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Testimony



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Status of Defense Forces and
Five Year Defense Planning and Funding
Implications

Statement of
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of the United States

Before the
Committee on Armed Services
United States Senate



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Mr. Chairman and Members of the Committee:

I appreciate the opportunity to testify today on our review of military capability achievements since 1980, current capability deficiencies, and the reality of defense planning.

In our view, one of the greatest challenges facing DOD today is to manage reduced spending after the largest peacetime defense buildup in our nation's history. DOD's budget more than doubled from 1980 to 1985. Since 1986 DOD's budget has been reduced somewhat--but at \$290 billion it remains 36 percent higher today--in real terms--than in fiscal year 1980. Overall \$2.4 trillion in funding has been provided since 1980.

The increases in defense spending have clearly resulted in gains in overall military capability, however, these gains were not as great as they could have been for the money spent. Gains were made largely by improving overall personnel quality and force readiness, while adding newer equipment to a slightly increased force structure.

DOD's five year spending plans contained programming to further improve defense capability and achieve defense build-up goals such as a 600 ship Navy and 40 wing Air Force. However, these plans assumed funding levels would increase substantially from the 1985 levels. In actuality these plans proved unrealistic and

unaffordable in light of the mounting federal deficit. This left DOD with the task of reducing hundreds of billions of dollars in planned spending.

The fiscal year 1988 and 1990 five year spending plans have been reduced by \$311 billion. This was achieved, in part, by terminating, reducing, delaying and stretching out weapons procurements; retiring some older systems earlier than planned; and through procurement reductions in spare and repair parts, support equipment, and facilities. These reductions required DOD to make force structure changes and reduce maintenance and support goals. However, it is important to keep in mind that these reductions are primarily in planned funding growth. It appears the reductions were made without significantly deteriorating current capability.

I recognize the difficulty of the decisions and tradeoffs the new administration and defense secretary have already made to reduce planned spending, however, I am concerned that further FYDP reductions of about \$150 billion will be required if current projected funding growth, inflation and other assumptions are not realized.

Reductions of this size will pose even more difficult choices for DOD and the Congress. However, before such reductions are made, the mismatch between resources and national security policy and

commitments must be addressed. Linking funding priorities to these strategies within fiscal constraints is the key to achieving realistic planning and stable budget levels. The Administration's current national security policy review is a step in that direction.

Let me now address, in general terms, military capability achievements and current deficiencies

FORCE STRUCTURE AND MODERNIZATION

Between 1980 and 1989, investment funding totaled more than \$1.2 trillion or 43 percent of total DOD funding. These funds went largely to the goal of developing and procuring weapon systems and equipment to modernize DOD's force structure. Overall, I see some important gains. However, certain changes in the force mix do raise capability questions. Also, I have significant reservations about the management of certain weapon system programs that lead me to believe we could have gotten more for our money.

Specifically some of my major observations on changes to force structure since 1980 are:

-- Army divisions increased from 24 to 28. The increase in the number of divisions was accomplished while overall personnel strength decreased by about 5,000 personnel. Consequently, active Army divisions have fewer personnel today than in 1980.

On the other hand, reserve forces increased by about 196,000 personnel and are more heavily relied on today to meet wartime contingency plans. However, while improved since 1980 the low readiness of the Army reserve raises concern regarding the ability of these forces to augment and support active forces in the event of a major conflict. Of particular concern are the capabilities of combat service support units.

The Army added large numbers of more capable weapon systems and equipment such as 5,496 M-1 tanks, 5,076 M-60A3 tanks and 3,180 Bradley fighting vehicles to replace older and obsolete systems and equipment. However, the acquisition programs also experienced difficulties. For example the Army, after spending over \$2 billion terminated the Division Air Defense Gun program and is still working to develop a new Forward Area Air Defense System. The Aquila (a remotely piloted vehicle) program was also terminated after experiencing developmental problems and at a cost of over \$800 million. A number of other systems also experienced either delays, technical difficulties or increased program costs.

-- The Navy made considerable progress towards achieving its goal of 600 ships, increasing from 479 deployable battle force ships in 1980 to a projected 1989 figure of 568. The increased number of ships enabled the Navy to expand from 13 to 14 carrier battle groups, as well as to add 4 battleship surface action groups.

The addition of 32 Los Angeles Class 688 attack submarines added to its antisubmarine warfare capability, 10 new Trident submarines improved its strategic capability and 13 AEGIS cruisers added to its air defense capabilities. To support this increased force structure the Navy experienced the largest increase in active duty personnel among the services, adding about 66,000 personnel since 1980.

During the same period the inventory of Navy aircraft remained at about the same levels. Concerns were raised by your Committee last year as to whether the procurement rate for Naval aircraft is sufficient to adequately support projected carrier battle group force structure and prevent further deterioration of the average age of Navy combat aircraft.

Also, we have previously reported that the Navy's force structure is not comprised of the right mix of ships. Specifically, the Navy has a shortfall of anti-air warfare cruisers and destroyers needed to protect its carrier battle groups. The Navy continues to have a shortage of fast sealift capability to support major contingencies. Additionally, the Navy's force modernization program did not always progress smoothly. For example, we recently reported on operational testing problems with the MK-48 ADCAP and MK-50 torpedo programs. Our prior work also raised questions about the

capabilities of the AN/BSY-1, Combat Control and Acoustic Subsystem for attack submarines.

-- The Air Force currently has 35 equivalent tactical fighter wings consisting of 72 aircraft each, compared to 31 wings in 1981. There are about 13,000 more active personnel today than in 1980. However, this is 31,000 less than in 1985. While the inventory of tactical aircraft did not increase significantly, it is now comprised of more modern aircraft such as the F-16 and F-15. Major changes affecting strategic air forces were the deployment of the Peacekeeper missile, B1-B aircraft and air launched cruise missiles and increases in the number of nuclear warheads. Airlift capability was increased with the addition of 44 C-5B aircraft to the force structure. However, significant capacity shortfalls still exist.

The Air Force also had problems developing and deploying weapons that met planned capability improvements. For example, the Air Force is experiencing significant technical problems in developing a penetrating bomber. The B-1 bomber is experiencing significant technical problems that are affecting performance capabilities, while the B-2 bomber has been reported to have technical problems and schedule slippage. In addition, we recently reported that the Peacekeeper flight testing programs are more than 2 years behind their original schedules and as a result the Air Force has not yet begun its operational test and

evaluation program, which is designed to confirm that the deployed Peacekeeper will work in its intended environment.

- The Marine Corps force structure is the same today as it was in 1980. It has 3 active and 1 reserve divisions and wings. The Marine Corp's active end strength increased by about 8,700 personnel during the period, and the reserve force increased by about 7,900 personnel. Equipment inventory levels remained approximately the same. However, the Marine Corps has replaced older systems with more capable ones such as the F/A-18, and AV-8B and the 155 mm howitzer.

READINESS

Overall the key indicators of military readiness show marked improvement. However, a few areas such as reserve component readiness indicators and depot level maintenance backlogs do provide reasons for concern. Specifically my observations on readiness are:

- Indicators of unit readiness generally show a continued high overall status in recent years. The greatest gains were in combat support and combat service support units however, they generally lagged behind combat units. This reflects the higher priority DOD places on resourcing its combat units. Further, reserve components, while showing improvement, lag behind the

active components in all areas except for certain Naval and Air Force reserve units. As I previously mentioned Army reserve component capabilities are an area of concern.

- Increased personnel quality has been frequently cited by DOD as one of its significant accomplishments and based on everything I see this seems to be the case. Indicators of personnel quality such as test scores on the Armed Forces Qualification Test, high school graduate accessions and experience of the force are significantly improved. For example, high school graduates represented 68 percent of DOD's accessions in fiscal year 1980 and 93 percent in fiscal year 1988.

- Indicators of training activity such as flying hours per crew per month, steaming days for ships and tank training miles show that levels of training varied. However, the status of personnel training within active component units was at generally high levels.

- Indicators of materiel readiness such as shipboard inventory supply responsiveness, mission capability rates, and cannibalization of aircraft spare parts showed general improvement. For example, Navy and Air Force mission capable rates showed the greatest improvement. However, depot maintenance backlogs are increasing in all services. In the Air

Force, for example, backlogs as a percentage of funding are slightly greater than 1980 levels.

I also feel it is important to mention at this point that we have reported numerous instances of inefficient supply support practices and the procurement of significant quantities of unrequired items. For example, we have reported that inventories of unrequired stocks grew from \$10.1 billion in 1980 to \$28.9 billion in 1987.

SUSTAINABILITY

Overall, the sustainability picture is improved in a number of areas since 1980. However, some significant shortfalls still exist. For example:

- Shortages exist in preferred munitions, such as: air-to-air, and air-to-ground missiles in the Air Force and Navy and surface-to-air munitions in the Army. It is important to note that these shortages have been identified as a key concern by the Unified Commanders.

- Marine Corps inventories of prepositioned stocks on ships and at overseas locations have also increased, but some shortages remain. The Army also shows some significant shortfalls in prepositioned stocks.

-- Sealift and airlift capability, while improved, are still areas of concern. For example, the Air Force currently has the capability to lift approximately 46.4 million ton miles per day compared to its goal of 66 million ton miles. However, the Air Force goal is significantly less than what major war time scenarios require. Again this is an area of key concern to unified commanders.

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In summary, I believe DOD's key gains have been in improving the overall quality of our military personnel and improving overall force readiness and adding new and more capable systems to its force. Sustainability has also improved but to a lesser extent. However, maintaining these gains, continuing force modernization, addressing such deficiencies as sustainability and reserve component capability, and achieving full capability performance from certain weapon systems will require difficult choices by DOD in view of current budget constraints.

Let me now discuss the reductions DOD has made and will have to make to bring planned spending in line with fiscal reality and the impact of these reductions on future defense capability.

PLANNING/REALITY MISMATCH

Since the mid 1980's DOD's five year defense planning has been fiscally unrealistic. More weapons were being planned and developed than could be produced in an economic manner or supported once they were produced. Such unrealistic planning provides an unclear picture of defense priorities because tough decisions and tradeoffs are not made in the plan--everybody gets what they want. Program decisions end up being made on a piecemeal basis to meet each year's funding realities. This has led to program funding instability, costly stretchouts, and program terminations. This is not an effective way for DOD to manage nor does it facilitate congressional oversight of the defense budget. I am encouraged by Secretary of Defense Cheney's recent testimony recognizing the need to instill more realism and stability into DOD's planning and budgeting process.

Chart #1 shows the gaps between DOD's five year defense spending plans (FYDP) and funding for those five year periods beginning in 1982. Since that time FYDP planning has exceeded actual and current estimated funding by over \$2 trillion. The top line on the chart shows the total for the FYDP submitted annually. For example, in 1986 the five year spending plan for 1986-1990 totaled \$1.9 trillion. This was \$555 billion more than was ultimately funded assuming the fiscal year 1990 request is approved as submitted. The bottom line shows the total budget authority for

the five year periods. As you can see, DOD has substantially reduced its planned spending. We do not know exactly how the earlier reductions were achieved because we did not have access to the FYDP's prior to fiscal year 1988. However, we do know that DOD has delayed key force expansion plans such as the 600 ship Navy and 40 Air Force tactical fighter wings.

Our analysis of the 1988 and 1990 FYDPs shows that DOD reduced its planned spending by \$311 billion for fiscal years 1988-94. This includes the recent reductions made by Secretary of Defense Cheney. Over half of the FYDP reductions were in the procurement and research and development accounts. Procurement reductions were in support equipment and facilities, spare and repair parts, ammunition, other procurements and major weapons systems. A number of major weapons systems procurements were reduced, delayed, or stretched out and some were terminated. Major programs terminated include the V-22 Osprey, A-6 aircraft upgrade, and new F-14D aircraft; quantity reductions include the AV-8B aircraft, F-15D/E aircraft and the SSN-688 submarine; stretchouts include the F-16 aircraft, the Advanced Cruise Missile, Tomahawk missile, and Mark 48 torpedo; and delays include the B-2 bomber, and the T-45 aircraft.

DOD's 1990 FYDP included \$33 billion in non-programmatic reductions from its undistributed contingencies account. This included the elimination of \$19.6 billion in undefined initiatives

that appears to be some type of management reserve. Another \$11.5 billion was reduced from projected civilian and military pay raises.

MORE REDUCTIONS MAY BE REQUIRED

The 1990-1994 FYDP may need to be further reduced for the following reasons:

Planned FYDP Reductions: The 1990-94 FYDP currently contains amounts that exceed the President's budget by \$45 billion. DOD states that \$21.7 billion represents procurement account reductions it intends to make in future years. The FYDP also includes \$23.3 billion in an unanticipated requirements account which is not attached to any specific program. This appears to be a planning reserve that is not reflected in the President's budget.

Inflation Shortfall: The five year plan assumes an inflation rate of 3.6 percent in 1990 which declines steadily to 1.7 percent in 1994. The Congressional Budget Office (CBO) and other economic forecasting groups estimate inflation rates in excess of 4 percent for each of the five years. Using CBO's projections the five year plan is under funded by nearly \$48 billion.

Planned Funding Increases Questionable: Congressional budget decisions may result in additional reductions. As stated earlier, the current five year plan assumes funding will grow to cover inflation plus 1 percent in 1991 and an additional 1 percent in 1992 and 2 percent in both 1993 and 1994. The increases are calculated from the fiscal year 1990 base of \$299.3 billion, not the reduced budget summit level of \$295.6 billion. Should Congress decide to fund only inflation increases with no real growth from the budget summit base, an additional \$54 billion in reductions will be required over the 1991-94 period.

IMPACT OF PLANNED SPENDING REDUCTIONS

The reductions DOD has made in its planned spending are substantial and will certainly slow planned improvements in defense capability. Since FYDP reductions to date were primarily in planned funding growth, the impact on our current capability may not be as much as it might appear when looking at the numbers. In other words, it does not appear that these cuts have significantly reduced our current overall capability.

The force structure remains relatively stable although there have been or will be some personnel reductions and some older aircraft and ships retired earlier than planned. However, a number of new and more capable weapons that began development earlier in the build-up will be entering the inventory. Despite some reductions

and stretchouts, most major procurements remain at or above levels in the 1988 FYDP.

A look at other indicators of capability show that some areas will be adversely affected by the funding reductions--such as depot maintenance and spare parts inventories--but overall DOD has been able to protect gains achieved since 1980. For example, current training activity will not be significantly impacted. Total Air Force flying hours will decrease as a result of older aircraft being retired, but flying hours per crew will remain approximately the same. Inventory levels of munitions will remain approximately the same. In some areas, such as Navy torpedoes and surface-to-air missiles, the inventories will increase. Navy flying hours and steaming days have been protected. Army ground operating tempo is sustained at about 95 percent of the fiscal year 1989 level.

Historically, when faced with budget reduction decisions, DOD has looked to the readiness and sustainability funding accounts for a disproportionate share of the reductions. We will be reviewing DOD's spending plans to determine if this continues to be the practice.

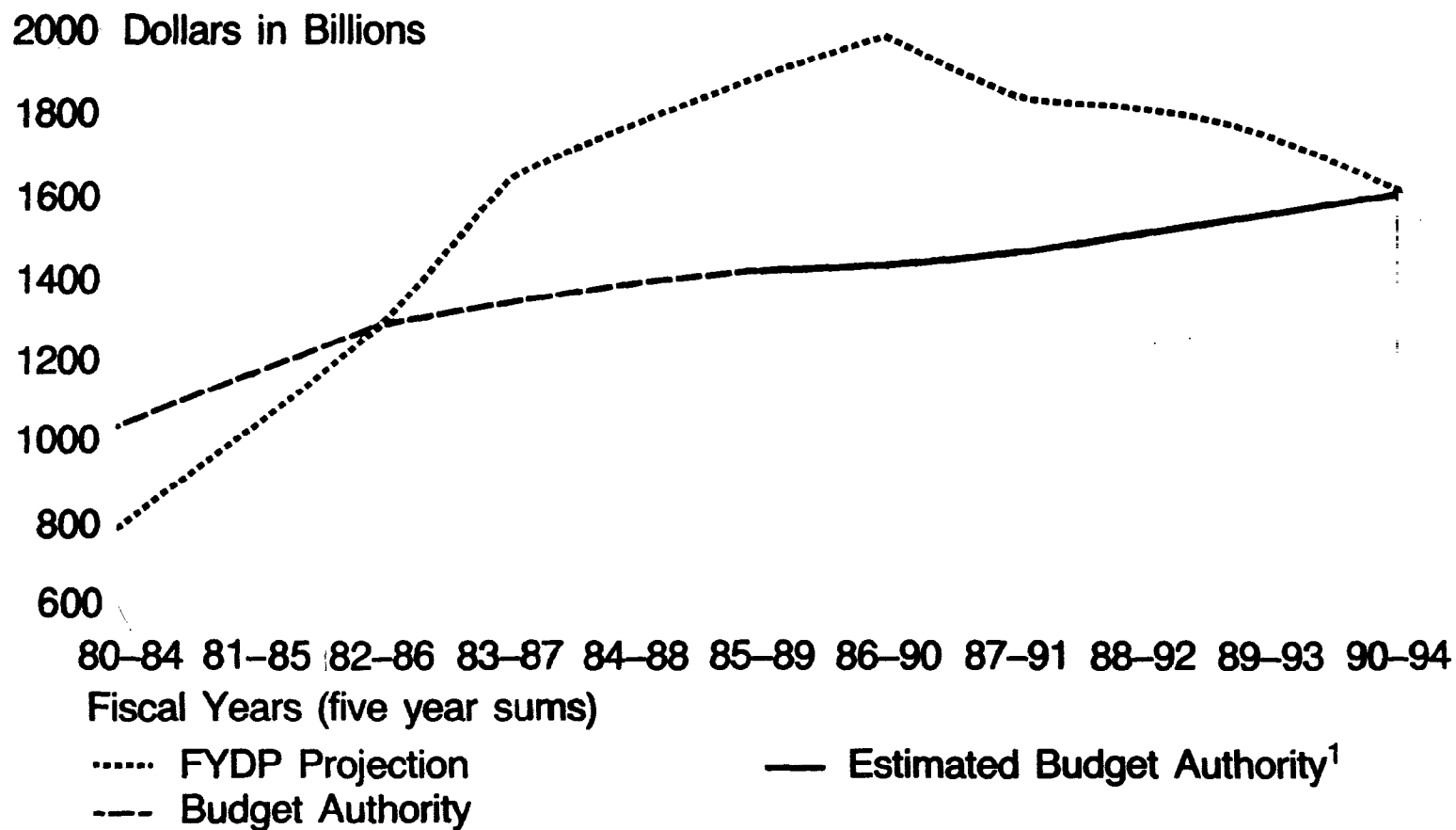
The impact of the previously mentioned FYDP reductions resulting from higher inflation, Congressional funding reductions, and planned DOD reductions are shown on chart #2. The chart shows a potential planning/reality gap of \$147 billion over the next four

years. Even this figure assumes that weapons systems currently in the procurement pipeline will be delivered on schedule and at planned cost. To close this gap will require difficult decisions and trade offs among the broad areas where gains have been made such as (1) maintaining or reducing force structure in terms of people and equipment (2) maintaining or reducing the pace of modernization in terms of cancelling new systems or stretching out procurement of others, or (3) reducing current levels of readiness and sustainability. Closing the gap will likely have a greater impact on current capability than reductions made to date.

In closing I want to mention two things that are needed to help DOD better plan its budgets. First is the need for greater stability in defense budgets and second is the need for national security policy and strategy that can help guide priorities within fiscal constraints. The Bush Administration is currently undertaking a national security policy review which I am hopeful will serve as a guide for building future defense funding requests.

That concludes my remarks for today--I will be glad to respond to any questions the Committee may have.

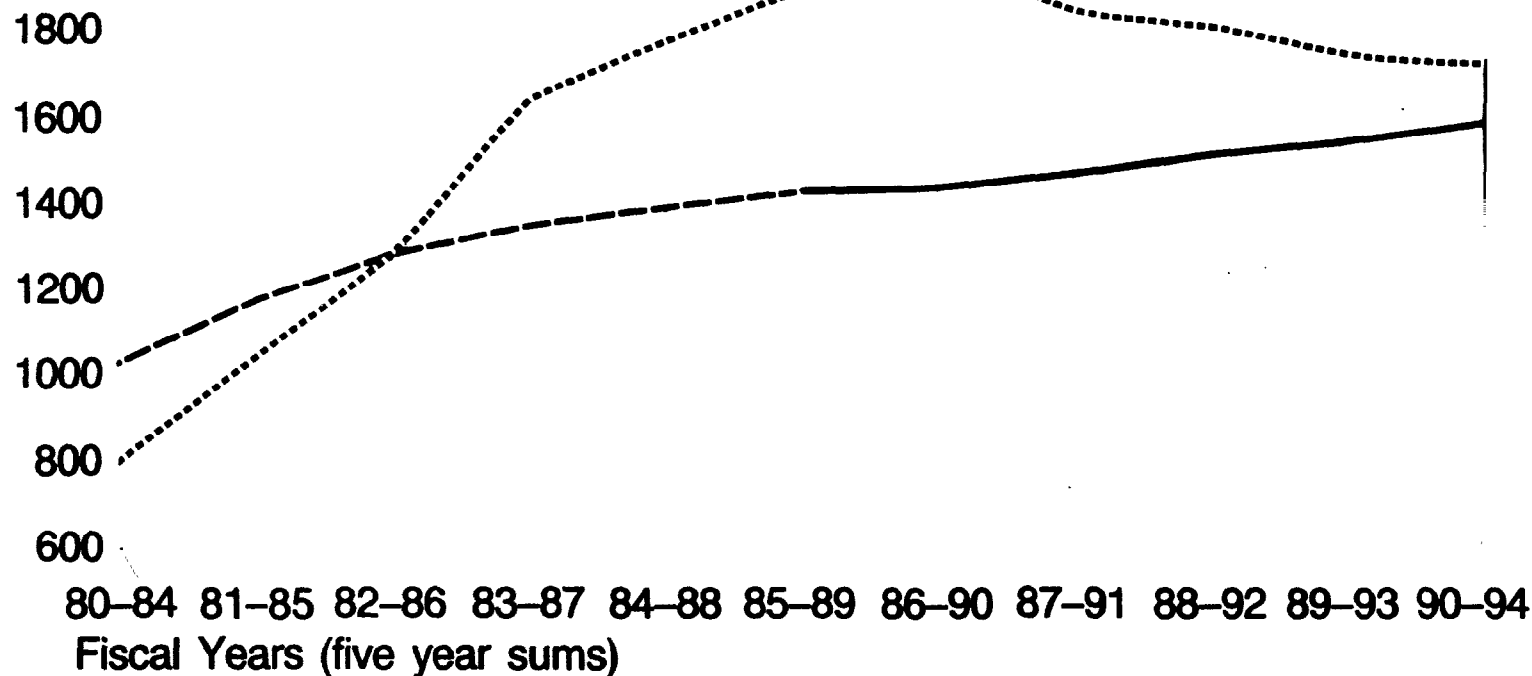
GAO DoD Projections



¹Budget authority for fiscal years 1990 through 1994 is estimated using the Administration's inflation and planned real growth assumptions.

GAO Additional Reductions Required

2000 Dollars in Billions



..... FYDP Projection¹
 ---- Budget Authority

— Estimated Budget Authority²

¹DOD's FY 1990-1994 planning figure is adjusted upwards by \$93 billion. This reflects \$45 billion in program reductions necessary, but not yet made, to meet the Administration's latest fiscal guidance and CBO inflation assumptions which add \$48 billion.

²DOD's budget authority estimate is lowered by \$54 billion. This assumes Congress will grant full inflation funding but no real growth for fiscal years 1991 through 1994.