

Costs for Bottom-Up Review Forces Beyond 1999

Over the longer term, CBO projects that the cost of the Bottom-Up Review force structure will rise. The cost of national defense programs will increase largely as a result of aging fleets and the need to replace weapon systems. CBO estimates that the cost of Bottom-Up Review forces to future Administrations will, on average, be \$7 billion to \$31 billion (in 1995 dollars) higher per year from 2000 to 2010 than the level of spending proposed by the Administration for 1999, or about 3 percent to 13 percent higher. That range reflects different analytical assumptions: the lower value assumes that DoD will be able to constrain the cost of producing its weapon systems, whereas the higher value assumes that weapons costs will rise at rates consistent with historical experience.

Although the higher end of the range includes an estimate of larger *costs* for weapon systems, their effects on procurement and RDT&E *budgets* cannot be predicted. The Congress and the Administration may change U.S. force structure or modernization plans, which would, in turn, affect long-term cost projections. If the Bottom-Up Review force structure remains in place through the next decade, however, CBO's estimates show that there will be strong upward pressure on defense costs as DoD begins to replace and refurbish weapon systems.

Unless policies are enacted that cut government spending or raise revenues, CBO also projects that the federal deficit will begin to increase in 1996 and rise steadily through 2004--the last year for which CBO has made a projection. The combination of higher defense costs and an increasing federal deficit could result in even larger budget deficits or substantial pressure to cut nondefense spending or defense force structure in the next decade.

These findings have important implications for today's policy options. Measures that postpone purchases of major weapon systems until 1999 lower defense costs during the FYDP but may create the need for even higher levels of spending over the next decade. Unless the budget environment permits higher defense spending after the year 2000, options that defer spending today could lead to more intense budgetary pressures tomorrow.

Illustrative Options for Addressing the Shortfall

The Administration and the Congress will need to choose from among a number of difficult policy options to address the defense shortfall over the

next five years. This analysis describes four general types of solutions: increase defense's share of discretionary spending, constrain DoD's responsibilities, lower DoD's costs of doing business, or reduce military capability.

Increase Defense Spending. Some critics contend that the current FYDP would cut too much from defense spending. The Administration's planning objective is to be able to fight and win two major regional contingencies that occur nearly simultaneously. Under the Bottom-Up Review, U.S. forces would fall to 10 active Army divisions, 330 battle force ships, and 13 active Air Force tactical fighter wings, as compared with 18 divisions, 546 ships, and 24 wings in 1990, the last year of the Cold War. (The number of active Marine Corps divisions remains at 3.) The Administration plans to enhance U.S. forces through investments in precision-guided munitions and airlift and sealift capabilities, but there is still considerable debate as to whether the Bottom-Up Review force structure could actually accomplish its aims. Some analysts believe that even under that force structure, planned levels of defense spending are not enough to ensure high levels of military readiness or to protect the quality of life of military personnel.

The Congress may, therefore, choose to devote more resources to national defense programs. Higher levels of spending might be used to offset likely areas of defense cost growth, such as larger pay raises. But higher levels of defense spending do not guarantee improved military readiness or force structures. Funds might, for example, help to keep bases and facilities open that might otherwise be considered excess capacity. And under discretionary spending caps set through 1998, the Congress would need to offset any increases in defense spending with comparably sized cuts in nondefense programs. That balancing could prove difficult if there was considerable support for addressing domestic issues such as crime, education, welfare reform, and health care reform.

Limit DoD's Responsibilities. Some critics argue that the Administration's plan contains too many programs that are not directly related to U.S. combat capability. Spending for environmental cleanup, drug interdiction, support for converting or sustaining the defense industrial base, and peacekeeping operations appears to have grown in recent years, and some critics argue that those resources might be better used in funding activities that enhanced readiness for military combat. But supporters contend that those tasks are within the purview of defense responsibilities, and therefore it is appropriate to fund them within DoD's budget.

Defining DoD's responsibilities more narrowly to exclude those types of activities might result in less pressure on defense costs. But if the Congress chose simply to transfer many of the same responsibilities to nondefense programs, other federal costs would rise. If, for example, the Environmental Protection Agency was given responsibility for cleaning up defense bases, one would expect its costs to grow. In some cases, DoD may be better able than other federal agencies to accomplish the aims of those programs.

Under a broad interpretation, "nontraditional" spending accounts for about \$11 billion to \$13 billion in annual defense spending.¹¹ Cuts to those programs deserve consideration, but unless the Congress is willing to cut most or all of them, the reductions would not address the likely magnitude of DoD's shortfall.

Reduce DoD's Costs of Doing Business. One way for the Administration to avoid having a "hollow" force—that is, one marked by shortages of experienced personnel, training, or equipment—is to lower the cost of equipping, operating, training, and maintaining military forces. Under the Administration's National Performance Review and recent legislative changes to the federal procurement process, the costs of buying weapons and equipment could fall. But DoD's track record for implementing initiatives that improve acquisition efficiency is not good, and even reforms that are carried out successfully may not save large amounts of money in the near term.

Another way to reduce DoD's costs is to cut the number of bases, facilities, and civilian personnel that operate and support military forces. Recent analyses suggest that considerable excess capacity exists, for example, among publicly owned depots that maintain military equipment. If funding permits, some of that overcapacity will be reduced through the next BRAC round, scheduled to begin in 1995. But the Congress and the Administration may be able to achieve greater efficiencies by consolidating and in some cases centralizing management of support activities.

Reduce Military Capabilities. Although unpopular, those policy alternatives that are most certain to reduce defense costs involve lessening military capabilities.

Reconfiguring service roles and missions to avoid duplication of effort among the military services could cut costs considerably. But in the process, such a policy would reduce military capabilities. The Administration might,

11. These figures are based on data from the Congressional Research Service, which makes no judgment as to whether those programs contribute to military capability.

for example, rely more on Air Force bombers to conduct air strikes on distant targets rather than maintain the current size of the Navy's aircraft carrier fleet. The issue of how to assign military responsibilities is highly contentious because each service vigorously defends its current missions and the resources budgeted to carry them out. The Administration would also face considerable political constraints since closing associated bases and canceling programs would hurt certain constituencies.

Another option is to spend less to maintain readiness. Given current reports that three of the Army's 12 divisions are not well prepared for conflict, reducing funding for military readiness is likely to be an unpopular option. But measuring readiness is an inexact science, and today's indicators send ambiguous signals. In June 1994, for example, a Defense Science Board task force concluded that today's general state of readiness is acceptable for most areas, although there are "pockets of unreadiness."¹² Likewise, a recent CBO paper found that, based on publicly available data, unit readiness appears high relative to historical levels.¹³ At the same time, some objective measures of readiness could indicate near-term problems, such as falling C-ratings for selected units (which are based on a commander's evaluation of the status of personnel, training, quantity of equipment and supplies, and equipment condition for his or her unit), lower funding for Navy depot maintenance, and reduced funding for real-property maintenance throughout DoD.

Funding for one budget category that is closely linked with readiness—O&M spending—is high for 1995, and although it would decline somewhat during the remaining years of the FYDP, spending per active-duty service member would remain high relative to historical standards. But by itself, O&M spending does not tell the whole story. Significant portions of those expenditures are not tied directly to preparing for military combat (one example is health care provided for retirees and military dependents), and therefore it is difficult to isolate trends in funding for activities that enhance readiness. It may be the case, for example, that DoD could cut O&M funding for some activities without appreciably affecting readiness. Ultimately, however, if DoD is unable to support and maintain its forces with less money, a decline in military readiness could arguably result.

Given constraints on the defense budget, the Congress and the Administration may need to consider reductions to U.S. force structure. Over

12. Office of the Under Secretary of Defense for Acquisition and Technology, "Report of the Defense Science Board Task Force on Readiness" (June 1994).

13. Congressional Budget Office, "Trends in Selected Indicators of Military Readiness, 1980 Through 1993," CBO Paper (March 1994).

the past several years, U.S. forces have become involved in numerous contingency missions, which has raised operating tempos for certain types of units such as Navy surface combatants, Marine expeditary units, and Air Force airlift crews. Further reductions to numbers of forces could drive those "optempos" even higher, and for that reason, Administration officials have stated that they do not want to reduce forces below Bottom-Up Review levels. But not all units have been used with equal frequency, so there may be some room for further reductions.

The question of whether more force reductions are possible raises a related issue: whether DoD's planning objectives are appropriate ones for the United States. Supporters of the Administration's military strategy contend that the United States must be prepared to fight two rather than one major regional conflict; otherwise, an unfriendly nation could take advantage of U.S. involvement in one war to achieve its aims. But the Congress may want to consider whether the United States is willing to assume more risk for lower levels of defense spending. That risk may be acceptable if, for example, one believes that the United States is more likely to get involved in major regional conflicts sequentially rather than simultaneously or if one believes that likely opponents have forces less capable than those included as part of the Administration's assumptions during its Bottom-Up Review.

A final approach—one that the Administration is pursuing—involves canceling or delaying some weapons modernization programs. Defense Secretary Perry stated recently that in its 1996 budget, the Administration has chosen to place higher priority on improving the readiness of U.S. forces and the quality of life for military personnel than on modernizing weapons. For that reason, the Administration is canceling or postponing even some weapons programs that the military services consider to be among their top priorities. Additional cuts to those programs are possible. But some Members of Congress see that approach as one that substitutes future capability or readiness for readiness today and that could endanger military industrial capabilities in certain sectors.

Combining Policy Options

Just as those factors that could affect costs within the FYDP may or may not occur, each of the policy options described above has a different likelihood of reducing defense costs. Some alternatives (such as limiting the amount of money spent on, say, defense conversion programs) could reduce the costs of the Administration's plan but probably will not by themselves solve the whole shortfall problem. Options that aim to improve the efficiency with which

DoD conducts its business—such as acquisition reform—could save more money, but their prospects for success are less certain. Raising defense spending could be a solution to the situation, but constraints on discretionary spending will remain tight at least through the remainder of this decade, and the Congress would need to agree to corresponding cuts in nondefense spending. Policy options that reduce defense capabilities—such as cutting force structure or canceling weapon systems—address the shortfall with the most certainty of success.

The Administration appears to be pursuing a combination of these approaches. Secretary Perry has launched initiatives designed to reduce the costs of defense procurement, but it remains to be seen how successful those changes will be. In response to Congressional direction, a commission is reviewing the assignment of roles and missions among the services and is scheduled to release its recommendations this spring. Although it is unclear how many facilities will be included, a new round of recommendations for base realignments and closures will begin in 1995. Yet the likelihood that those measures will reduce defense costs by the size of the shortfall is uncertain. Therefore, the Congress and the Administration may also need to consider other policy options, such as consolidating support activities and reducing military capabilities.

THE ADMINISTRATION'S PLAN FOR 1995 THROUGH 1999

Between 1990—the last year of the Cold War—and 1995, real spending by the Department of Defense fell by 25 percent, or some \$85 billion in 1995 dollars. As it was introduced in February 1994, the Administration's FYDP would cut real annual DoD spending by an additional 10 percent between 1995 and 1999, or about \$25 billion (see Table 3). If the Administration's plan is enacted, it would decrease the share of U.S. gross domestic product (GDP) devoted to national security to 2.9 percent—its lowest share since before World War II.

With the demise of the Soviet Union, the United States may now be able to protect its national security interests with these lower levels of defense spending. But analysts disagree on how much is enough: some believe that current threats to U.S. security warrant more resources, whereas others have called for even greater cuts, noting that the United States will still be spending almost as much annually on defense as the rest of the world

TABLE 3. THE ADMINISTRATION'S PLAN FOR DEPARTMENT OF DEFENSE SPENDING, BY TITLE, FISCAL YEARS 1995-1999 (In billions of 1995 dollars of budget authority)

Title	1990	Administration's Plan					Real Percentage Change	
		1995	1996	1997	1998	1999	1990-1995	1995-1999
Operation and Support								
Military personnel	91	70	65	63	62	61	-22	-13
Operation and maintenance	<u>101</u>	<u>93</u>	<u>86</u>	<u>83</u>	<u>81</u>	<u>81</u>	-8	-13
Subtotal	192	163	151	146	143	142	-15	-13
Investment								
Procurement	94	44	48	48	53	53	-53	22
Research, development, test, and evaluation	42	36	34	30	28	27	-14	-26
Military construction	<u>6</u>	<u>5</u>	<u>8</u>	<u>5</u>	<u>4</u>	<u>4</u>	-15	-27
Subtotal	142	85	89	84	85	84	-40	-1
Family Housing	4	3	4	3	3	3	-9	4
Other Adjustments	<u>-1</u>	<u>a</u>	<u>-6</u>	<u>-5</u>	<u>-4</u>	<u>-3</u>	n.a.	n.a.
Total	337	252	237	228	227	227	-25	-10

SOURCE: Congressional Budget Office based on data from the Department of Defense.

NOTES: The values for 1990 were adjusted for the incremental costs of Operation Desert Shield. For the purposes of this table, values for the National Defense Sealift Fund over the 1995-1999 period were included in procurement spending and excluded from other adjustments.

n.a. = not applicable.

a. Less than \$500 million.

combined.¹⁴ But if the Congress and the Administration hope to maintain capable, ready forces with lower levels of funding, they will need to make difficult decisions about the types of military commitments that the United States should make and the way in which those lower levels of resources should be spent.

14. "Is the U.S. Defense Budget Being Cut Too Much?" *The International Economy* (March/April 1994).

Avoiding a Hollow Force Structure

Administration officials have noted that they want to avoid a "hollow" force—the term coined by General Edward C. Meyer, former Army Chief of Staff, that has been used to refer to shortages of experienced personnel, training, and equipment in the mid- and late-1970s. Although anecdotal in nature, persuasive evidence indicates that many units were not well prepared for combat during that period.¹⁵ That situation arose in part because the Congress and the Administration chose to emphasize modernizing weapons at a time when resources devoted to defense were either too few or too inefficiently used to maintain a large and ready force structure and invest in new equipment.

Today, the Congress and the Administration face equally important decisions about defense priorities. Between 1990 and 1995, the Bush and Clinton Administrations and the Congress have cut operating funds less than the numbers of forces those funds support, an action that should help to avoid a hollow force. But by the end of 1995, most of the cuts in forces associated with the Bush Administration's base force plan and the Clinton Administration's Bottom-Up Review will be nearly completed. Meanwhile, closures of bases and facilities—which are supported by operating funds—have not kept pace with reductions in forces, and excess capacity remains among some types of facilities.

If the Congress chooses to devote fewer resources to DoD through the end of the decade, defense planners will need to make difficult choices about how to reduce funding. Should they cut forces further, give less priority to weapons modernization programs, or cut operating costs by reducing DoD's infrastructure? In 1989, William Perry, now Secretary of Defense, wrote that "a premium should be placed on readiness, both near-term, by maintaining the O&M account, and medium-term, by maintaining an efficient modernization program to replace aging equipment that is difficult to operate and maintain."¹⁶ The Administration proposed such a strategy for 1995; it actually increased O&M and kept total investment spending relatively level. But through 1999, the FYDP calls for O&M cuts in order to continue lowering the defense budget while still modernizing some weapons and equipment.

15. CBO, "Trends in Selected Indicators of Military Readiness."

16. William J. Perry, "Defense Investment Strategy," *Foreign Affairs* (Spring 1989), pp. 72-92.

Operating Funds Have Been Cut Less Than Force Structure. Based on several measures, the size of U.S. forces is scheduled to decline by about 30 percent to 45 percent between 1990 and 1999 (see Table 4). Although the Administration has programmed continued reductions in the number of forces fielded through the end of the decade, the majority of the drawdown in military personnel, tactical fighter wings, and ships will already be in place by the end of 1995. The total number of active-duty service members, for example, would fall by only an additional 5 percent under the Administration's plan after experiencing a 26 percent cut between 1990 and 1995.

By comparison, between 1990 and 1995, operation and support (O&S) funding has been cut less than the numbers of forces. The O&S category consists of pay and benefits for service personnel (under the military personnel title of DoD's budget) and funds for operations such as training military units, maintaining their equipment, running base facilities, providing health care for service members and their dependents, and numerous other activities (under the O&M title). Between 1990 and 1995, both categories of O&S spending have been cut less than the forces they support: O&M funding has declined by just 8 percent, and funding for military personnel has fallen by 22 percent from 1990 levels. But as DoD reaches the limit of savings associated with reductions in forces, it becomes more difficult to avoid deeper cuts in O&S.

O&M Spending Is Protected in 1995. For 1995, the Administration proposed supporting near-term readiness over modernization. Thus, O&M spending rose in real terms by 4 percent over the 1994 level at the same time that the number of active-duty service members declined by 5 percent. But although that title finances important activities such as training units and maintaining equipment, O&M spending is not synonymous with readiness. Other activities that do not contribute directly to the ability to prosecute wars are funded under O&M as well, such as the operating costs of military bases and commissaries, health care for military dependents and retirees, and environmental cleanup efforts.

The Status of Military Readiness Today

The evidence about current readiness is ambiguous. In a June 1994 study, a Defense Science Board task force concluded that although there are "pockets of unreadiness," today's general readiness level is "acceptable in most

TABLE 4. OPERATION AND SUPPORT FUNDING AND FORCES IN THE ADMINISTRATION'S PLAN FOR DEPARTMENT OF DEFENSE SPENDING (By fiscal year)

	1990	1995	1999	<u>Real Percentage Change</u>		
				1990-1995	1995-1999	1990-1999
Operation and Support Funding (In billions of 1995 dollars of budget authority)						
Military Personnel	91	70	61	-22	-13	-33
Operation and Maintenance	<u>101</u>	<u>93</u>	<u>81</u>	-8	-13	-20
Total	192	163	142	-15	-13	-26
Forces						
Active-Duty End Strength (Thousands) ^a	2,069	1,526	1,453	-26	-5	-30
Active Army Divisions	18	12	10	-33	-17	-44
Battle Force Ships	546	373	330	-32	-12	-40
Active Naval Wings	13	10	10	-23	0	-23
Active Air Force Tactical Fighter Wings	24	13	13	-46	0	-46

SOURCE: Congressional Budget Office based on data from the Department of Defense.

NOTE: The funding values for 1990 were adjusted for the incremental costs of Operation Desert Shield.

a. Excludes full-time National Guard and Reserve forces.

measurable areas."¹⁷ Likewise, a recent CBO paper found that based on publicly available data, unit readiness appears to be high relative to historical levels.¹⁸ Both analyses note that DoD's current measures of readiness and

17. Office of the Under Secretary of Defense for Acquisition and Technology, "Report of the Defense Science Board Task Force."

18. CBO, "Trends in Selected Indicators of Military Readiness."

indicators of future readiness are imperfect. Nonetheless, those analyses suggest that U.S. forces are not on the "razor's edge" of becoming unready.

In recent months, however, several Members of Congress have charged that U.S. military forces are not well prepared for combat, in part because contingency operations are being funded at the expense of training and other activities that enhance readiness.¹⁹ Secretary Perry noted recently that three of the Army's 12 divisions were rated as C-3—the next-to-lowest readiness ranking for operational units—at the end of 1994, indicating that they needed additional resources or training. He attributed the problem to cash flow shortages triggered by a quick succession of U.S. operations in Rwanda, Cuba, Haiti, and Kuwait toward the end of the fiscal year.

Typically, DoD requests supplemental appropriations for the incremental costs of contingency operations, and the Congress passed two such appropriations for 1994. But the second increment of funding was not available until the start of fiscal year 1995, and that fact, combined with high demand for U.S. forces at the end of 1994, meant that fewer funds were available for training selected units in traditional combat methods and for maintaining their equipment. The Administration claims that the problem is primarily a matter of timing—several months may pass between the time forces are deployed and when resources become available. But critics argue that the United States should not be involved in contingency operations unless U.S. national interests are clearly at stake. Following that line of reasoning, the Administration would spend fewer defense resources on contingency operations if it chose to become involved in those missions more selectively.

Under a system of flexible (or tiered) readiness, units that are scheduled to be deployed first in the event of conflict receive higher priority for operating funds than units that would be deployed later. (For example, according to Secretary Perry, the three Army divisions that received C-3 ratings are heavy reinforcements rather than contingency forces.) Overall, Administration officials still maintain that U.S. forces are ready to carry out the nation's national security tasks. But perhaps what is needed is a public debate about whether the Congress is willing to accept lower levels of readiness for certain units and thus a higher degree of risk. In other words, how much readiness is enough?

19. See, for example, Senator John McCain, "Going Hollow: The Warnings of the Chiefs of Staff" (September 1994). See also the statements of Congressman Floyd Spence, Ranking Republican, House Armed Services Committee, in press releases on November 15 and 16, 1994.

Under the Administration's plan, constant-dollar O&M funding would decline after 1995. But the amounts proposed in the FYDP would still keep O&M spending per active-duty service member at relatively high levels.

The O&M title finances many of the goods and services that contribute to current and future readiness, but the exact nature of the relationship between the two is unclear. Several studies have shown that real O&M spending per active-duty service member has been rising over time. Some analysts contend that DoD should assume that it will continue to do so because as weapon systems age or become more technologically complex, they are more expensive to operate and maintain.²⁰ But some new weapon systems are designed to be more reliable than previous generations of equipment and may be less costly to operate.

Another reason for the difficulty in drawing conclusions about military readiness from trends in O&M spending is that DoD's infrastructure is changing. If DoD is slow to consolidate excess infrastructure and to close facilities, keeping bases open could occur at the expense of other activities that enhance readiness more directly. But if instead DoD is able to reduce its civilian payroll and recoup savings from closing defense facilities and consolidating support activities, it may be able to support its forces in a more cost-effective manner. Therefore, planned funding levels may be sufficient.

A Modest Trend Toward Centralized Funding for Support Activities Is Apparent. One trend in O&M spending is less evident from aggregate data: a modest movement toward financing some types of support activities through defensewide accounts rather than by direct appropriations to the military services.

O&M spending for all of the services combined and for defensewide and defense agency accounts can be usefully looked at in two ways: as appropriated (without adjustments) and adjusted for some of the changes in appropriation categories that have occurred since 1990 (see Table 5). Those changes include the creation of the Special Operations Command, the Defense Health Program, and the Defense Environmental Restoration Account. For each of those programs, appropriations are now made to a centralized defensewide account, although some funds are later allocated to each military service. Appropriations for a number of other, smaller programs have also been transferred between defensewide and service accounts, but

20. See, for example, Dov Zakheim and Jeffrey Ranney, "Matching Defense Strategies to Resources," *International Security*, vol. 18, no. 1 (Summer 1993), pp. 51-78. See also Steven Daggett, "Defense Spending: Does the Size of the Budget Fit the Size of the Force?" CRS Report 94-199F (Congressional Research Service, February 28, 1994).

they are not reflected in Table 5. Nor do the adjustments reflect the numerous changes that have been made among appropriation titles since 1990—in the case of depot-level repairables, for example, shifting funds for the purchase of some spare parts out of procurement spending and into O&M. Nonetheless, the data in Table 5 show generally that much of the apparent growth observed in defensewide and defense agency O&M budgets results from definitional changes rather than programmatic growth.

The changes discussed above do not necessarily mean, however, that the management of support activities has become more centralized. For example, the Defense Health Program (which finances part of the health care expenditures for military service members, their dependents, and retirees) accounts for the majority of those funding shifts. But the Office of the Assistant Secretary of Defense for Health Affairs (which runs the Defense Health Program) does not manage military medical personnel or make decisions about staffing levels; those activities remain within the purview of the individual services. Environmental cleanup efforts are another category in which initial appropriations go into the Defense Environmental Restoration Account, but management decisions about cleaning up contaminated sites are left largely to the military services.

A few support functions have turned to centralized management—for example, commissaries, distribution of consumable supplies, financial and accounting services, and printing services. Most appropriations to pay for those functions come from each service's O&M account and are used in turn to pay a revolving fund, the Defense Business Operating Fund. DoD may be able to lower its costs by consolidating other activities as well.

With the exception of consolidated management of supply depots under the Defense Logistics Agency, most activities that have turned to centralized management thus far do not provide services that are thought to affect readiness directly. The military services have been reluctant to centralize activities that are tied to readiness (such as training pilots and maintaining equipment) because by keeping those functions in-house, they believe they provide more responsive service to their own forces. But that rationale may not always hold true; in the case of supply depots, for example, readiness indicators suggest that a centralized wholesale system can fill requisitions from stocks on hand about 85 percent of the time—the goal rate.²¹

21. CBO, "Trends in Selected Indicators of Military Readiness," p. 49.

The Administration's Plan Assumes Faster Civilian Personnel Cuts. Because civilian pay and benefits make up nearly 40 percent of total O&M spending, one key to reducing support costs is to cut the number of DoD's civilian employees. Between 1990 and 1995, the number of civilian personnel fell by 19 percent—a smaller share than the 26 percent decline in active-duty military personnel that occurred over the same period. Under the Administration's plan, civilian cuts would start to catch up with those of the military, ultimately reaching 26 percent over the 1990-1999 period compared with 30 percent for active-duty military personnel (see Table 6).

TABLE 5. PROPOSED OPERATION AND MAINTENANCE SPENDING, WITH AND WITHOUT ADJUSTING FOR CHANGES IN APPROPRIATION CATEGORIES (By fiscal year)

	Budget Authority (Billions of 1995 dollars)			Real Percentage Change		
	1990	1995	1999	1990- 1995	1995- 1999	1990- 1999
Unadjusted (As appropriated)						
Military Services	92	69	57	-25	-17	-37
Defensewide and Defense Agency	<u>10</u>	<u>24</u>	<u>24</u>	142	-2	138
Total	101	93	81	-8	-13	-20
Adjusted for Changes Since 1990 in Appropriation Categories						
Military Services	82	69	57	-15	-17	-30
Defensewide and Defense Agency	<u>20</u>	<u>24</u>	<u>24</u>	21	-2	19
Total	101	93	81	-8	-13	-20

SOURCE: Congressional Budget Office based on data from the Department of Defense.

NOTE: Adjusted values in 1990 reflect the transfer of appropriations for the Special Operations Command, the Defense Health Program, and the Defense Environmental Restoration Account from the military services to defensewide accounts. The values for 1990 were adjusted for the incremental costs of Operation Desert Shield.

**TABLE 6. CHANGES IN MILITARY AND CIVILIAN PERSONNEL
END STRENGTHS, WITH AND WITHOUT ADJUSTING
FOR TRANSFERS (By fiscal year)**

	<u>Thousands of Personnel</u>			<u>Percentage Change</u>		
	<u>1990</u>	<u>1995</u>	<u>1999</u>	<u>1990- 1995</u>	<u>1995- 1999</u>	<u>1990- 1999</u>
Active-Duty Military Personnel^a						
Army	751	510	495	-32	-3	-34
Navy	583	442	394	-24	-11	-32
Marine Corps	197	174	174	-12	0	-12
Air Force	<u>539</u>	<u>400</u>	<u>390</u>	-26	-2	-28
Total ^a	2,069	1,526	1,453	-26	-5	-30
Civilian Personnel						
Unadjusted						
Military services	970	721	665	-26	-8	-31
Defense agency and other personnel	<u>103</u>	<u>152</u>	<u>130</u>	48	-14	26
Total	1,073	873	795	-19	-9	-26
Adjusted for transfers^b						
Military services	930	721	665	-22	-8	-28
Defense agency and other personnel	<u>143</u>	<u>152</u>	<u>130</u>	6	-14	-9
Total	1,073	873	795	-19	-9	-26

SOURCE: Congressional Budget Office based on data from the Department of Defense.

- a. Excludes full-time National Guard and Reserve forces.
- b. Adjusted numbers of civilian personnel for 1990 reflect the transfer of personnel from the military services to the Defense Exchange and Commissary Agency, the Defense Financial and Accounting Service, the Defense Information Systems Agency, the Defense Logistics Agency, and the Department of Defense Domestic and Overseas Dependent's Schools.

Although the magnitude of civilian reductions programmed in the Administration's plan for 1995 through 1999 is greater than the magnitude of reductions programmed for the military, the cuts are far less severe than those that occurred between 1990 and 1995. Between 1994 and 1995, the FYDP assumed that 50,000 personnel—about 5 percent of DoD's civilian employees—would leave the workforce voluntarily. Although that number may seem large, more civilians left DoD's ranks during 1994 than had been expected, so

the cuts required to reach end strength targets for 1995 will be smaller than 50,000. Even so, a reduction of that magnitude in one year is not out of step with recent history—DoD has decreased its civilian payrolls by 28,000 to 69,000 workers each year since 1990. Buyout authority, which the Congress authorized for DoD through 1997, gives the department an additional tool to manage the size of its civilian workforce by offering employees a lump sum to leave DoD's payroll voluntarily.

As with O&M spending, decreases in the number of civilian personnel employed by the military services tend to be overstated because responsibilities for some activities have been transferred from the military services to central defense agencies. Likewise, much of the apparent increase in end strengths at defense agencies is the result of transfers of civilian employees from the services. If one adjusts for transfers from the services to five agencies (the Defense Exchange and Commissary Agency, the Defense Finance and Accounting Service, the Defense Logistics Agency, the Department of Defense Domestic and Overseas Dependents' Schools, and the Defense Information Systems Agency), civilian end strength of the military services would fall by 22 percent between 1990 and 1995, whereas that of defense agencies would grow by just 6 percent. Other civilian personnel may have been transferred as well, but they are not reflected in these estimates.

Perhaps a more important issue is how the Administration's future plans for civilian personnel levels will affect DoD's ability to operate and support its forces. For some support functions the Defense Department may have an excess of civilian workers relative to the future work load expected by the military services. Centralized or joint service management of some support activities might also permit DoD to operate and support its forces with fewer workers. Other policies could increase the need for civilian workers. For example, some Members of Congress contend that DoD could preserve its combat capability (and possibly lower its costs) by converting military billets in support functions to civilian positions. DoD has begun identifying such positions. The task at hand for DoD planners is to determine what mix of military and civilian personnel best supports a smaller U.S. force structure and how to manage the transition to a smaller force.

Spending for Planned Investments Has Been Kept Stable. DoD's plans for 1995 call for real funding of its investment accounts—RDT&E, procurement, and military construction titles—to be about 40 percent below the 1990 level. Because DoD purchased large numbers of aircraft, ships, and tanks during the 1980s, it is able to postpone replacing many of its weapon systems until the next decade. As those systems continue to age, however, DoD will ultimately need to replace or refurbish its stocks of equipment.