \$15 billion. The Administration proposes a cut of only \$0.9 billion. O&M is a diverse account that pays for a variety of items, including civilian salaries and expenses, small spare parts, fuel, minor building repairs, office supplies, and base operations. Because it is so diverse, it is hard to assess the effects of O&M cuts. Some O&M spending is related to the number of personnel on active duty. If military personnel reductions are greater than what the Administration proposes, then some additional reduction in the O&M account would seem appropriate.

It is reasonable to assume, however, that large O&M cuts would, among other things, require layoffs of civilian personnel, reductions in operating tempos of weapons systems, and postponement of repairs to DoD property that would adversely affect the readiness of the remaining military forces. In light of current world events, the Congress may judge that some reduction in

TABLE 5. THE ADMINISTRATION'S 1991 MAJOR RESEARCH PROGRAMS AND OTHER RESEARCH AND DEVELOPMENT FUNDS (In billions of dollars of budget authority)

Research Programs	Budget Request
Strategic Defense Initiative	4.5
B-2 Bomber	1.6
Advanced Tactical Fighter	1.0
Milstar Satellite Communication System	0.8
ICBM Modernization	0.8
C-17 Transport	0.5
Light Armed Scout Helicopter	0.5
Submarine Combat System	0.3
P-3 Anti-Submarine Aircraft Modernization	0.3
Joint Surveillance/Target Attack Radar System	0.3
Air Defense Initiative	0.2
Fixed Distribution System	0.2
Balanced Technology Initiative	0.2
Space Technology	0.2
Anti-Satellite Weapon	0.2
Subtotal	11.6
Other Research and Development	26.5
Total	38.1

SOURCE: RDT&E Programs (R-1), Department of Defense Budget for Fiscal Year 1991.

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

readiness is acceptable. Moreover, some of these savings may be achieved through efficiencies, thus minimizing reductions in military readiness.

I have been quite general in my discussion of the effects of reductions in outlays in order to be brief. I have also focused more on actions required to produce savings rather than their effects on national security. If you would like some specific examples of how reductions might be made in each of these appropriations, you can find them in the CBO report *Reducing the Deficit: Spending and Revenue Options*, which we released last month as part of CBO's annual report. This volume discusses the costs, as well as the security advantages and disadvantages, of 28 specific options for reducing defense spending. The report makes no attempt to propose a coordinated plan for cutting defense. Thus, it does not represent a blueprint for how to achieve a particular reduction in outlays, but the report does provide specific examples of possible reductions.

Clearly, it would be best to develop a long-range plan for altering U.S. defense forces that reflects a consensus about emerging security threats. You could then impose annual reductions in defense budget authority that are consistent with that long-term plan and with judgments about how quickly the threats to U.S. security are receding. Under this approach, outlay reductions would depend on timing and management details that are best left to managers in the Department of Defense. I understand, however, that you do not have the luxury of ignoring 1991 outlays, and I have tried to be helpful

in discussing the general problems and prospects associated with a \$15 billion reduction in outlays.

CONCLUSIONS

In my testimony, I have described alternatives that could eventually reduce the annual defense budget by between \$9 billion and \$80 billion. Reductions in military personnel would range from about 100,000 to almost 600,000. Civilian personnel would be reduced from 16,000 to more than 250,000. Under pessimistic assumptions about future threats to U.S. security, the largest of these reductions would leave the balance of conventional military forces in Europe near the level of the recent past. Under more optimistic assumptions, which are well on their way to becoming the most realistic assumptions, even the largest of these alternatives would result in a balance of forces that may well be acceptable.

The demands of deficit targets may require large outlay reductions in 1991, and I have specifically discussed the general effects of a \$15 billion reduction in 1991 outlays. However, if we could plan today where we want to be in five years, and could focus on that five-year plan rather than on annual deficit targets, then getting to any set of alternative military forces could be more efficiently managed.

APPENDIX TABLES

TABLE A-1. CHANGES IN SELECTED CONVENTIONAL FORCE STRUCTURES

Category	1990 Level	Reductions (-)/Additions (+) Under Alternatives				
		I Required Cuts Only	II Possible Administration Cuts	III Large Cuts with Cadres	IV Large Cuts, More Reserves	V Large Cuts
Army Divisions						
Active	18	-2	-3	-7	-7	-8
Reserve/cadre	10	0	-2	+5 ^a	+2 ^b	-3 ^c
Air Force Tactical Wings						
Active	24	-2	-5	-10	-10	-10
Reserve	12	0	0	0	+5	-5
Navy Ships						
Active	518	-11	-50	-72	-103	-108
Reserve	33	0	0	0	+35	0
Marine Corps Brigades						
Active	9	0	0	-1	-2	-3
Reserve	3	0	0	0	+1	0

SOURCE: Congressional Budget Office.

- a. These would be cadre divisions in peacetime.
- b. These would be reserve divisions.
- c. While the equivalent of three divisions would be **eliminated**, only two headquarters would be eliminated.

TABLE A-2. STRATEGIC FORCE LEVELS

Category	1990 Level	Alternatives				
		I Required Cuts Only	II Possible Administration Cuts	III Large Cuts with Cadres	IV Large Cuts, More Reserves	V Large Cuts
Land-Based Missiles						
SICBM	0	500	500	250	250	0
Rail MX	0	50	50	50	50	0
Silo-based MX	50	0	0	0	0	50
Minuteman III	500	0	0	295	295	500
Minuteman I I	450	0	0	0	0	0
Bombers						
B-2	0	132	132	66	66	15
B-1	97	97	97	97	97	97
B-52	186	0	0	0	0	23
Submarines						
Trident	11	23	23	20	20	17
Poseidon	23	0	0	0	0	0

SOURCE: Congressional Budget Office.

TABLE A-3. DETAILS OF EFFECTS OF ALTERNATIVES ON U.S. STRATEGIC CAPABILITY

Category	1990 Level	Reductions Under Alternatives				
		I Required Cuts Only	II Possible Administration Cuts	III Large Cuts with Cadres	IV Large Cuts, More Reserves	V Large Cuts
Total On-Line Warheads	11,800	8,900	8,900	8,600	8,600	8,600
Surviving Warheads						
Attack w/warning	8,400	7,500	7,500	6,600	6,600	5,800
Attack w/o warning	4,600	3,700	3,700	3,200	3,200	2,900
1982 Levels for Reference						
Total On-Line Warheads				8,100		
Surviving Warheads (With warning)				5,600		
Surviving Warheads (Without warning)				3,300		

SOURCE: Congressional Budget Office.

TABLE A-4. EFFECTS OF ALTERNATIVES ON SELECTED INDICATORS OF MILITARY CAPABILITY

	1990 Level a/	Alternatives				
		I Required Cuts Only	II Possible Administration Cuts	III Large Cuts with Cadres	IV Large Cuts, More Reserves	V Large Cuts
Strategic Forces						
Soviet/U.S Ratio of On-Line Warheads	0.9:1	0.9:1	0.9:1	0.9:1	0.9:1	0.9:1
U.S. Number of Surviving Warheads b/	8,400	7,500	7,500	6,600	6,600	5,800
Conventional Forces						
Ground Forces c/ WP/NATO Ratio	1.6:1	0.95:1	1.0:1	1.2:1	1.3:1	1.4:1
Soviet/NATO Ratio	1.2:1	0.7:1	0.8:1	0.9:1	1.0:1	1.1:1
Tactical Air Forces WP/NATO Ratio	1.2:1	0.7:1	0.8:1	1.0:1	0.9:1	1.1:1
Soviet/NATO Ratio	1.0:1	0.6:1	0.7:1	0.8:1	0.8:1	0.9:1
Navy Ships Total	551	540	501	479	483	443
Carriers d/	14	14	13	12	12	10

SOURCE: Congressional Budget Office.

NOTE: See forthcoming paper for discussion of methods used here (CBO paper titled Meeting New National **Security** Needs: Options for U.S. **Military** Forces in the **1990s**, February 1990).

- a. Ground force ratios based on Pact forces available in 1988, before any of the ongoing unilateral reductions.
- b. Estimates assume warning of an attack.
- c. Estimates assume enough time has elapsed so that most forces are in place.
- d. This represents deployable carriers.

TABLE A-5. ACTIVE UNITS AND ACTIVE-DUTY PERSONNEL
IN EUROPE

Category	1990 Level	Reductions Under Alternatives				
		I Required Cuts Only	II Possible Administration Cuts	III Large Cuts with Cadres	IV Large Cuts, More Reserves	V Large Cuts
Army Divisions	4 2/3	2	2	2 1/3	2 1/3	2 1/3 ^a
Air Force Wings	8	2	2	4	4	5 ^a
All Services End Strength (In thousands)	325 ^b	80	80	100	100	150

SOURCE: Congressional Budget Office.

- a. These alternatives assume sufficient changes in headquarters and noncombat personnel to reduce the total number of Army and Air Force personnel in Europe by **one-half**.
- b. This number does not reflect any effects of the legislative requirement that personnel in Europe be reduced to **312,000** by the end of 1991.