KEY ISSUES IN CONSIDERING
THE FISCAL YEAR 1981 DEFENSE BUDGET

Congress of the United States
Congressional Budget Office

January 23, 1980
The recent debate over increasing U.S. defense spending has focused principally on the rate of growth for future defense budgets. Much less attention has been given to the specific improvements that the military forces need. This summary analysis, prepared by the Congressional Budget Office at the request of the House and Senate Budget Committees, profiles some of the programmatic issues suggested by study of past budgetary decisions, recent Administration announcements, and current developments. It is intended as an aid in reviewing the President's fiscal year 1981 defense budget request, scheduled for release January 28, 1980.

The paper was prepared by the National Security and International Affairs Division, and by the Defense and International Affairs Cost Estimates Unit of the Budget Analysis Division, under the supervision of David S.C. Chu, Robert F. Hale, and Patrick L. Renehan. It is based on work by Richard Davison, Andrew Hamilton, John Hamre, Pat Hillier, Marshall Hoyler, Alice Hughey, Michael Miller, Tom Phillips, Joel Slackman, Nora Slatkin, Edward Swoboda, Peter Tarpgaard, and Dov Zakheim. The manuscript was edited by Johanna Zacharias and prepared for publication by Nancy Brooks.
On January 28, 1980, as part of the Administration's budgetary proposals for fiscal year 1981, the President will propose a defense budget and guidelines for fiscal years 1982-1985. A preview of this proposal given by the Secretary of Defense on December 13th suggested that budget authority in fiscal year 1981 would grow by 5.6 percent over budget authority in fiscal year 1980, after adjustment for inflation. In succeeding years, budget authority would continue to grow at a real rate of approximately 5 percent per annum.  

This planned growth of 5.6 percent implies an increase in fiscal year 1981 of about $8.5 billion over fiscal year 1980, after adjustment for inflation. The Congressional Budget Office (CBO), however, estimates that the "baseline" of programs approved by the Congress in the course of debate on the fiscal year 1980 defense budget would require a real increase of only $1.8 billion in new budget authority in fiscal year 1981. CBO foresees similar differences in succeeding years.

Such differences imply that the President will recommend a variety of initiatives to improve the United States' defense posture. That posture has become a matter of great concern, because of the growth in recent years of Soviet military capability and in light of current events in Iran and Afghanistan.

Recent debate over defense spending, however, has been marked by a tendency to emphasize the budget authority target as an end in itself, rather than focusing on programmatic content. This paper begins with a discussion of the costs of the baseline program, projecting the five-year implications of decisions made last year by the Congress. It then identifies a series of key issues regarding future defense requirements that are implicit in past deliberations, recent Administration announcements, and current developments. The paper is intended as an aid in reviewing the President's proposed defense budget. Not all the issues

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1/ One difference between this year's debate and the debate over the fiscal year 1980 defense budget last year is that real growth is now being considered in terms of budget authority rather than in terms of outlays. Because outlays reflect, in part, the spend-out of prior-year budget authority, they are much more difficult to control in the short run. A shift to budget authority recasts the debate in terms of new spending decisions, rather than a mix of new decisions and the current implications of past decisions.
raised in the paper will be fully answered by the Administration's initial budgetary release on January 28; some will await clarification with the submission of detailed justification statements and five-year plans. A forthcoming CBO paper will provide a more detailed analysis based on this additional documentation, considering both the President's proposal and alternative approaches.

A BASELINE PROJECTION

The Congressional Budget Office has prepared a baseline projection of the costs over the next five years of the defense budget approved for fiscal year 1980, assuming the programs it includes are carried out as envisaged. Table 1 presents these costs in constant fiscal year 1980 dollars; Table 2 gives the same projection in current dollars. 2/

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SOURCE: CBO estimates.

a/ Detail may not add to totals because of rounding.

2/ The defense baseline is a five-year projection of an explicit defense force structure and investment program consistent with the Administration's program but reflecting Congressional guidance and action on the fiscal year 1980 budget. The fiscal year 1980 force structure and investment programs are those approved in the fiscal year 1980 budget (see Appendix). The outyear force structure reflects announced force level
TABLE 2. ACTUAL AND PROJECTED BASELINE DEFENSE BUDGET AUTHORITY, BY MAJOR MISSION: TO FISCAL YEAR 1985, IN BILLIONS OF CURRENT DOLLARS

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SOURCE: CBO estimates.

a/ Detail may not add to totals because of rounding.

Both tables display a pattern of defense expenditures that is much less ambitious than the President is now expected to propose for fiscal years 1981-1985. Table 1 suggests a real growth trend of 1 to 1.5 percent per year between fiscal years 1980 and 1985. Three-fourths of that growth would be in strategic forces, and all of the real increase in strategic spending would be for investment— principally on the MX missile system. Real spending on tactical forces would remain essentially unchanged, although there would be some shift in the composition of these expenditures. Costs associated with land forces would rise modestly, as the Army pursued its modernization program (involving changes, introduction of new weapons systems purchased in the current and prior years, and the planned deactivation of obsolete or worn-out systems. The outyear investment programs represent the Administration's program adjusted to reflect the outyear effects of fiscal year 1980 Congressional appropriation decisions.

The baseline is costed in fiscal year 1980 dollars assuming the same per unit level of force activity in the outyears as approved in the fiscal year 1980 budget. The costing also assumes the same level of efficiency over the six-year period. The outyear costs in fiscal year 1980 dollars are inflated using the latest CBO economic assumptions.
the XM-1 tank and Infantry Fighting Vehicle). Costs associated with tactical air forces would decline as the major aircraft procurement programs (for F-14, F-15, and A-10 planes) came to their planned conclusion. Shipbuilding funds would remain roughly constant. Support costs would grow somewhat, largely owing to growth in the number of military retirees and the costs associated with military retirement pay.

Table 2 indicates that the plans implicit in the fiscal year 1980 budget—taking into account actions of the Congress to date—would require a $1.8 billion real increase in budget authority in fiscal year 1981 over fiscal year 1980. The Administration's December preview forecast a 5.6 percent real increase in budget authority, or $8.5 billion, in fiscal year 1981, with similar increases envisioned for succeeding years.

How would these additional funds be spent? The baseline projection already includes all the strategic programs that the Congress approved during consideration of the fiscal year 1980 budget and that were reaffirmed in the December preview of the defense budget. No new strategic programs were announced publicly in that preview. The baseline projection also includes the planned modernization of Army equipment, although the President may request an acceleration of those programs. And it includes a continuation of naval shipbuilding at a funding level approximately equal to that approved in fiscal year 1980.

While it is not clear how all the funds would be spent, it is clear that the Administration's planned request not only allows continuation of the initiatives begun in fiscal year 1980, but it also provides substantial latitude for new programs, or for enhanced funding of existing programs. Higher levels of defense budget authority would further expand this set of opportunities. The next section of this paper, therefore, lists some of the major issues suggested by past budgetary deliberations, recent Administration announcements, and current developments.

ISSUES FOR FISCAL YEARS 1981-1985

Conventional Forces

The Rapid Deployment Force. Much attention has been given during the past year to contingencies in the Third World and to the U.S. ability to react rapidly with a large conventional force outside Central Europe. Last fall, the Administration announced plans to create out of existing units a "rapid deployment force"
of up to 100,000 troops. Subsequent debate highlighted the lack of adequate airlift and sealift assets to move a force of that size quickly to a distant point—the Persian Gulf, for example.

The Secretary of Defense's December preview focused on this problem and proposed two new programs to deal with it. The first would involve procurement of a new aircraft for the long-distance transport of military equipment. Designated the CX, this plane could be similar to the existing C-5A transport. The second program would involve procuring special ships—reminiscent of the fast-deployment logistics ships proposed in the 1960s—to carry Marine equipment and to facilitate the rapid deployment of Marine units. A senior Administration spokesman has indicated a procurement goal of 14 of these "roll-on/roll-off" ships. These would be sufficient to carry the equipment for three Marine brigades, the objective identified by the Secretary of Defense in his December budgetary preview.

Less discussion has been offered, however, regarding the kinds of scenarios in which a rapid deployment force would be employed, the factors considered in sizing it, and the factors that would determine the size of associated airlift and sealift programs. How large a force must arrive by air, and how much of the force could arrive by sea? Was the force created for the primary purpose of securing Middle East oil supplies? Or did preparing for other contingencies also influence the force's size and composition? Would U.S. forces be acting unilaterally or in concert with other powers? If the principal purpose is ensuring energy security, what other steps is the Administration considering—steps that might go far beyond the defense budget, involving such issues as proliferating the sources of oil supply, especially outside the Middle East?

Additional questions arise relating to the specific programs announced in connection with the rapid deployment force. What would be the composition of the pre-positioned equipment aboard the roll-on/roll-off ships? Is the equipment available now or must additional equipment be procured? Where would the roll-on/roll-off ships be located? How many CX aircraft would be required? Would their purchase require procurement of additional tanker aircraft to provide refueling support in a deployment?

Thus, a first key question emerges:

- What will be the requirements associated with creation of a rapid deployment force, and what criteria will serve in developing those requirements?

Ground Forces for NATO. To size conventional forces, the Administration has emphasized military needs in the event of a major European war between NATO and the Warsaw Pact. Because of the sustained Warsaw Pact buildup over the last decade, great concern has been expressed with the adequacy of NATO's forces to meet an attack in Central Europe.

Responding to that concern, the Defense Department has pursued initiatives begun by earlier administrations to modernize the Army's ground combat capabilities. The Army has been developing a new series of weapons systems that would replace existing equipment, including a new tank (the XM-1), a replacement for the M-113 armored personnel carrier (the Infantry and Cavalry Fighting Vehicles), a new utility helicopter (the Blackhawk), and a new attack helicopter. The baseline projection in Table 1 includes funding for these programs in fiscal years 1981-1985 at rates consistent with the Administration's 1980 plan, adjusted to reflect Congressional action on the fiscal year 1980 budget. It is possible, however, that the rate of modernization now planned may not be fast enough to keep pace with the Warsaw Pact buildup.

While a rapid Warsaw Pact buildup highlights requirements for overall Army modernization, the Administration has also expanded the U.S. commitment to pre-position equipment for specific Army units in Europe. By pre-positioning equipment (under the so-called POMCUS program), 4/ and simply flying the troops to Europe in a crisis, the response time for delivering reinforcements can be cut substantially. The Administration has pledged that it would pre-position equipment for three additional divisions in Central Europe by the end of 1982. A senior Administration spokesman has recently reconfirmed that pledge and has indicated that the United States would expand this commitment by adding three more divisions of pre-positioned equipment by 1986, 5/ for a total of nine division sets.

4/ The term POMCUS stands for "Pre-positioned Materiel Configured in Unit Sets."

If the Army had all of the equipment called for by its War Reserve Stock objectives, it would have enough equipment to pre-position one set in Europe and retain another set for training in the United States. The training equipment would also be used in a deployment to a contingency outside Central Europe, should such a deployment be required and should circumstances preclude the use of the POMCUS equipment. In practice, War Reserve inventories are significantly below target levels, and even current levels of pre-positioning strain the Army's equipment stocks. Pre-positioning equipment for a total of nine divisions would require procurement beyond the levels now planned for the next five years.

Considering both the need to counter the Warsaw Pact buildup and the requirements associated with additional pre-positioning commitments, a second key question arises:

- At what rate will new Army equipment be procured? Will XM-1 tanks be purchased at the rates envisaged when the fiscal year 1980 budget was approved (50 per month in fiscal year 1981, increasing to 90 per month by fiscal year 1984)? Will the Infantry/Cavalry Fighting Vehicle be procured at currently planned rates (30 per month in fiscal year 1981 and 50 per month thereafter)? Or will these rates be increased? What is planned for other items of Army equipment?

Naval Forces. Great concern has been expressed about the size of the U.S. fleet, which shrank considerably during the 1970s. Ship construction during that decade will result in modest growth of the fleet during the 1980s; but, at current construction rates, the fleet will again begin to decline at the end of the 1980s. It is widely believed that neither the present nor the planned size and capabilities of the fleet would sustain expansion of peacetime deployments to areas of concern in the Third World, unless there is a change in other deployments or present deployment practices.

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6/ For a discussion of this issue, see CBO, Strengthening NATO: POMCUS and Other Approaches, Background Paper (February 1979).
With the funds available for shipbuilding in the last several years, the Defense Department has pursued a "high/low mix" strategy. Shipbuilding programs have represented a compromise between acquiring additional capability to attack Soviet forces in or near the Soviet homeland (to preempt their ability to threaten the sea lines of communication to Europe in a major war) and providing additional capability for immediate defense of the sea lanes and for deployments in the Third World. The first mission requires individual ships of high capability and great expense (the CG-47 air defense carrier, formerly known as the DDG-47, for example); the latter two missions require somewhat less expensive ships with significant—but more modest—capabilities (the FFG-7 frigate, for example). Given any shipbuilding budget, an emphasis on attacking Soviet forces in or near their bases will also mean opting for a smaller fleet than would otherwise be possible. Choosing the appropriate mix of ships involves decisions about future Navy missions and about the extent of capability needed for each mission requirement.

Thus, a two-fold question in the fiscal year 1981 budget is:

- What should the size of the shipbuilding account be relative to that of fiscal year 1980, and what types of ships should be selected for procurement? Will the Administration, for example, procure the CG-47/AEGIS at the planned rate of two per year, and the FFG-7 at the rate of six per year? Or will a different mix be selected?

One problem with the less expensive ships currently available is that they are regarded as more limited in their capabilities than even Third World deployments might require. Present and soon-to-be-available technology, however, might permit upgrading the capabilities of these ships—especially those authorized in future budgets—in a manner that would make them significantly more effective, especially in low- to medium-threat environments. Thus, a fourth key question is:

- What plans does the President propose for improving the capabilities of present or future "low-mix" ships?

Strategic Forces

The United States has already embarked on an ambitious modernization program for its strategic forces, reaffirming
the commitment to a survivable triad of strategic capabilities, including land-based intercontinental ballistic missiles, submarine-launched ballistic missiles, and aircraft-based weapons.

As the baseline projection in Table 1 indicates, spending on strategic force modernization programs will increase almost 75 percent in real terms by fiscal year 1985.

One event compelling the present modernization effort is the Soviet deployment of large, accurate, ballistic missiles. The Soviet force, it is thought, will soon be capable of destroying a significant percentage of U.S. land-based missiles. In response, the United States is developing a mobile MX missile that will covertly be shuttled among a complex of shelters in order to maintain the missile's survivability.

The United States is also building a new submarine to replace the aging Polaris and Poseidon fleet of nuclear ballistic missile submarines. The Congress authorized funds in the fiscal year 1980 budget for an eighth Trident, a large submarine designed to carry 24 of the new, larger Trident II missiles. Until the Trident II is developed, however, Trident submarines will be armed with the Trident I missile, which is just now entering operational status. Trident I missiles will also be installed on 12 of the existing Poseidon submarines.

For the aircraft component of the strategic nuclear "triad," the United States is pursuing development of cruise missiles. 7/ With upgraded avionics, existing B-52 bombers would be the initial carrier of the cruise missiles, to be succeeded eventually by a new aircraft specifically designed (or reconfigured) as a cruise missile carrier. Cruise missiles would allow the bomber force to launch strategic weapons at Soviet targets without having to penetrate the Soviet Union's formidable air defense system.

The pace of strategic modernization in the baseline projection, however, is not so rapid as the Administration originally proposed in January 1979. Within any budget, strategic force modernization must compete with other needs, including modernization of tactical forces. Because defense spending in the last

7/ The strategic nuclear triad, as its name implies, consists of three forces: one land-based, one seaborne, and one airborne.
several years has been more constrained than is now contemplated, that trade-off has caused a particular problem for the Trident II missile, a larger and more accurate missile than the Trident I now being procured. The Trident II, which would cost approximately $8 billion to develop, has been viewed as a competitor with conventional naval programs for limited Navy funds. It has been this trade-off, among other factors, that caused past slippage in the Administration's plans for the Trident II, and that led the Congress to cut Trident II funding in the fiscal year 1980 budget, signaling a possible postponement or even cancellation.

The Trident II missile could, however, be particularly important if the United States wanted to expand its sea-based strategic forces. Such an expansion might occur because of a need to increase overall strategic capability, or because the land-based MX missile system was delayed or canceled. The Trident II missile takes full advantage of the large launch tubes on the new Trident submarines. Thus, it might be the least costly way of expanding the U.S. sea-based deterrent. Moreover, the Trident II could provide increased capability to attack targets "hardened" against nuclear blast, such as missile silos or command bunkers. Although the Trident II would have less capability against hard targets than the MX missile, the enhancement of this capability among U.S. sea-based forces might be particularly important if the MX were delayed or canceled. Thus, a fifth key question in the fiscal year 1981 budget is:

- Does the Administration propose to continue development of the Trident II missile at a pace designed to achieve an early operational capability, or is a more extended schedule contemplated?

The Secretary of Defense, in his fiscal year 1980 annual report, identified the first half of the 1980s as a period when the Soviet-U.S. strategic force balance would, under some scenarios, be most adverse, even assuming pursuit of all modernization programs discussed above. Indeed, there are relatively few actions that could increase U.S. capabilities over the next few years because of the long lead times necessary to deploy strategic weapons. Among the few options available are increasing the alert rate for B-52 bombers, expanding the backfit of the Trident

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I missile into existing submarines, and accelerating the cruise missile program. Thus, a sixth key question is:

- What near-term improvements in U.S. strategic capabilities does the Administration propose to pursue?

Manning The Active Forces

The all-volunteer military is experiencing important problems for the first time since its inception in 1973. One key problem is a lack of enlisted recruits. In fiscal year 1979, the four armed services together fell 7 percent short of their recruiting goals. Perhaps more important, the number of enlisted recruits who held high school diplomas declined by 5 percent from fiscal year 1978 levels. The number of high school graduates is key because the services have the most trouble recruiting them. Yet graduates are needed for skilled duties and because they are significantly more likely to complete their terms of service than are non-graduates.

In addition, all four services suffered declines in retention among career enlisted personnel. Declines were most severe among second-term personnel with five to 12 years of service.

There are bright spots in the all-volunteer military picture. Because the annual number of enlisted recruits amounts to only 20 percent of total military strength, the shortfalls in recruits still left the military at almost 99 percent of its authorized strength at the end of fiscal year 1979. Moreover, while retention of career enlisted personnel has declined, that of first-term enlisted personnel—those with from one to six years of service—has improved, particularly in the Army. Improved retention among this large first-term group has lessened the demand for enlisted recruits and will gradually increase numbers of experienced enlisted personnel.

Officer recruiting and retention results also appear to be a bright spot. There are no shortages of officer applicants in most skills, though there are some declines in career retention and shortages of officers with specific skills, including doctors and engineers.

Despite the bright spots, the military manpower problems require explanation and remedy. One explanation lies in policy decisions in recent years, particularly with respect to pay
raises. Since fiscal year 1977, when the services last met their recruiting goals, pay caps imposed to cut federal spending have caused military pay increases to fall behind increases for manufacturing workers. This explains part of the difficulty in recruiting and retaining enlisted personnel.

Declining relative pay is not the only problem creating difficulties in manning the active forces with sufficient numbers of high-quality personnel, however. The end of the GI Bill may have played a role, and cutbacks in recruiting and advertising expenditures have probably not helped. The decline in the youth unemployment rate over the last several years and the worsening of the dollar's purchasing power in Europe may also have made the military less attractive.

The Administration has made changes over the last few years that have reduced demand for high school graduates, who are hardest to recruit into the enlisted forces. These changes have included attempts to limit the number of enlisted personnel who leave the military before completing their first term of service and to increase the use of female recruits, who are generally easier to attract than males.

Nonetheless, it appears that some of the problems in manning the all-volunteer force have been caused by policy decisions, particularly decisions about pay. A seventh key question, then, is:

- Will the Administration propose to continue policies that have contributed to these manning problems, including continued limits on military pay raises?

Continuation of the policies, and the recruiting shortfalls and declines in retention that would result, might strengthen calls for abandoning the all-volunteer force. Alternatively, the Administration could propose a return to pay raises that approximate increases in wages in the private sector, coupled with a program of bonuses aimed at aiding those occupations and experience groups that are having the greatest manpower problems.

Supporting the Forces We Have

Although the Administration's December preview indicated a target rate of real growth that would add $5.7 billion (fiscal 1980 dollars) to the funding requirements of ongoing initiatives,
only two new programs were announced in that preview (the CX and the roll-on/roll-off ships). Neither of these programs is expected to involve much funding in fiscal year 1981. The start of the CX program is reported to require $80 million; and the start of the roll-on/roll-off ship procurement, $220 million. 9/ The inescapable conclusion is that the bulk of the new funds in fiscal year 1981 will go to purchase items that are not classified as "major procurement" (for example, ammunition), to strengthen the operating accounts of the military forces, or to support research and development or facilities construction not associated with major weapons systems.

In September, Administration spokesmen indicated that operating expenses would receive highest priority if the defense budget were increased. It was argued that the operations and maintenance accounts of the Defense Department had been trimmed unduly over the last several years to accommodate major procurement actions, resulting in a dangerous deterioration in the readiness of U.S. armed forces. An emphasis on operating expenses in fiscal year 1981 would be consistent with these earlier statements. A eighth key question raised by the fiscal year 1981 budget, therefore, is:

- Which operations accounts have received increased funding, and how will these new funds improve the readiness of U.S. forces?

CONCLUSIONS

At the outset, this paper pointed out that the Administration's decision to seek a 5.6 percent real increase in the fiscal year 1981 defense budget will give the military forces $6.7 billion more (after adjustment for inflation) than would be necessary to fund the programs—as approved by the Congress—that were envisaged when the fiscal year 1980 budget was submitted last January. That baseline program, to which the $6.7 billion represents an addition, already includes a series of initiatives to modernize strategic forces (including the MX missile), as well

as substantial funds for the Army's equipment modernization program. Programs announced by the Administration thus far—the CX and the roll-on/roll-off ships for the Marines—will utilize only a small portion of the additional $6.7 billion. An addition of this magnitude, particularly sustained over the next five years, represents an unusual opportunity to correct perceived deficiencies in the U.S. defense posture.
APPENDIX. ASSUMPTIONS IN THE "BASELINE" PROJECTION

The tables on the following pages depict the forces and investment dollars that were used in deriving CBO's baseline projections.
### APPENDIX TABLE 1. DEFENSE UNITS OR UNIT EQUIPMENT THAT CONSTITUTE MAJOR FORCE LEVELS: PROJECTED TO FISCAL YEAR 1985

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SOURCE: Congressional Budget Office.
## APPENDIX TABLE 2. COSTS OF MAJOR DEFENSE INVESTMENT PROGRAMS: PROJECTED TO FISCAL YEAR 1985, IN BILLIONS OF CURRENT DOLLARS

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**SOURCE:** Congressional Budget Office.

**a/** Less than $50 million.