



CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Robert D. Reischauer
Director

September 8, 1992

Honorable Pete V. Domenici
Ranking Minority Member
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Senator:

The attached note responds to your request for an analysis of the impacts of a \$150 billion reduction in national defense budget authority in fiscal year 1993. As you clearly understand, such a large reduction would be extremely difficult, if not impossible, to accomplish in a single year.

Without a detailed plan, the Congressional Budget Office cannot assess the impacts of a reduction of this magnitude. Rather, our response assumes a 50 percent cut in forces and personnel and then points out how savings in 1993 from that action would not even begin to approach \$150 billion.

I hope the attached note clarifies the major uncertainties that preclude CBO from making a more definite assessment of the impacts of a \$150 billion defense cut in fiscal year 1993. Should you require further information about any of these matters, please call me.

Sincerely,

A handwritten signature in black ink, appearing to read 'R. Reischauer', with a long horizontal flourish extending to the right.

Robert D. Reischauer

Attachment

cc: Honorable Jim Sasser
Chairman

**IMPACT OF A \$150 BILLION CUT
IN DEFENSE SPENDING**

**Congressional Budget Office
U.S. Congress**

September 1992

This analysis responds to the attached request from Senator Pete Domenici, Ranking Minority Member of the Senate Budget Committee, for an examination of a \$150 billion reduction in national defense budget authority in fiscal year 1993. The Administration's requested level of funding for national defense is \$281 billion for 1993. The Congressional budget resolution for 1993 set the amount for national defense at \$277.4 billion. A \$150 billion cut from the Administration's level would reduce national defense budget authority to \$131 billion, which would be a 55 percent reduction from the level appropriated for 1992. A single-year reduction of this relative magnitude has not occurred since the end of World War II--fiscal years 1946 and 1947. At that time, service members, most of them draftees, were eager to leave the military and resume their civilian occupations as quickly as possible. With an all-volunteer force, this is not the case today.

Without a detailed plan, the Congressional Budget Office (CBO) cannot estimate with an acceptable degree of precision the impacts of a \$150 billion reduction in defense budget authority. The analysis that follows discusses, in general terms, the difficulties and disruptions that would result from an effort to cut the defense budget in half in a single year.

COMPOSITION OF THE NATIONAL DEFENSE BUDGET

The 1993 budget request for national defense includes \$77.1 billion for military personnel, \$86.5 billion for operation and maintenance, and \$4 billion for family housing. The sum of those three appropriations--\$167.6 billion or 60 percent of the total--represents the portion of the national defense budget that provides for operating and supporting the military forces. The remaining 40 percent--the investment portion--includes \$54.4 billion for procurement; \$38.8 billion for research, development, and testing of new weapons; \$6.2 billion for military construction and base closure; and \$13.3 billion for Department of Energy defense activities and defense expenditures by other federal agencies and departments.

A \$150 billion reduction in national defense budget authority would yield a much smaller reduction in defense outlays for 1993. Of the projected \$291.6 billion in national defense outlays, \$110 billion (38 percent) represents spending authorized in budgets for previous years. This amount would be largely unaffected by actions to reduce the 1993 budget. To achieve rapid savings in outlays, cuts would have to be made mainly in the operating and support category.

REDUCTIONS IN MILITARY PERSONNEL

As a starting point to achieving the proposed \$150 billion cut, CBO assumed that the Department of Defense (DoD) would attempt to reduce the number of military personnel by half in a single year. Even this considerable reduction, however, would not achieve a proportional share of the necessary savings for reasons that are set out below. Under the schedule currently planned by the Administration, reductions in forces are being achieved through a combination of reduced accessions of new personnel, incentives for voluntary separations, and involuntary separations. But the Administration's target for reducing active-duty military personnel for 1993 is under 100,000. To reduce DoD personnel by half would require more than 500,000 additional involuntary separation actions in 1993. Under current law, personnel with from six through 19 years of service who are separated involuntarily are eligible for severance payments of as much as nearly twice their annual basic pay, depending on their years of service. So separating personnel under current law could even require additional funding in the first year.

Enlisted personnel with 20 years of service could be involuntarily retired, but that would add to military retirement costs. Those unbudgeted retirement costs would offset a substantial amount of the potential savings in

personnel costs for fiscal year 1993, although the reductions would create savings in defense budgets in future years.

TAILORING THE CUT TO MAXIMIZE SAVINGS

A targeted personnel cut might achieve larger savings, but it would impose severe losses in military readiness. The following steps might achieve savings in personnel costs approaching 50 percent. First, the services would accept no new recruits and would close basic training centers. Second, all personnel who have completed fewer than six years of service would be involuntarily separated. Third, almost all personnel with 20 or more years of service would be forced to retire. Fourth, all separations of personnel would be made very early in fiscal year 1993. These steps would reduce end strength for enlisted personnel by almost 60 percent, and for officers by almost 50 percent, without incurring large offsetting costs. Reductions in average strength, and thus in costs, would be somewhat smaller. Legislation would almost certainly be required to involuntarily separate large numbers of officers, but the enlisted cuts might be possible with only existing authorities.

But those steps would create a severely unbalanced force. There would be no privates (seamen in the Navy), and few master sergeants (senior chief

petty officers). In the officer ranks, survivors of the reduction in force would be heavily concentrated in the middle grades of O-3 through O-5 (captain through lieutenant colonel; lieutenant through commander in the Navy) with no junior officers and few colonels (Navy captains) and flag officers. The speed of the cuts would render all combat units instantly unready, as readiness is traditionally measured. All training would likely cease while units reorganized, and all operational units might have to stand down for some period.

SAVINGS FROM REDUCED OPERATIONS

Although eliminating half of U.S. military forces would ultimately generate considerable savings in operation and maintenance budgets, those savings would be offset in 1993 by one-time costs associated with the reduction process. Those costs would include funds to consolidate and reorganize not only the combat forces themselves, but also administrative headquarters, supply and maintenance depots, medical facilities, and other elements that support the military. Should the reductions entail closing additional military bases, for example, DoD would be responsible for ensuring that those bases meet current environmental standards set by law.

Faced with the need to cut operating costs so dramatically, the services might be forced to resort to furloughing personnel. Most likely, a staggered series of furloughs throughout the year, rather than a single massive furlough at the end of the fiscal year, would have to be adopted to minimize the effect on operational readiness. CBO cannot assess the impact of such a policy, but it would obviously disrupt the efficiency of DoD operations considerably, have substantial adverse effect on morale, and have the potential to affect the readiness of U.S. combat forces as well.

COSTS OF FORCES DEPLOYED ABROAD

What savings might accrue from eliminating forces deployed overseas? DoD estimates the direct budgetary costs of overseas forces at \$20.8 billion in 1993, a 23 percent reduction from the 1991 value. Those estimates exclude portions of the costs of overseas forces that our allies assume under host nation support agreements, and generally exclude funding for DoD activities in the United States that support forces deployed overseas. Even if all those forces were targeted for elimination, savings realized in 1993 would be much less for the reasons already enumerated. For overseas forces, in fact, savings would be reduced even more by the costs to return personnel and their families to the United States, as well as the costs to transport their equipment stateside.

In the first year, those one-time costs could exceed the savings associated with eliminating the forces.

COSTS OF NATIONAL GUARD AND RESERVE FORCES

About \$18 billion in the fiscal year 1993 budget is spent for the National Guard and the reserve components.¹ That amount includes small amounts of funds for active-duty personnel that support reserve force activities. Salaries and benefits for the roughly 1.2 million full-time and part-time reserve personnel cost \$9.2 billion, and \$7.8 billion pays for operating reserve units. The Administration has requested no funding to purchase weapons and support equipment specifically for the reserves. Instead, the services plan to spend \$1.7 billion of active service procurement appropriations to purchase guard and reserve equipment. In past years, however, the Congress has appropriated funds to purchase additional equipment for reserve units. In 1992, for example, about \$0.8 billion was appropriated for procuring National Guard and reserve equipment.

1. The \$18 billion amount is total obligational authority for the reserve components; a comparable budget authority number is not available. Budget authority nets out offsetting receipts and makes certain other financing adjustments that total obligational authority does not.

As is true for active-duty forces, realized savings in 1993 from eliminating reserve forces would fall far short of their budgeted costs. The Congress is likely to amend current law this year to provide benefits to separated reserve personnel that mirror those for active-duty personnel. Those might include early retirement incentives, as well as separation benefits for personnel with more than six years' experience. Retirement benefits might not reduce savings greatly in the near term since reserve personnel would not receive the benefits until they reach 60 years of age. But involuntary separation benefits would sharply reduce savings from separating reserve personnel in 1993, since many reservists would be eligible for the benefits and the benefits might on average amount to about a year's salary.

Reserve forces fill key roles. Thus, eliminating all of them is not practical in any case until active forces are operationally ready to assume those missions. Especially in the Army, reserve units support active units in the field by providing transportation, medical, financial, and other services. Their elimination, therefore, would mean that whatever active forces remain after the cut would not have some essential support. For example, National Guard and Army Reserve units constitute 55 percent of the Army's military police battalions, 97 percent of its civil affairs units, and all of its Judge Advocate General units. Similarly, Air National Guard and Air Force Reserve units supply 50 percent of strategic airlift crews, 64 percent of tactical

airlift squadrons, 97 percent of aeromedical evacuation crews, and all the weather squadrons.

SAVINGS FROM REDUCING ACQUISITION FUNDING

All of the above considerations suggest that achieving proportionate savings from the roughly 60 percent of the budget that provides for operating and supporting the military forces is unlikely. Historically, when DoD must make large budget cuts, a more than proportionate share of the reduction has been achieved by cutting spending for investment. For example, procurement funding was cut by a fifth from 1991 to 1993; the reduction in the overall defense budget was only 12 percent over the same period.

Were it even possible to reduce operating and support spending in 1993 by \$75 billion, which is doubtful, then investment funding would have to be cut by another \$75 billion. The Administration's current budget provides only \$99.4 billion for DoD investment spending in 1993. Thus, DoD would likely be forced to end development and procurement of most new weapons. But even if all major acquisition programs such as the Air Force's B-2 bomber and F-22 fighter, the Army's new family of armored vehicles, as well as

construction of most or all new Navy ships and submarines currently in the 1993 request were terminated, additional cuts would still need to be made.

Acquisition of most support equipment as well as other categories of weapons would have to be severely curtailed as well. In fact, procurement funding could well be limited to buying only critical items needed to keep essential equipment operating. Even the above steps would not achieve the requisite savings in acquisition costs, necessitating cuts in basic research and advanced development funding as well. Many defense policymakers feel that investments in basic research are a useful hedge against emerging threats. Such cuts would affect programs like the Strategic Defense Initiative, as well as many lesser-known research initiatives of the Department of Defense. In an effort to achieve the total savings of \$150 billion, base construction and improvements to family housing (accounting for a total of \$10.2 billion in the President's request) might be deferred as well.

Cancellation of most acquisition funding would severely affect the firms that constitute the defense industrial base. Although some companies still have a substantial backlog of defense orders, many others might not survive without some new DoD business in 1993, and others may elect to concentrate on civilian markets. If a mass exodus from defense business were to occur,

the defense industrial base might not be able to respond to future national security needs.

Depending on what use was made of the funds saved from the defense budget, there could be significant negative short-term effects on the economy as well. In a study published last February, CBO found that some 800,000 job positions will be eliminated from the defense sector of the economy between 1991 and 1995 as a result of Administration cuts. Although CBO has no precise estimate for the \$150 billion cut under consideration, a rough estimate is that it would affect some 3 million jobs. Were the defense savings to be spent on nondefense programs or returned to the taxpayers, some of those losses would be offset by job gains elsewhere in the economy. But certainly a cut of this magnitude would create severe adjustment problems in the short run for areas that depend on defense spending, whatever its long-run impact on the economy.

CERTAIN COSTS ARE DIFFICULT TO CONTROL

DoD's budget funds a number of activities that are important national priorities that the Congress might be loath to cut. One example of those is environmental cleanup. Cutting or canceling funding for environmental

cleanup at DoD and Department of Energy defense facilities would mean that current statutory requirements or negotiated agreements would not be met. Additional legislation would need to be passed and existing agreements would need to be renegotiated to accommodate delays. Such delays could exacerbate contamination problems and perhaps lead to an increased risk to public health and safety. In addition, delays in cleaning up hazardous wastes could add to the total cost of cleanup in the event of increased contamination and as a result of costs to maintain security and resume cleanup operations later.

As the above considerations show, for the Department of Defense to comply with a direction to cut its budget by \$150 billion by 1993 would be extremely difficult, if not impossible, at this late date. That is not to say that such savings are not possible eventually, were the Congress to direct DoD to make them and provide adequate time for military planners to adjust to this level of funding.