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Testimony

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Defense Budget and Program Issues  
Fiscal Year 1989 Budget

Statement of  
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the United States

Before the  
Committee on Armed Services  
United States Senate



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Mr. Chairman and Members of the Committee:

We appreciate the opportunity to discuss the defense budget and some of the challenges facing Congress and the Department of Defense (DOD) today and over the next several years.

When I testified before your Committee last year, the primary concern I raised was whether we could afford all of the programs under consideration by DOD given the size of the budget deficit. I expressed the view that the DOD budget needed to be more realistic, the number of new programs should be limited, and marginal programs should be eliminated. I noted that program cancellations and postponements--rather than procurement stretchouts--were needed to reduce the budget, and I expressed concern about whether we could support the weapons platforms we have acquired, as the cost to maintain them will increase in the 1990s. The recent budget agreement reached between the Administration and the Congress reflect progress in beginning to address the affordability issue.

It appears that the services followed the Secretary's budget guidance and, as a result, some programs were cancelled, others were postponed, and uneconomical stretchouts were--for the most part--avoided.

Tough choices were made, but there were also some relatively "painless" cuts--for example, reductions that emerged as a result of Congressional action on the fiscal year 1988 budget. Additional cuts also emerged through management attention during the normal course of the budget "scrubs" conducted by DOD during the budget review process. This time, however, instead of applying the savings in some programs to increase others, the overall request was reduced.

The Secretary of Defense has stated that he plans to delete additional funds from the projected defense plan through fiscal

year 1993. The Five-Year Defense Plan (FYDP) incorporating these changes has not been completed. More difficult decisions will have to be made, but I believe it can be done. While these reductions will be difficult, the fiscal year 1989 proposed budget still represents a \$7.6 billion increase over the level funded in fiscal year 1988. Subsequent years also incorporate a 2 percent real growth each year.

It will be more of a challenge now than in recent years to manage DOD with a restrained budget and limited growth. Now, more than ever, tradeoffs have to be carefully weighed, redundancies checked, and inventories monitored to prevent the accumulation of materials which exceed requirements. Marginal programs will need to be analyzed and eliminated when costs outweigh expected benefits. "Red flags" must be heeded so that systems with technical problems do not go into production with built-in deficiencies that will be much more costly to correct later.

The next five years are going to be a challenge--not just for the Department of Defense, but for the Congress too--as we search for additional cost-saving opportunities in DOD's operations and investment activities. At the same time, the readiness of our forces and their sustainability must not be shortchanged.

Today, I would like to discuss where the revisions in the fiscal year 1989 budget were made, and their implications over the next five years. I will also discuss our work for the Committee in the readiness and sustainability area, and close with a brief discussion of what needs to be done.

**REVISIONS TO THE FISCAL**  
**YEAR 1989 BUDGET**

Most of the \$33 billion in reductions in fiscal year 1989--approximately \$22 billion--were taken in the investment accounts

(Procurement, RDT&E, and Military Construction). The remainder came primarily from the operations accounts (Military Personnel and Operations and Maintenance).

#### Investment Accounts

The reductions in the Procurement and RDT&E accounts can be grouped into four broad categories: (1) program cancellations - either an existing program or one scheduled as a new start; (2) program deferrals, such as the delay of the next phase of development; (3) funding proposed for fiscal year 1989 was received in fiscal year 1988; and (4) some cost estimates were reduced.

Program cancellations yield the greatest savings both in the current year and for the subsequent years. The two largest Air Force cancellations--Midgetman and ASAT--amounted to **\$2.9 billion in fiscal year 1989**. The largest Navy cancellation involved the A-6F aircraft. This will be replaced with another version, the A-6G, beginning in fiscal year 1990. The Navy has not yet completed the cost estimates for the remanufactured A-6G, so we do not know the extent to which increases in this remanufactured aircraft will offset the decreases in the A-6F program in fiscal year 1990 and beyond.

The largest Army cancellation involves the AQUILA which is a remotely piloted vehicle. Research will continue in the generic category, remotely piloted vehicles, in a coordinated program under OSD, as a result of Congressional direction. The combined effort will cost less initially, but subsequently there may be offsetting increases when a replacement remotely piloted vehicle is developed.

Another category of reductions in fiscal year 1989 resulted from early funding--that is, additional funds were provided in the

fiscal year 1988 budget so that funding was no longer needed in fiscal year 1989. The largest example of this was the full funding of two nuclear carriers and the buy out of the Aegis Cruisers in fiscal year 1988. These alone accounted for **\$2.6 billion** in reductions to the fiscal year 1989 request.

Some changes reflect decreases in RDT&E or procurement funding because technical problems delayed testing or production. Procurement funding for the Navy's MK 50 torpedo was reduced, but RDT&E funding was increased because of technical problems.

As a result of reduced cost estimates and contract repricings, many programs reported program savings. For example, in the Navy weapons accounts, approximately **\$1 billion** was identified through such reductions.

The net impact of the **\$15 billion** reduction in the procurement accounts, with the exception of program cancellations, was relatively minor in major systems. Most programs maintained the same quantities as planned in the initial fiscal year 1989 budget. In the revised budget, there was still enough flexibility to increase some programs, such as the Army's Apache helicopter which had 72 added in the revised budget. The Air Force F-16 aircraft program had **\$288 million** added for upgrades, and the AC-130 U Gunship increased by **\$73 million** to meet Congressional direction to upgrade special operating forces. We have noted, however, that spares, modifications, support equipment and items in the other procurement accounts have declined in the revised budget. For example the Navy's Other Procurement budget was reduced by **\$1.8 billion, or 27 percent**. Of the \$15 billion reduction in procurement, the reductions in funding for spares, modifications, and support equipment amounted to \$7.2 billion.

## Operations Accounts

Overall requested funding for military personnel accounts was reduced by **\$3 billion**. This resulted from two major changes: fiscal year 1988 endstrength declined and fiscal year 1989 planned increases were eliminated. Overall active endstrength declined by 36,000 in fiscal year 1988. Fiscal year 1989 active endstrength will now remain the same as the fiscal year 1988 level, rather than increasing as planned. The reserve endstrength levels increased in fiscal year 1988 over 1987 levels. In the revised fiscal year 1989 budget, the reserves endstrength decreases. The net increase is 22,000 reservists over fiscal year 1987 levels.

The Operations and Maintenance (O&M) accounts were reduced approximately **\$6 billion** from the planned amount but, increased by **\$5 billion** from fiscal year 1988 levels. Some of this results from reductions in civilian personnel and some from force structure changes. The fiscal year 1988 civilian endstrength declined and the fiscal year 1989 planned increases were eliminated.

Other reductions, such as retiring the 16 frigates, in the fiscal year 1989 budget are related to force structure changes, and will have personnel implications and operations cost reductions. The services have not yet--as of this past Friday--"priced-out" the full cost implications of these force structure changes.

### FIVE YEAR IMPLICATIONS OF THE FISCAL YEAR 1989 BUDGET

The reductions being contemplated over the next five years are substantial, but they may not be as difficult to achieve as they might appear. First, some reductions will occur as a result of actions already taken in the fiscal year 1988 and 1989 budgets.

Second, management initiatives, such as the process which DOD has just gone through--that is, a budget scrub--and more effective inventory management can produce large reductions. Third, the request is \$7.6 billion more than last year, and the five year plan, even after the reductions, calls for 2 percent real growth.

Although the services have not adjusted their planned budgets for fiscal years 1990 to 1993 budget, we reviewed last year's budget submission books and the most recent Selected Acquisition Reports (SARs) to determine the planned costs through fiscal year 1993. We found that approximately \$35 billion was planned between fiscal year 1990 and 1993 for the systems which were cancelled in this revised budget. This was in the investment accounts alone. If the military endstrengths remain unchanged through fiscal year 1993, then additional reductions in the order of **\$8.4 billion** in the Military Personnel accounts could be realized. Some additional O&M reductions can be expected from the force structure changes. In all, the potential for reduction in subsequent years related to the fiscal year 1989 revisions may be about **\$50 billion**.

If further actions are taken in fiscal year 1990 to cancel marginal programs and to delay systems which are not ready for production, then further savings may be achieved for the fiscal years 1990 through 1993. The ripple effect in outyears from each year's reductions will likely have some additional impact in subsequent years.

Some offsetting increases are likely as replacement systems for some of the cancellations are procured. All of these things need to be taken into consideration. When the FYDP becomes available, it needs to be analyzed to determine whether the plan still contains an unrealistic level of commitment to new systems.

## READINESS AND SUSTAINABILITY

Last year, I testified before this committee that serious gaps had existed for over six years between DOD's military strategy and its capabilities and resources. I continue to be concerned about the levels of military readiness and sustainability. As you requested, we reviewed the readiness and sustainability status of the European, Atlantic, Pacific, and Central Commands and we will be sending you a report shortly. Now, I would like to briefly summarize the results of our work.

Over the past several years, the funding--in absolute terms--directed toward improving the readiness and sustainability posture of the forces has increased substantially. And there is no doubt that the forces are more capable today than at anytime in the recent past. However, military commanders believe they do not have all the forces and material they need to carry out our world-wide commitments.

### Types of Resource Limitations

Over the past several years DOD's emphasis has been to ensure that the combat forces have the required numbers of trained personnel that are properly equipped, and the services generally report that their combat forces can perform the major portion of their assigned missions. The improved status of the combat forces has been achieved, at least in the Army, at the expense of the combat support/combat service support forces.

About 70 percent of the Army's combat support/combat service support units are in the reserve components. These forces play a vital role in a wartime situation; however, these units are not as well prepared as the combat forces. To compensate for their deficiencies, the U.S. has agreements with certain allies to provide host nation support in those areas where the U.S. has



shortfalls. However, even with host nation support, certain combat support and combat service support shortfalls continue to exist.

### Deployability of the Forces

The question that is raised by the resource limitations issue is whether the forces could deploy within the time frames prescribed in the operation plans. Many of these forces are supposed to deploy in the early stages of a conflict.

However, because of the resource limitations, some forces may not be able to meet their deployment schedule, and the Unified Commands may be faced with two choices: (1) delay deployment until the limitations are corrected, or (2) deploy units that may not be able to fully perform their assigned missions.

### Sustainability of the Forces

While the resource status of the forces is important, equally important is the other half of the equation, that is, how long can the forces sustain a conflict, i.e., what is the "staying power" of the forces.

The Commands reported significant shortages of selected sustainability items. However, the situation may not be as bad as it first appears, because if it is assumed that the U.S. does not execute more than one "most demanding" scenario at a time, then the missile shortages in the theater where the scenario is being executed could be reduced by transferring munitions from other theaters. Also, there are limited quantities of certain preferred munitions and larger quantities of less preferred munitions in U.S. depots that could be transferred to where the greatest need exist.

In a limited conflict situation, stocks will be transferred among theaters. JCS and service officials told us that in a "most demanding" scenario situation they would transfer stocks from one theater to another only as a last resort, because of vulnerabilities that such action would create in the other theaters. They also pointed out that there are sufficient stocks of less effective, less preferred munitions that could be used in lieu of the preferred munitions.

Notwithstanding personnel resource limitations and sustainability shortages, the Unified Commands believe they can carry-out their missions by (1) reducing expenditure rates of munitions; (2) using less effective substitute munitions; and (3) changing battle tactics. The Commands point out, however, that these alternatives are apt to result in less effective combat operations, increased personnel and equipment attrition; and more time to accomplish their military objectives.

#### **MANAGING DEFENSE RESOURCES**

The Secretary has expressed his willingness as we enter a period of restrained Defense expenditures to address difficult issues. Part of this effort will involve trade offs among various weapons systems, readiness and sustainability, manpower, and force structure.

While we believe these trade offs will have to be made, they will be difficult to make. Consider the magnitude of the problem. The Secretary has indicated that between \$174 billion to \$300 billion will have to be cut from planned program during fiscal years 1990 through 1993. The Procurement appropriations peaked in fiscal year 1985 at \$96 billion dollars, and have declined since then. The revised fiscal year 1989 budget proposes \$80 billion. We believe that the services still have too many systems chasing too few dollars.

Probably, the single most often cited difficulty in managing DOD's major acquisition programs is stability. Since the mid-sixties, the DOD budget has never had an extended period of stable growth. Rather we see periods of rapid growth followed by periods of austerity followed by rapid growth again. This cycle inhibits managers within the Department in making sound management decisions. It encourages managers to procure as much as possible when funding is relatively plentiful and not attempt to develop a stable and realistic procurement plan.

I doubt that defense budgets will ever be as stable as DOD managers would like. This does not mean, however, that steps cannot be taken within DOD and the Congress to create as much stability as possible in an environment which will always be uncertain to some degree. For example, I think that effective fiscal guidance from the Secretary of Defense to the services is an absolute must, and DOD's actions on its fiscal year 1989 request are encouraging.

In addition to fluctuations in budget authority, another fundamental obstacle which continues to hinder efforts to improve program stability is the reluctance to deal with fiscal pressures by eliminating marginal programs. Once a program is initiated it develops its own constituency and becomes extremely difficult to terminate. The method we have historically used for dealing with budget constraints is to reduce many programs rather than eliminate marginal ones. Among other things, this approach hurts our ability to maintain economic production rates.

We also need to look at common missions and families of equipment as areas of potential greater efficiency. For example, in the past we have developed a variety of systems--from land based systems to aircraft--to attack tanks. While some variety of systems is probably desirable, we must exercise greater restraint

in the future because we cannot afford to replace weapon systems on a one-for-one basis.

In the logistics area, we have found many problems. DOD's secondary item depot level inventory increased from about \$43 billion in 1980 to about \$90 billion in 1986. Also between 1980 and 1986 stocks which exceed requirements increased by about \$20 billion. This increase was about three times more than the increase in required stocks. Large increases in unneeded secondary items do not materially contribute to increased military capability, and such increases should not be allowed to occur in the future. Last year, we reported that repair parts inventories in Europe became too large for Army units to manage effectively. Most parts were not needed to support the weapon systems in their first 2 years of fielding and 70 to 80 percent had to be returned as excess. We have also found early buys of large quantities of B-1B aircraft spare parts some of which became obsolete and required extensive modification or disposal.

In the personnel area, military personnel costs keep escalating and we need to examine these costs carefully. We need to make sure that we have the proper number and mix of officers relative to the number of command billets. We also have to analyze our entire military compensation package. It is becoming too expensive to recruit, train and retain highly skilled personnel, and then retire them at the age of 40 or 50. This policy needs to be revisited.

The items I have just discussed may still not be sufficient to generate the necessary level of reductions needed throughout the entire period. Additional force structure reductions may be necessary. We may also have to rethink some of our worldwide commitments in light of our budgetary resources. The cost of keeping large numbers of forces overseas may begin to consume such a large portion of the budget that we will have to seriously

consider alternative ways of meeting our commitments. As the economies of our allies grow stronger, they should be more willing to increase their share of the burden. To make all of this work will require a continuing top-level commitment from the Administration and Congress.

Mr. Chairman, that concludes my prepared remarks. I would be pleased to address any questions the Committee may have at this time.