

**TABLE 12. PROGRAMMED COSTS FOR BRAC-95 COMPARED WITH PREVIOUS BRAC ROUNDS, FISCAL YEARS 1995-1999**  
(In billions of current dollars of budget authority)

	1995	1996	1997	1998	1999	Total, 1995-1999
If BRAC-95 Is Like BRAC-88	0	0.6	1.2	0.8	0.5	3.0
If BRAC-95 Is Like BRAC-91	0	0.4	1.8	1.7	0.4	4.3
If BRAC-95 Is Like BRAC-93	0	<u>1.2</u>	<u>2.5</u>	<u>2.8</u>	<u>0.5</u>	<u>7.0</u>
Total	0	2.1	5.4	5.2	1.5	14.2
Funding for BRAC-95 Under the Future Years Defense Program	0	0.7	0.9	1.0	0	2.6
Difference	0	1.4	4.5	4.2	1.5	11.6

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

**NOTES:** Values for BRAC-88, BRAC-91, and BRAC-93 (BRAC rounds for 1988, 1991, and 1993, respectively), are one-time costs in the BRAC account less land revenues.

BRAC = Base Realignment and Closure Commission.

An offsetting trend can be observed in the FYDP's assumptions about BRAC savings: the plan includes \$3.8 billion in savings associated with the 1995 round. Yet the first three closure rounds assumed \$1.1 billion, \$3.5 billion, and \$3.5 billion in savings, respectively, during their first four years, or a total of \$8.0 billion (see Table 13).<sup>36</sup> Other analyses maintain that DoD has tended to overstate the amount of costs avoided (or savings) that result from having fewer employees on the payroll and fewer facilities to operate and maintain when bases are closed.<sup>37</sup> It is difficult to evaluate that criticism because DoD has not tracked the magnitude of costs that it has actually avoided. If savings from the first three closure rounds are reasonable estimates of actual savings and the 1995 round is the same size as the first three combined, DoD will have underestimated BRAC savings in the FYDP by some \$4.3 billion.

36. The up-front costs of base closures tend to outweigh savings during the first few years, but savings continue to accrue long after closing costs cease.

37. See, for example, GAO, "Future Years Defense Program."

**TABLE 13. PROGRAMMED SAVINGS FROM BRAC-95 COMPARED WITH PREVIOUS BRAC ROUNDS, FISCAL YEARS 1995-1999**  
(In billions of current dollars of budget authority)

	1995	1996	1997	1998	1999	Total, 1995-1999
If BRAC-95 Is Like BRAC-88	0	a	0.1	0.3	0.5	1.1
If BRAC-95 Is Like BRAC-91	0	0.3	0.5	1.1	1.6	3.5
If BRAC-95 Is Like BRAC-93	0	0.1	0.4	1.2	1.8	3.5
<b>Total</b>	0	0.5	1.0	2.7	3.9	8.0
Savings from BRAC-95 Included in the Future Years Defense Program	0	0.4	0.6	0.8	2.0	3.8
<b>Difference</b>	0	0.1	0.4	1.9	1.9	4.3

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

**NOTES:** Savings do not include land revenues.

BRAC = Base Realignment and Closure Commission; BRAC-88, BRAC-91, BRAC-93, and BRAC-95 = BRAC rounds for 1988, 1991, 1993, and 1995, respectively.

a. Less than \$50 million.

If the combination of the first three rounds of base realignments and closures is representative of the costs of a fourth round of the same size, DoD might need as much as \$7.3 billion in additional funding to conduct the 1995 round (\$11.6 billion in costs minus \$4.3 billion in savings). By reducing the scope of that round, DoD could avoid some of the up-front costs associated with reducing its workforce, moving personnel and equipment, and cleaning up base facilities. But stretching out the BRAC process would mean carrying the costs of operating bases throughout the FYDP.

### **HOW LARGE IS THE SHORTFALL IN THE FYDP?**

It is difficult to pinpoint an overall shortfall for the FYDP because each of the factors outlined above is a type of risk—an outcome that may or may not happen. For example, the Congress granted military personnel a 2.6 percent pay raise for 1995, and the Administration has indicated recently that it plans

to include military pay raises that follow current guidelines in its budget through the remainder of the decade. Therefore, it is quite likely that DoD will face higher pay costs over the period. But less is known about the magnitude of cost growth for weapon systems or environmental cleanup. To add up worst-case cost estimates for a broad array of factors is tantamount to assigning a high probability that each will occur, an assumption that is without any particular foundation.

Nor does the worst-case method take into account the fact that DoD could make some adjustments in what it proposes to accomplish during the FYDP period. For example, the Administration might defer its plans for environmental cleanup, particularly those actions that are not directly related to closing bases or that do not involve immediate health risks. DoD might also reevaluate some of its funding priorities—perhaps scaling back some modernization projects.

But as a rough order of magnitude, DoD's costs are likely to be \$65 billion, or about 5 percent, higher than the Administration's plan for defense during the 1995-1999 period. That estimate takes into account those factors that have already changed or are likely to occur: larger pay raises than those assumed in the FYDP (\$23 billion), inflation at rates higher than initially projected (\$20 billion), unanticipated growth in weapon system costs (\$8 billion), a larger BRAC round (\$7 billion), and additional funding for the incremental costs of contingency operations (\$6 billion) and for quality-of-life initiatives proposed by the Administration (\$2 billion). If CBO includes higher cost growth for weapon systems and for environmental cleanup efforts, DoD's shortfall could rise to more than \$100 billion, or about 9 percent of planned spending.

CBO's \$65 billion estimate does not reflect the President's recent announcement that he plans to seek additional funds for defense, nor does it take into account the Administration's recent changes in weapons modernization programs. Together, those measures would reduce CBO's estimate to a shortfall of about \$47 billion in the 1995-1999 period, or 4 percent of total spending. Administration officials contend that their inflation projections (which are due to be released with the budget proposal for 1996) would further lower CBO's estimate.

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## ADDED COSTS OF FORCE STRUCTURE UNDER THE BOTTOM-UP REVIEW BEYOND 1999

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The purchase of large numbers of weapon systems during the 1980s will allow DoD to live with less procurement spending during the 1990s. But that procurement holiday will not last forever—DoD is likely to need substantial increases in funding beyond 1999 in order to replace or modernize the forces it bought during the 1970s and 1980s.

Will current policies cause future problems for the defense budget? To address that question, CBO projected the costs of the Administration's Bottom-Up Review (BUR) force structure from the year 2000 to 2010. The projections below compile cost estimates made for each of the military services over the same period, as well as projections of costs for defensewide and defense agency activities, Department of Energy defense activities, and operations performed by other agencies that fall under the national defense budget category. Because the Administration has not published specific procurement plans for the period beyond 1999, CBO's estimates are based on what has been gleaned from statements and the stated goals of the Administration. Assumptions about the timing, cost, and production rates for specific weapon systems can be found in three companion pieces to this paper.<sup>38</sup>

For each year, CBO made two estimates of national defense costs: one assuming that future Administrations would constrain the growth in costs of weapon systems and another in which costs for selected major systems grew at rates consistent with historical experience. Those estimates should not be interpreted as a range with statistical meaning. Instead, the range reflects two distinct sets of estimating assumptions that differ primarily according to whether they include cost growth for major weapons.

In this paper, CBO includes the effects of rising costs for weapons to show how significant that upward pressure may be. But those projections reflect *costs* of the BUR force structure and are not a prediction of what the national security *budget* might be.

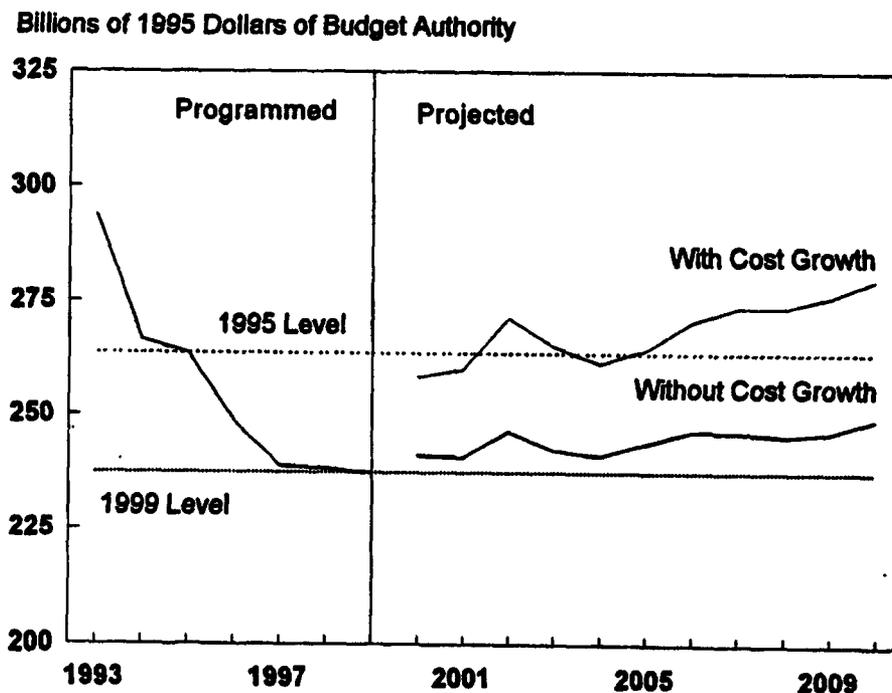
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38. Congressional Budget Office, "Long-Term Implications of the Administration's Plans for the Navy" (November 1994); "Long-Term Implications of the Administration's Plans for the Army" (November 1994); and "Long-Term Implications of the Administration's Plans for the Air Force" (November 1994).

### Approximate Size of Increases to Accommodate Modernization Needs

Under CBO's assumptions, the Administration's plan for national defense spending for the 2000-2010 period would cost an average of \$7 billion to \$31 billion more per year (in 1995 dollars) than the level of spending programmed within the FYDP for 1999, or between 3 percent and 13 percent more (see Figure 3). That finding has major implications for policy options that the Congress and the Administration might pursue, since postponing modernization costs today could make the long-term situation worse. The costs of the BUR force structure would peak in 2002 because of the purchase of an aircraft carrier in that year. They would then increase toward the end of the decade as the Air Force begins procurement of an aircraft from the Joint Advanced Strike Technology program and the Navy increases the annual rate at which it procures F/A-18E/F aircraft.

FIGURE 3. LONG-TERM IMPLICATIONS OF THE ADMINISTRATION'S PLAN FOR NATIONAL DEFENSE SPENDING



SOURCE: Congressional Budget Office.

A future Administration will not necessarily need, say, a \$20 billion increase in defense spending in the year 2000. Instead, the Congress and the Administration are likely to make adjustments to both programmed levels of defense spending for 1999 and the number and timing of major procurement programs that are now under way. CBO's projections provide one estimate of how modernization of BUR forces might take place and the magnitude of funding increases that might be needed to achieve that procurement schedule.

### CBO's Outlook for the Federal Budget Deficit

Rising defense costs could contribute to a higher federal deficit in the next decade. CBO's projection of the deficit assumes that the Congress makes no changes in current law or in policies that affect revenues and mandatory spending. Under those assumptions, the federal budget deficit would fall to \$162 billion in 1995 but would then begin to increase, rising to \$176 billion in 1996. The deficit would continue on an upward course to \$397 billion in 2004, the last year for which CBO has made a projection.<sup>39</sup> If the Congress chooses to fund the defense budget at a higher level in the coming decade without cutting nondefense programs by an equal amount, the federal budget deficit could be even higher.

The growth in the deficit after 1995 will be driven by increases in spending for two mandatory programs, Medicare and Medicaid, which have been growing by annual rates well above those for inflation in the economy as a whole. The projections assume that overall discretionary spending is limited to the amounts specified in OBRA-93 through 1998 and keeps pace with inflation thereafter, implying no real growth in that category of spending.

### OPTIONS FOR ADDRESSING THE SHORTFALL

The Congress and the Administration may need to consider a broad spectrum of programmatic changes to address the potential mismatch between resources and force structure for the 1995-1999 period. This section outlines illustrative options that fall under four general approaches: increasing defense spending, constraining DoD's responsibilities, lowering DoD's costs of doing business, or reducing military capability. Some of the options described below could fall under more than one of the above approaches; restructuring roles and missions among the services, for example, might improve efficiency in DoD operations but could reduce military capability as well.

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39. Congressional Budget Office, *The Economic and Budget Outlook: An Update* (August 1994), pp. 30-31.

### Increase Defense Spending

The premise for the Administration's Bottom-Up Review was that U.S. forces should be able to fight and win two major regional conflicts nearly simultaneously—for example, one in the Persian Gulf and one on the Korean peninsula. There is considerable debate as to whether those forces—10 active (plus 5 reserve) Army divisions, 11 active (1 reserve) aircraft carriers, and 13 active (7 reserve) Air Force tactical fighter wings—would be able to achieve that objective. A March 1994 analysis by CBO argued that when the superior quality of U.S. equipment was taken into account, the United States would be able to bring considerable forces to bear.<sup>40</sup> But others believe that even if BUR forces were capable of the task in theory, the Administration's planned levels of defense spending are not adequate to keep those forces ready for conflict.

Under that line of reasoning, the Congress may choose to increase national defense spending over the remainder of the decade. But more defense spending does not necessarily guarantee enhanced readiness or greater military capabilities; it could also be used, for example, to retain facilities that might otherwise be considered excess. And under discretionary spending caps set through 1998, the Congress would need to cut nondefense programs by an amount equal to defense increases. Such actions may be difficult to achieve at a time when issues like crime, education, welfare reform, and health care reform occupy positions of considerable importance on the national policy agenda.

### Limit DoD's Responsibilities

The policy alternatives described below could reduce the need for defense resources. But in order to forestall a significant shortfall in the defense budget, one would need to carry out all of those alternatives. The Congress and the Administration may want to consider pursuing some of the options in combination with policies that would have a larger effect on defense funding needs.

Cut Nontraditional Spending. Some types of spending not directly tied to operating and supporting forces might be cut back without affecting readiness or military capability. The Congress might choose, for example, to slow some of DoD's environmental cleanup efforts or reduce the amount of money spent on programs to help defense firms convert to commercial markets. The

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40. CBO, "Planning for Defense."

Congress might also reconsider what part the nation should play in humanitarian, peacekeeping, and other contingency operations. If the United States continues its role in current operations or expands those efforts, should funding for that involvement replace spending for training and support in more traditional warfighting operations?

Under a broad interpretation of the term "nontraditional spending," that category accounts for about \$11 billion to \$13 billion in annual defense expenditures. If DoD's responsibilities were defined more narrowly to exclude some of these activities, there might be less pressure on defense costs. But that change might not lower overall federal spending if the responsibility for those programs was simply transferred to another federal agency. And unless the Congress was willing to eliminate most or all of the programs, it seems doubtful that savings from this area would, by themselves, cover the likely size of DoD's shortfall.

Cut Programs Designed to Protect the Defense Industrial Base. In recent years, the Administration and the Congress have included funding within the defense budget for some weapon systems not only because they meet a military need but also because the industry that produces that equipment would lose important skills and capabilities if production ceased. Advocates of, for example, the purchase of a third Seawolf submarine argue that it may be less expensive to purchase additional weapons today than to close down their production lines and restart them some time in the future.<sup>41</sup> That argument does not apply, however, to all systems. In the case of upgrades to the M1 tank, for instance, a CBO analysis found that an upgrade program would be more costly than mothballing the production line.<sup>42</sup> In addition, weapons programs add military capability (of whatever importance) to the U.S. arsenal. Critics, however, contend that the benefits of policies that aim to sustain military design and production capabilities are too nebulous—it is unclear when or even if the United States will need to restart production lines in the future. In the meantime, spending for unnecessary programs is undertaken at the expense of today's military readiness.

The magnitude of potential savings from cuts to defense industrial base programs depends on what one includes within that category. It seems clear, for example, that initiatives for the M1 upgrade, the Seawolf submarine, and the ammunition industrial base are designed with future production capability

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41. John Birkler and others, *The U.S. Submarine Production Base*, MR-456-OSD (Santa Monica, Calif.: RAND, 1994).

42. Congressional Budget Office, "Alternatives for the U.S. Tank Industrial Base," CBO Paper (February 1993).

in mind.<sup>43</sup> But other weapons purchases might be included under this category as well, depending on one's opinion about the necessity of their associated military capability.

### Do Business More Efficiently

The Congress and the Administration are in the midst of policy changes that aim to reduce DoD's costs of doing business. If that aim is achieved, some but probably not all of the funding pressures that DoD is likely to face during the FYDP period could be alleviated.

Reform the Acquisition Process. Under the Administration's National Performance Review (NPR) and recent legislative changes to the procurement process, the costs of buying weapons and equipment could fall. Indeed, the Administration is counting on this to be the case: it assumed that federal agencies would save about \$12 billion during the 1995-1999 period because of NPR initiatives. DoD was told to reduce its budget authority in 1995 by \$315 million as a result of that assumption, but if future cuts are proportional to its share of discretionary spending and procurement costs do not fall, DoD may need to make programmatic changes that would reduce its budget by \$5.1 billion over the 1996-1999 period.

How much in savings should DoD count on from acquisition reform? Over the years, numerous Administrations have attempted to overhaul DoD's procurement process and improve its efficiency, yet most analysts consider those efforts to have met with little success. The 1984 Grace Commission and the 1986 Packard Commission, for example, are just two of many panels that have suggested initiatives to improve acquisition efficiency. But few of the calls for simplifying procurement practices and using products widely available in the commercial sector have ever been implemented by the Defense Department.

The Administration has taken concrete steps to address acquisition reform. For example, Secretary Perry has initiated a process to review and reduce the number of military specifications, and DoD now has a pilot program under which six major acquisition projects may use commercial practices. The Congress adopted many of the statutory changes recommended by DoD's Acquisition Law Advisory Panel in the Federal Acquisition Streamlining Act, which was passed in September 1994. The Defense Department has begun as well to reduce its workforce under NPR guidelines,

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43. Department of Defense, *Industrial Capabilities for Defense* (September 1994).

although cuts in the acquisition corps of the services have not yet been as large as those for the procurement projects they oversee.<sup>44</sup> It remains to be seen, however, what magnitude of savings those steps may produce.

**Consolidate Infrastructure.** Although military forces have declined by 30 percent to 45 percent between 1990 and 1995, the replacement value of DoD's bases and facilities will have fallen by only about 15 percent (20 percent, if one includes all facilities worldwide) once currently planned closures are completed. That relatively small drop suggests that the costs of operating and supporting each unit of U.S. forces may have increased. In the face of such a restrictive spending climate, it is critical that DoD find ways to reduce its infrastructure burden.

A recent CBO paper points to several areas in which support functions might be restructured and consolidated to reduce costs, including military medical care, family housing, the acquisition workforce, depot maintenance, intelligence activities, and pilot training.<sup>45</sup> In the case of weapons maintenance, for example, CBO's analysis found that, given the services' projections of future workload and depot capacity, DoD could close up to seven public depots in the 1995 BRAC round and ultimately reduce defense costs by about \$400 million per year. In many cases, the services could downsize their support functions independent of one another. But given each service's desire to keep control over its own support operations and the political and bureaucratic obstacles to downsizing, the Administration and the Congress should also consider assigning primary responsibility for certain support activities to a lead service or restructuring separate activities into joint operations.

### **Options That Reduce Capabilities**

Those policy alternatives that are most certain to pare defense costs involve reducing military capabilities.

**Reassign Roles and Missions Among the Services.** Assignments of combat roles and missions among the services have remained basically unchanged since U.S. military leaders came to an agreement on the matter nearly 50 years ago in Key West, Florida. The downturn in defense spending, however, has reinvigorated debate about the issue. Indeed, in its defense authorization

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44. Congressional Budget Office, "Easing the Burden: Restructuring and Consolidating Defense Support Activities," CBO Paper (July 1994).

45. Ibid.

bill for 1994, the Congress set up an independent commission to review the current assignments of roles and missions among the services with an eye toward reducing duplication of efforts and defense costs.

In March 1994 testimony before the Senate Budget Committee, CBO analyzed several possible changes to combat responsibilities among the services.<sup>46</sup> Under one such change, the Marine Corps would be assigned primary responsibility for providing contingency forces. Other options included making the Army responsible for its own close air support rather than relying on the Air Force, reducing the number of Navy aircraft that support Marine operations, relying on Air Force bombers rather than planes on Navy aircraft carriers to conduct air strikes on distant targets, and increasing the Army's role in theater missile defense.

The topic of roles and missions is contentious; each service vigorously defends its current missions and the resources it is assigned to carry them out. And although the options presented here have the potential to save considerable amounts of money, some changes would arguably reduce military capability—an outcome that is not widely popular in the aftermath of significant cuts that have already been made to achieve BUR force levels.

Spend Less to Maintain Readiness. For 1995, the Administration's plan appears to emphasize O&M spending, a budget category that funds activities related to readiness such as training and weapons maintenance. It is difficult to determine how well the Administration's plan funds readiness-related activities over the remainder of the decade. The drawdown in personnel and in forces, together with the uncertainty surrounding the magnitude of future base closures, makes it unclear whether the O&M dollars programmed in the FYDP are sufficient.

Some people argue that contingency operations have already affected readiness: spending for smaller-scale missions has drawn off resources that would otherwise have been used for traditional training exercises, repair of equipment, and other activities that prepare U.S. forces for combat. Whatever the current status of U.S. readiness may be, as upward pressure on defense costs increases, it seems clear that readiness will ultimately be affected. If the Administration and the Congress hold on to excess infrastructure, for example, the burden of keeping those facilities open would leave fewer resources available for activities that affect readiness directly.

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46. Statement of Robert D. Reischauer, Director, Congressional Budget Office, before the Senate Committee on the Budget, March 9, 1994.

**Cut Force Structure.** Given the pressures on the defense budget, the Administration and the Congress may be forced to consider whether the objectives of the BUR's two-war scenario are appropriate ones for the United States. If the most likely foes have forces less capable than those included as part of the Administration's assumptions during its Bottom-Up Review, or if one believes that U.S. forces are likely to be used sequentially rather than simultaneously in major regional conflicts, the United States may be willing to assume greater risk in return for lower levels of defense spending. Alternatively, some Members of Congress believe that the United States must maintain the ability to fight and win two conflicts. Otherwise, an ambitious adversary could take advantage of U.S. involvement in one war to achieve its aims.

**Cancel Weapons Programs or Delay Some Modernization.** One approach that the Administration and some Members of Congress seem willing to consider is to cancel some new weapon systems currently under development. Given the large numbers of platforms that were purchased during the 1980s, that approach may be acceptable for some categories of weapons. The Congress has recently debated, for example, whether the Navy needs its new attack submarine, a system designed to sustain a 45- to 55-ship attack sub force at lower cost than alternative submarines such as the Seawolf. The Administration recently announced that it plans to cancel or dramatically restructure two major programs considered to be among the services' highest priorities, the Tri-Service Standoff Attack Missile and the Comanche helicopter. (The Army will purchase two prototype Comanches but will not procure large numbers of the helicopter in the 1996-2001 period.)

A related alternative is for DoD to delay some of its modernization plans. For example, the Administration will delay development of the Marine Corps's advanced amphibious assault vehicle by two years and the Air Force's F-22 fighter aircraft by a few months. Procurement of new equipment cannot be postponed indefinitely, however, and delays may make DoD's long-term budget situation more problematic.

Another tactic is to reduce the annual quantities produced for weapon systems for which procurement is already under way. The Administration has decided, for example, to slow the rate at which it procures DDG-51 destroyers and postpone production of the new attack submarine. That approach reduces annual expenditures for those weapons, but for weapons whose production is marked by economies of scale (such as aircraft), each unit costs more. During the current period, annual rates of production for many weapon systems are already low, so the cost of that approach could be considerable.

