

through direct expenditures and grants or through below-market interest rates for loans and loan guarantees. Another strategy would reduce these subsidies by terminating or limiting these direct grants, expenditures, loans, and loan guarantees, and by increasing the rates for all remaining loan programs to the federal cost of borrowing.

The principal categories of this kind of subsidy are export promotion, agriculture, commerce, energy, and transportation. In export promotion, the major program is the Export-Import Bank. In agriculture, there are commodity programs for major crops and milk. Rural areas also benefit from several credit programs, such as those of the Rural Electrification Administration and Farmers Home Administration. The development of new energy technologies is subsidized through various loans and loan guarantees (through the Synthetic Fuels Corporation and other alternative fuel programs) and by direct expenditures (the Clinch River Breeder Reactor and some synthetic fuel programs). The biggest subsidies to private-sector transportation are direct-spending programs for Amtrak and maritime construction and operating programs. Small businesses also receive subsidized aid through the Small Business Administration. By eliminating direct expenditures for these programs and increasing interest rates to market levels on all loan programs, outlays could be reduced by up to \$7.1 billion in 1987.

### Revenue Strategies

As with outlays, a number of revenue options could substantially shrink the potential deficits over the 1983-1987 period. For example, if the scheduled 1983 tax cut were reduced to 5 percent, revenues could be increased by about \$24 billion in 1987. Eliminating both the scheduled 1983 cut and the indexing of tax cuts in 1985 and thereafter would augment revenues by \$37 billion in 1984 and \$102 billion in 1987. Limiting the mortgage interest tax deduction to \$5,000 and eliminating the deductibility of consumer interest payments would increase revenues by \$8.8 billion and \$9.6 billion, respectively, in 1987. The imposition of a wind-fall profits tax on decontrolled natural gas could increase revenues by as much as \$12 billion in 1983 and 1984. (These and other options, such as value-added or consumption taxes, are discussed in more detail in Chapter XII.)

### Realigning Federal, State, and Local Responsibilities

The federal government might also consider realigning federal and nonfederal responsibilities. One approach would be to withdraw

federal support for some programs while taking over complete responsibility for others. Alternatively, the federal government might accept responsibility for a variety of benefits for certain segments of the population--the elderly and the disabled, for example--while the states accepted responsibility for providing assistance to the remaining poor.

Any realignment scheme would present problems in defining appropriate federal and nonfederal responsibilities. The important issues in determining appropriate responsibilities include which level of government can most efficiently administer a program, which has most control over costs, and how the program fits into overall national priorities. One such national priority is the extent to which the federal government should close the differences in benefit levels from state to state. Assuring adequate financing for state and local government-provided services may also be a concern. Some of the advantages and disadvantages of changing the jurisdictions responsible for various programs are outlined below.

Elementary and Secondary Education. Since this area is generally assumed to be primarily the responsibility of state and local governments, some observers contend that no federal role is needed. On the other hand, although the federal contribution makes up only about 9 percent of total expenditures for elementary and secondary education, much of it is targeted to disadvantaged students--a goal the Congress felt would not be met uniformly throughout the country without federal aid. If federal assistance ceased, many local educational districts would have difficulty replacing the lost funding from other sources. Nearly 8 percent of all school districts receive more than one-fifth of their revenues from the federal government, and a few receive appreciably more than half.

Health. Responsibility for Medicaid, which the states now share with the federal government, could be assumed entirely by either the states or the federal government. Transferring responsibility to the states could be justified on the basis of their greater ability to control the cost of medical care. Prompted in part by a desire to reduce Medicaid outlays, some states have restrained increases in the cost of hospital care through the use of hospital rate-setting. Moreover, recent relaxation of the federal limits on free choice of providers gives states greater opportunity to obtain lower prices for care provided to Medicaid beneficiaries. Transferring responsibility to the states would enable them to take full advantage of such cost-saving mechanisms. Furthermore, they could tailor their programs to their particular needs. They would also have greater incentive to ensure that only

eligible persons actually received benefits. On the other hand, with no federal funding, some states might end or substantially scale down their Medicaid programs, which could widen the current differences in benefit levels among the states.

Shifting Medicaid to the federal government could be supported on grounds that health is a basic right and that access to medical care should not depend upon where one lives. Moreover, the number of persons dependent on publicly financed medical care is influenced in part by national economic conditions, over which states have far less control than the federal government. And because of the effects that economic conditions--especially unemployment--have on state revenues, states' capacities to finance these programs decline in the same periods that expenditures for benefits rise. On the other hand, controlling federal spending would become more difficult if states no longer helped fund this program.

Transportation. Financing of transportation programs such as highways and mass transit is currently shared between federal and state and local governments. A major--and at times overwhelming--advantage in greater state and local funding would be the likelihood of more cost-effective projects, since lower levels of government could pursue their own priorities without federal constraints. Under such an approach, states would also have a better ability to trade off capital costs against operating costs. At present, the federal government funds a much higher percentage of capital than operating costs.

On the other hand, there are two major reasons for the federal government to maintain a role in financing transportation programs. First, national concerns may not be given adequate priority by state or local governments. The need for an interconnecting and properly maintained nationwide road network is a good example; federal financing can help ensure regional coordination. Second, some local or regional projects (notably mass transit ones) may be so large in scale that they cannot be built without supplements to local financing.

Aid to Families with Dependent Children. Full responsibility for the now joint Aid to Families with Dependent Children (AFDC) program could be fully assumed either by the states or by the federal government. Proponents of shifting AFDC to the states maintain that the programs would be run more efficiently, because states would have greater incentive to eliminate fraud and abuse. Since the states already may reap about half of such savings, however, the increased incentives might not be substantial. Those

who believe the federal government should be solely responsible for AFDC focus on its sensitivity to general economic conditions and on the desirability of establishing national standards for cash assistance payments, which would be possible if AFDC were funded solely by the federal government.

Realignment of Benefits by Demographic Group. Another approach would be for the federal government to assume the costs of both income assistance and medical care for the elderly and disabled, and for the states to bear the costs for the remaining portion of the low-income population. Because most income security and health programs for the elderly and disabled (Social Security, Medicare, and basic Supplemental Security Income benefits) are already financed and administered by the federal government, moving the remaining programs for these recipients to the federal level would bring about a logical division of responsibility. Moreover, the budgets of some states might be severely strained by increases in the projected number of elderly poor persons over the next several decades.

One argument against this shift is that states would become responsible for programs (those that serve the AFDC population) the costs of which may be particularly affected in the short run by national economic conditions. Moreover, some states might substantially lower benefit levels, thereby increasing state-to-state variation, especially if no federal minimum standards applied.

Financing Considerations and Net Budget Impacts. Any major realignment of responsibilities would raise important issues of how to finance nonfederal activities. A major federal withdrawal from certain policy areas could be a particular problem for jurisdictions that are now most dependent on federal aid or that are least able to raise their own revenues. This problem could be minimized by accompanying any realignment with a transfer of some federal revenue source--for example, the proceeds of certain excise taxes--to needy states and localities, or by retaining some form of revenue sharing directed toward those jurisdictions deemed unable to finance minimally acceptable levels of services on their own. The net impact on the federal budget of any substantial restructuring of responsibilities would depend on the costs of services taken over completely by the federal government, the expenses left to other levels of government, and the degree to which the federal government provided additional revenues to help other governments finance their added responsibilities.

## ECONOMIC AND OTHER CONSIDERATIONS

Decisions about major budgetary and tax changes depend primarily upon national priorities and the cost effectiveness of the programs concerned. There are, however, other considerations in making budget decisions. These include the economic impacts of the changes (including their secondary effects on budget outlays), budget offsets among programs, the cumulative effects of reductions in a number of programs, and problems of timing.

### Economic Impacts

All the options discussed in this report have effects on economic growth, productivity, inflation, and unemployment. These in turn have secondary impacts on the budget. Thus, savings estimates in the report cannot simply be added up.

For example, a one-year postponement of the personal income tax rate reduction now scheduled for July 1983 would curb federal borrowing and interest rates, thereby easing the burden on credit markets and possibly improving the outlook for investment. At the same time, postponement would lower after-tax income and temporarily dampen the growth of consumer spending. Lower consumer demand would effectively retard the rate of inflation, but it might also raise the level of unemployment, at least for a while. These economic effects would, in turn, slow the growth of federal revenues and increase the growth in outlays for unemployment and other human resource programs. Thus, the secondary budget effects could offset some of the deficit-reducing impact of the tax postponement and of lower interest rates.

The economic and secondary budget impacts of an outlay reduction depend not only on the size of the change, but particularly on whether the program is a transfer, grant, or purchase expenditure. Regardless of the differential impacts, however, most budget reductions generally relieve inflationary pressures and interest rates, but they also temporarily slow economic and revenue growth and lead to unemployment. To the extent that this is so, then federal spending for programs that assist individuals is increased, thereby reducing the federal deficit by less than the amount of the initial budget saving. The net impact of any tax or spending change will, in the final analysis, also depend considerably on the underlying strength and weakness of the economy, as well as on monetary policy at the time that the change becomes effective.

### Budget Offsets

Reductions in particular programs can affect spending in other federal programs. The interactions that reduce the net budgetary impacts of the initial cuts occur largely in human resource programs, and arise principally from the fact that the amount of most income assistance benefits depends on a participant's total income, including cash payments from other federal sources.

Interactions that result in total federal savings larger than the initial budget reduction generally occur when eligibility for one program depends on eligibility for another. For example, a person's becoming disqualified for AFDC benefits often ends his eligibility for Medicaid as well, with the effect of reducing federal expenditures in both programs.

The size of the offset to the federal budget depends on the number of people who participate in more than one program, on program rules for determining benefits, and on whether funding is entirely federal or shared with states. These factors cause the size of the budgetary offsets to vary widely. For example, more than half the reduction in spending from an across-the-board reduction in AFDC benefits would be offset by increased outlays for food stamps and housing assistance. This would occur because the federal government would reap only 54 percent of the AFDC savings but would pay all of the increased costs of the other two programs. In contrast, less than 5 percent of a reduction in unemployment insurance benefits would be offset by increased costs for other programs, largely because unemployment recipients are seldom eligible for other income assistance.

### Cumulative Effects

Although reductions in any one program may have a limited impact on participating individuals or state and local governments, the cumulative effects of simultaneous reductions in several programs may be substantial, even with the offsetting effects discussed above taken into account. Low-income earners, for example, were affected by the 1981 changes in eligibility and benefit computation rules in both AFDC and food stamps, and those who live in subsidized housing will also pay a higher portion of their incomes in rents.

Cuts in some programs could have a cumulative impact on work incentives. All program reductions should be viewed in this

context. For example, changes effected in the 1981 reconciliation act mean that some single-parent families would now be better off financially if they were no longer employed and relied solely on public benefits for support. If many recipients responded to these work disincentives, the policy changes could actually increase, rather than decrease, the federal government's costs for income assistance.

### Timing Considerations

Some budget or tax changes may not require phasing in, since they represent marginal reductions across the board and may not impose an especially large burden on any group. For example, reducing the indexing for Social Security benefits to two-thirds of the increase in the CPI would affect all Social Security recipients, but it would only decrease individual benefit levels in 1983 by 2 to 3 percent in real terms if implemented for 1982. The cumulative effects from 1982 through 1987 would be a cut in real benefits of almost 12 percent, however. Postponing the personal income tax reduction scheduled for 1983 would not impose an exceptionally great burden on any particular individuals or groups because the effects would be distributed fairly evenly as a percent of income. On the other hand, a change such as postponing eligibility for federal government pensions past age 55 might require a longer phase-in period--perhaps three to eight years, since it would severely affect a small group of persons whose financial plans are based on certain work and retirement expectations. Similarly, certain tax expenditure changes might require some "grandfathering" or phase-in periods.



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CHAPTER III. NATIONAL DEFENSE

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The national defense budget function (050) provides funding both for the pay, training, and operations of existing armed forces and for the purchase of new equipment and facilities that update and expand the capabilities of those forces. In fiscal year 1981, budget authority for national defense totaled \$180 billion, while outlays equalled \$160 billion. 1/

Not all costs related to the military are in this function, however. The group of benefits and payments commonly referred to as veterans' programs are in function 700 and in this report are treated in the chapters on health (Chapter IX) and income security (Chapter X). The function also does not include tax expenditures, such as those stemming from tax-exempt military allowances for food and housing, or the full cost of retirement for civilian employees of the Department of Defense (DoD).

BUDGET HISTORY AND PROJECTIONS

Historical Trends, 1970-1981

The first half of the 1970s saw substantial real declines in defense budget authority, following the peak of the Vietnam War. A turning point came in 1975; the latter half of the decade, continuing through 1981, brought substantial real increases in defense spending (see Figure III-1 and Table III-1).

These overall trends are reflected in important changes within the military forces themselves. Numbers of strategic

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1. Budget authority, or the right to make spending commitments, is the best measure of resources for defense and will be used throughout this chapter. Actual defense expenditures, called outlays, often lag budget authority by several years because of the time needed to build weapons. Outlays are important in macroeconomic terms and will also be discussed in this chapter.

Figure III-1.  
Budget Authority for National Defense, 1955-1982

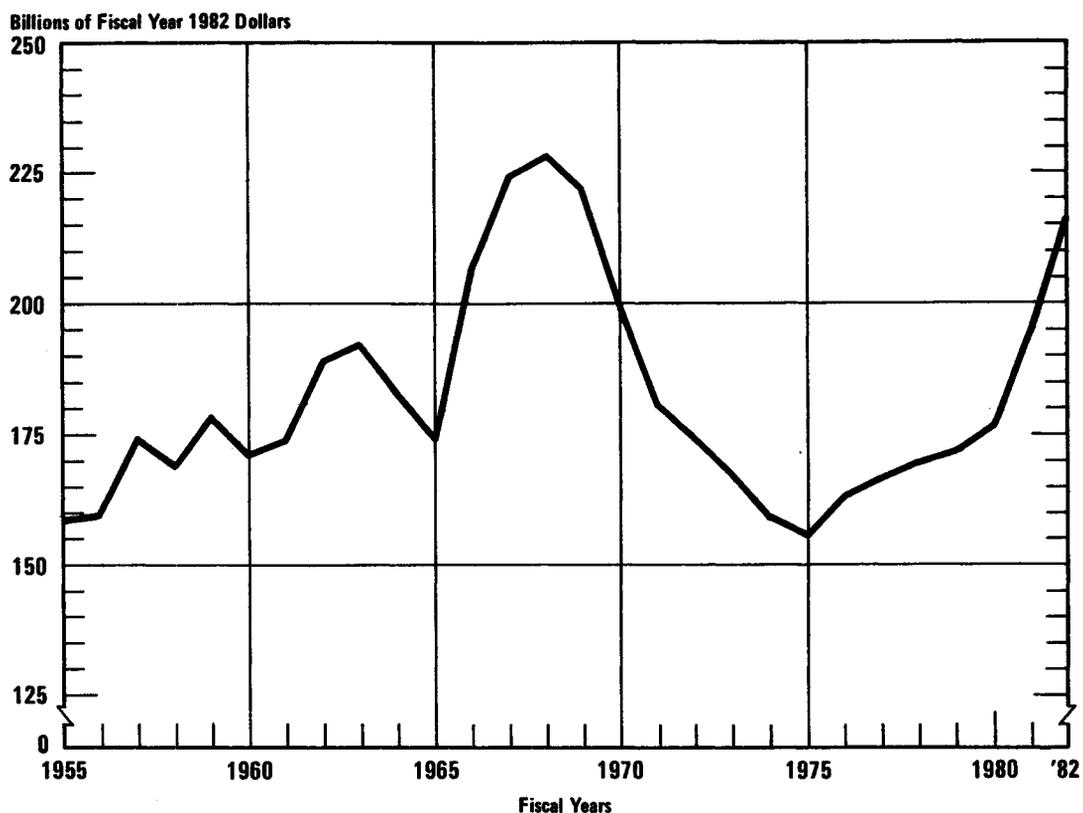


TABLE III-1. BUDGET AUTHORITY AND OUTLAYS FOR NATIONAL DEFENSE  
(In billions of dollars)

	Actual		Estimated 1982	Baseline Projection a/ 1983 1987	
	1970	1981		1983	1987
Budget Authority	75	180	216	246	422
Outlays	79	160	190	215	373

a. These estimates assume the real growth in defense budget authority found in the First Concurrent Resolution on the Budget for Fiscal Year 1982.

forces remained relatively unchanged over the decade, except for a halving of the number of aircraft committed to continental air defense and a relatively moderate decline in strategic bombers through retirement of outdated systems in the first half of the decade (see Table III-2). Several important qualitative improvements were made in strategic forces, however, such as the increase in numbers of warheads on each strategic missile.

Among conventional or general purpose fighting forces, numbers fell sharply in the first half of the 1970s from Vietnam War levels. Between 1970 and 1975, declines ranging from 20 to 35 percent occurred in Army maneuver battalions, Navy ships, and tactical aircraft. In the latter half of the 1970s, maneuver battalions and tactical aircraft increased, but numbers of ships continued their decline. Accompanying these trends in numbers were improvements in the quality of each force unit, especially among ships and aircraft.

Total military and civilian manpower also declined sharply in the early part of the 1970s from the high levels of the Vietnam War. The downward trend continued, but much more moderately, in the latter half of the 1970s.

In sum, then, the United States generally had fewer armed forces at the end of the 1970s than at the beginning, though the quality of those force units had improved. Moreover, spending trends already under way in the late 1970s suggested that there would be further qualitative improvement and some expansion in forces in the early 1980s.

### The 1982 Budget Decisions

In March 1981, the Administration proposed a 1982 defense budget of \$226 billion in budget authority, about 15 percent greater than the 1981 budget after adjustment for inflation. The Administration pledged to increase budget authority by about 7 percent more than the rate of inflation in each succeeding year of the five-year period.

Defense spending was largely spared the cuts adopted by the Congress in the 1981 reconciliation act. The defense items included in reconciliation were a switch from twice-a-year cost-of-living increases for retired personnel to once-a-year and changes in

TABLE III-2. U.S. DEFENSE FORCES (End of fiscal year)

Forces	1970	1975	1980
Strategic Forces (in numbers of units)			
Intercontinental ballistic missiles	1,057	1,054	1,054
Submarine-launched ballistic missiles	656	656	640 <u>a/</u>
Strategic bomber aircraft (PAA) <u>b/</u>	469	396	376
Air defense aircraft (PAA) <u>b/</u>	583	376	273
General Purpose Forces (in numbers of units)			
Active Army maneuver battalions <u>c/</u>	187	151	168
Active fleet ships (includes MSC) <u>d/</u>	774	514	478
Tactical fighter aircraft (PAA) <u>b/ e/</u>	2,820	1,958	2,606
Total Manpower, Military and Civilian (in thousands)	4,330	3,205	3,036

- a. By the end of fiscal year 1981, this number had dropped to 544. This reflects the termination of operations of seven Polaris submarines in their ballistic missile role.
- b. Primary aircraft authorization, a measure of aircraft available to the operational commander.
- c. Includes airborne, airmobile, tank, infantry, ranger, and mechanized infantry battalions.
- d. Military Sealift Command.
- e. All services.

military survivor benefits. Together, these reduced 1982 defense budget authority by a total of about \$0.4 billion, or less than 0.2 percent. 2/

The Administration itself made more substantial cuts in defense during the year. Its October budget revisions reduced the March request for 1982 budget authority by \$8 billion and outlays by about \$2 billion. The October cuts were generally concentrated in procurement. They also included early retirements of older forces, including some ships and the aging Titan missile system.

During the final days of the first session, the 97th Congress completed action on 1982 defense spending, providing a record \$216 billion in budget authority. Outlays are estimated at \$190 billion. 3/ Outlays are lower than budget authority because much of the expanded defense program focused on procurement, where outlays lag budget authority.

#### Baseline Projections, 1983-1987

As of this report's issuance, the Administration has not yet publicly released its 1983-1987 plan for defense spending. For purposes of analysis, CBO has projected the funds available for the defense function under two sets of assumptions. One set of assumptions begins with the defense program approved by the Congress for 1982 and then, in the years beyond 1982, procures the numbers of weapons specified in the Administration's October defense plans, modified where CBO believes the Congress intended

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2. Increased sales from the strategic materials stockpile, which were authorized in the reconciliation legislation, were severely restricted by appropriation action and will not result in substantial savings.
  3. These figures include estimates of the supplementals for military and civilian pay. The defense appropriation bill enacted during the first session of the 97th Congress did not fund the full costs of pay raises for military and civilian employees of the Department of Defense. Supplemental appropriations will be considered in the first months of the second session.

changes. This version does not allow any real increases in pay or operating costs beyond those dictated by increases in numbers of forces. These assumptions result in modest real increases in defense budget authority (see Chapter II). In both the First and Second Concurrent Resolutions on the Budget for Fiscal Year 1982, however, the Congress planned on larger real increases, at least for fiscal years 1983 and 1984. Thus, a second set of assumptions projects defense spending assuming that the real rates of growth specified in the resolution--about 7 percent a year--continue throughout the five-year period, 1983-1987.

Since these higher estimates may best reflect the intentions of the Congress and the Administration, this chapter concentrates on them. This higher version of the CBO baseline shows defense budget authority increasing from \$246 billion in 1983 to \$422 billion in 1987. Inflation assumptions in this estimate are those of the CBO February economic report, The Prospects for Economic Recovery.

While the Administration has not specified in public documents the details for future defense spending, some general trends seem clear. Manpower numbers are not likely to increase substantially; thus manpower costs will not go up by much more than the rate of inflation. Operating accounts may be increased by more than the amount of inflation to improve readiness. But the largest increases are likely to come in procurement, as the Administration expands and upgrades the military forces.

Strategic forces will receive substantial added funding under the Administration's plans. In the first few years, most of the added funds will go to improve strategic offensive forces: to develop and deploy two manned bombers, to deploy a limited version of the new MX land-based missile, to continue increasing the size and capability of the submarine-based leg of the "triad," and for other improvements. In the latter part of the five-year period, new funds may also go to strategic defensive systems, such as new aircraft to improve the continental U.S. air defense.

As for conventional forces, ships will be bought to increase the size of the Navy gradually, with emphasis on highly capable vessels such as aircraft carriers, AEGIS cruisers, and nuclear submarines. There will be funds for continued modernization of tactical aircraft, particularly Navy tactical air forces. Numbers of Army units will not increase substantially, but the Army will

continue its extensive modernization programs, featuring the new M1 tank and Fighting Vehicle System.

#### BUDGET STRATEGIES: PRIORITIES IN DEFENSE

In the past year, there has been substantial debate within the Administration and the Congress over the size and nature of this proposed defense buildup. The Administration itself reduced the 1982 request in defense spending in its October budget revisions. While defense spending will almost certainly continue to grow, the Department of Defense may be forced to consider revision or elimination of selected lower-priority programs.

Any attempt to establish funding priorities among defense programs requires making difficult judgments about the adequacy of existing forces as well as the nature and immediacy of their tasks. While it is unlikely that lowering the rate of growth of defense spending can be accomplished in any substantial area without some reduction in military capability, that reduction might be more acceptable in some areas than in others, or more in keeping with an overall defense strategy. For example, it might be preferable to scale back somewhat on improvements aimed primarily at NATO forces while keeping up increases in projection forces aimed more at Third World contingencies where confrontation is considered more likely. Similarly, cutbacks of certain weapons with cost or technical problems might be a good deal more palatable than would reductions of systems meeting performance specifications and schedules. Defense spending for pay and support might also be reduced. The next sections in this chapter illustrate several broad strategies that might guide efforts to this end:

- o Altering the composition of the strategic nuclear force buildup;
- o Shifting program emphasis to improve U.S. projection forces;
- o Seeking alternative approaches to accomplish existing missions; and
- o Changing policies regarding pay, support, and acquisition.

As these options will suggest, substantial changes can be made in defense budget authority and outlays over the next five years.

Changes in outlays during the budget year are much more difficult to achieve, however, because of the long lag between obligations for procurement of weapons and actual outlays.

#### Altering the Composition of the Strategic Nuclear Force Buildup

In October 1981, the Administration announced its decisions on updating U.S. strategic forces. In constant dollars of budget authority, the cost of operating existing forces and updating those forces will total \$180 billion over the next six years. The Administration's decisions have provoked a wide-ranging debate in the Congress, on grounds both of the cost of the program and of its projected effectiveness. Despite the prolonged debate, the Congress made no substantial change in the Administration plans when it passed the fiscal year 1982 funding for the Department of Defense.

The Congress could, however, choose to reduce defense spending by altering the composition of the strategic force buildup. The following section provides examples of possible changes. Electing to make these changes would represent a Congressional judgment that a less expensive set of programs than those selected by the Administration might satisfy basic strategic force objectives.

Leapfrog the B-1 Bomber and Proceed Directly to an Advanced Technology Bomber While Increasing B-52 Alert Rates. B-52 bombers--which continue to be the backbone of the strategic bomber forces--average over 20 years of age, though they have been frequently updated with new components and are currently undergoing a major modernization. The Air Force had intended to replace them with the B-1 in the 1970s. President Carter cancelled the B-1 program in 1977, choosing instead to extend the useful life of the B-52s and increase their effectiveness by fitting them with cruise missiles. <sup>4/</sup> The substantially smaller cruise missile was judged to have a better chance of evading Soviet air defenses than the

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4. Cruise missiles resemble relatively small, unmanned airplanes. They fly close to the ground and guide themselves to their targets by matching topographical features with electronic maps stored in their computers.

B-52. The first squadron of B-52s modified to carry cruise missiles will be available in December 1982. Over the objections of the Carter Administration, the 96th Congress directed development of a bomber that could be available by 1987--either a modified form of the B-1, a revamped FB-111 aircraft, or an advanced technology bomber (ATB) incorporating new radar-evading materials and design commonly referred to as "stealth" technology.

The Reagan Administration has proposed two concurrent programs for the modernization of the bomber force: deployment of a version of the B-1 to be available by late 1986; and development of an ATB, with initial deployment planned in the early 1990s. As the ATB bomber is phased into the force, B-1s would be fitted with cruise missiles. B-1s would also deliver conventional munitions in theaters of operation other than the central Soviet Union. As B-1 and ATB aircraft are fielded, the B-52s would gradually be retired.

The Congress could choose to leapfrog the Administration's plans for the B-1 in favor of the ATB. To compensate for cancellation of the B-1, the Air Force could accelerate development of the ATB bomber, proceed with B-52 cruise missile conversion, and increase the number of B-52 aircraft maintained on regular peacetime ("day-to-day") alert from 30 to 40 percent of the bomber force. The approximate five-year budgetary savings of these three changes relative to the possible Administration proposal total \$23.6 billion in budget authority (see Table III-3). In addition, a significant amount of the \$2.1 billion authorized in 1982 could be saved if the Administration program were terminated. <sup>5/</sup> The Administration had not as of the issuance of this report publicly announced its procurement plan for the B-1 or other weapons. Hence the savings in this and subsequent options are measured against possible Administration plans. Table C-1 in Appendix C details the assumptions that this option makes about possible plans. Costs of this and other options will probably change when final Administration plans are known.

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5. The ATB or "stealth" bomber program remains a highly classified activity. The costs or feasibility of accelerating ATB development cannot be identified in a public document. CBO has assumed that the \$2.1 billion (in inflated dollars) for B-1 research and development could be used to speed the ATB program.

TABLE III-3. POTENTIAL SAVINGS RELATIVE TO POSSIBLE ADMINISTRATION PROGRAM, FISCAL YEARS 1983-1987 (In billions of dollars) a/

	1983	1984	1985	1986	1987	Total <u>b/</u>
	<u>Budget Authority</u>					
Leapfrog B-1	3.5	6.2	7.2	6.9	-0.2	23.6
Modify Tanker Re-engining	0.5	1.0	1.2	1.3	1.3	5.3
Modify Navy Battle Groups	7.0	---	---	---	---	7.0
Restructure Navy Air Defenses	1.1	1.1	1.2	2.8	3.0	9.2
Procure Conventional Submarines	0.7	0.5	0.9	0.6	0.4	3.1
Limit M1 Tank Buy	-0.2	0.4	0.4	0.3	0.3	1.1
Alter Fighting Vehicle Program	0.1	0.2	0.1	0.4	0.2	1.0
Revise Navy Air Modernization	0.9	1.4	1.5	1.7	1.2	6.7
Reduce COLA for Under-60 Retirees	0.2	0.5	0.8	1.1	1.3	3.8
Phase In "High-3" Faster	<u>c/</u>	<u>c/</u>	0.1	0.1	0.2	0.5
Reduce Past Overindexation	0.1	0.2	0.5	0.6	0.7	2.3
Restructure Bases	---	0.1	0.1	0.1	0.2	0.5
Eliminate Reserve Dual Pay	<u>c/</u>	0.1	0.1	0.1	0.1	0.3
Improve Defense Acquisition	<u>d/</u>	<u>d/</u>	<u>d/</u>	<u>d/</u>	<u>d/</u>	<u>d/</u>
<b>Total</b>	<b>13.9</b>	<b>11.7</b>	<b>14.1</b>	<b>16.0</b>	<b>8.7</b>	<b>64.4</b>
	<u>Outlays</u>					
Leapfrog B-1	0.2	2.0	4.7	6.3	6.2	19.4
Modify Tanker Re-engining	0.1	0.3	0.7	1.1	1.2	3.4
Modify Navy Battle Groups	0.2	0.8	1.3	1.3	1.3	4.9
Restructure Navy Air Defenses	<u>c/</u>	0.1	0.3	0.6	1.0	2.0
Procure Conventional Submarines	<u>c/</u>	0.1	0.2	0.3	0.5	1.1
Limit M1 Tank Buy	<u>c/</u>	-0.1	0.1	0.3	0.3	0.6
Alter Fighting Vehicle Program	<u>c/</u>	0.1	0.1	0.1	0.3	0.6
Revise Navy Air Modernization	0.1	0.6	1.1	1.4	1.5	4.7
Reduce COLA for Under-60 Retirees	0.2	0.5	0.8	1.1	1.3	3.8
Phase In "High-3" Faster	<u>c/</u>	<u>c/</u>	0.1	0.1	0.2	0.5
Reduce Past Overindexation	0.1	0.2	0.5	0.6	0.7	2.3
Restructure Bases	---	0.1	0.1	0.1	0.2	0.5
Eliminate Reserve Dual Pay	<u>c/</u>	0.1	0.1	0.1	0.1	0.3
Improve Defense Acquisition	<u>d/</u>	<u>d/</u>	<u>d/</u>	<u>d/</u>	<u>d/</u>	<u>d/</u>
<b>Total</b>	<b>0.9</b>	<b>4.8</b>	<b>10.1</b>	<b>13.4</b>	<b>14.8</b>	<b>44.1</b>

- a. See Appendix C for comparison of CBO baseline and possible Administration program.
- b. Details may not add to totals because of rounding.
- c. Less than \$50 million.
- d. Specific estimates of savings not available.

Some might question whether the B-1 as a near-term penetrating bomber, to be followed quickly by the ATB, would be worth the great expense of the program. The B-1 might cost from \$200 million to \$260 million per plane in constant 1981 dollars, depending on features added to the aircraft, and potentially as much as \$400 million in inflated dollars. <sup>6/</sup> Yet the B-1 may provide critical capabilities for only a few years. Congressional review of the Administration's strategic program brought to light considerable disagreement over the penetration capabilities of the B-1. Secretary of Defense Weinberger initially expressed doubt that the B-1 could successfully penetrate Soviet airspace after 1990, though he subsequently stated officially that the B-1 would operate as a penetrating bomber well into the 1990s. Many believe, however, that in the years beyond 1990 successful penetration will depend primarily on the advanced technology bomber. Once the ATB becomes available, the B-1 will probably revert to the roles of cruise missile carrier and conventional bomber. The Air Force has judged, however, that B-52 bombers can fulfill these two roles until the year 2000. Thus it is not clear whether deployment of the B-1, primarily to increase chances of penetrating Soviet airspace for a period of four to six years, merits so great an expenditure. In addition, a number of officials have expressed concern that the expense of the B-1 program might force a serious delay or even cancellation of the ATB program, which is critical to the long-term viability of the bomber force.

Some of the savings from cancelling the B-1 program could be used to finance higher alert rates for existing B-52s. This is the fastest and least expensive means to increase nuclear force levels on peacetime alert until new bombers can be fielded. (Obviously, it would not increase the total number of weapons carried if all the forces had been "generated" or put on alert because of crisis conditions.)

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6. The Administration has testified that the B-1 program is expected to cost slightly more than \$20 billion (in constant 1981 dollars) for 100 aircraft. The General Accounting Office estimates that program costs might reach \$26 billion (in constant 1981 dollars), which could amount to some \$39.8 billion in inflated dollars.

The primary risk of this option is that deployment of an advanced technology bomber might be subject to delay because of problems in development or production. There are some large areas of technical uncertainty with the "stealth" program. Should difficulties in development emerge, the Air Force would probably choose to retain a portion of the B-52 force in a penetrating bomber role into the 1990s, together with the 60 FB-111 aircraft, despite the difficulties these aircraft would face against expected improvements in Soviet air defenses.

In addition, this option would delay procurement of a new aircraft to replace the B-52 as a cruise missile carrier. It is doubtful that an ATB designed to penetrate Soviet airspace would be well suited to carry either cruise missiles or large quantities of conventional munitions. While B-52s could fulfill this mission until the year 2000, they will probably not sustain operations indefinitely. If the B-1 is not built now, a new aircraft will have to be procured beginning in the 1990s to replace the B-52s in these roles.

Finally, cancellation of the B-1 program could affect the credibility of the U.S. commitment to strengthen strategic nuclear forces in the near term, especially in light of Administration statements about the need to counter rising Soviet nuclear capability. While increasing B-52 alert rates would add to peacetime capabilities faster than would the B-1, cancellation of the B-1 program might be seen as a sign of unwillingness to support the expense required to counter the Soviet challenge.

Modify the Tanker Re-engining Program. The Strategic Air Command (SAC) operates 615 KC-135 aircraft (an early version of the Boeing 707) that serve as tankers to extend the range of bomber and other military aircraft. In recent years, the Air Force has contended that current tanker resources are inadequate for two reasons. First, a far larger number of military aircraft are potential users of aerial refueling today than in the past, when only bombers were likely users. The Air Force, for example, foresees substantial aerial refueling requirements for fighters or transports in the event of a NATO conflict or of a need to project forces to a distant theater such as the Persian Gulf. Second, current Air Force plans to modify B-52s with cruise missiles will temporarily increase tanker requirements. To satisfy all such demands, the Air Force has indicated that as many as 1,000 KC-135 tankers or their equivalent will be needed into the mid-1980s, while only 615 are currently available.