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Defense Budget and Program Issues
Facing the 102nd Congress

Statement of
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of the United States

Before the
Committee on Armed Services
United States Senate



Mr. Chairman and Members of the Committee:

I appreciate the opportunity to testify today before this Committee and present GAO's views on the major defense budget and program issues facing Congress, the Department of Defense (DOD), and the nation. The dramatic changes that have occurred in the Soviet Union and Europe since 1989 have altered the threat to U.S. national security. The transformation of this threat and the reality of budgetary constraints are the two principal forces driving needed changes in the defense program. These forces are linked because the prospect of a diminished threat provides the opportunity to trim the defense budget as part of the budget deficit compromise.

Now, with Operation Desert Shield over and Operation Desert Storm drawing to a close, DOD is again turning to the task of building down the defense establishment. This task will require difficult decisions by Congress and DOD to ensure that during the build-down our limited defense dollars are spent wisely and our military strength is preserved.

In a series of speeches last year, Mr. Chairman, you identified five shortcomings in the administration's 1991 defense budget and the Five Year Defense Plan. These shortcomings related to threat, money, strategy, force structure, and programs. You referred to these shortcomings to illustrate the 1991 defense budget's and the Five Year Defense Plan's failure to (1) address how the changes in the Soviet Union and Eastern Europe would affect the threat to the United States, (2) suggest a strategy to respond to these changes, and (3) point out DOD's choices as it sought to bring future spending in line with the administration's own budget.

In this testimony, I will address each of these shortcomings in an effort to point out choices made thus far by DOD and to clarify the tough decisions that remain. But first, I will

briefly address the magnitude of the budgetary constraints facing the nation.

OVERVIEW

In 1990, the consolidated budget deficit exceeded \$220 billion, and it seems likely to reach \$300 billion or more in 1991. However, as I have noted on a number of occasions, these numbers understate the magnitude of the problem. The general fund deficit--excluding the surpluses in the Social Security and other trust funds--sailed through the \$300 billion mark in 1990 and is headed toward \$400 billion or more in 1991.

Interest on the public debt today rivals the defense budget. Next year, for the first time, we will be spending more on interest on the national debt than we will be spending on the nation's defense. Interest will total about \$312 billion, according to the Congressional Budget Office (CBO), while the administration is proposing defense outlays of \$295 billion. (See figure 1.)

In response to the budget crisis and in recognition of the changes that have shaken the world over the last 2 years, the administration has proposed substantial changes in the defense budget. While both the administration and DOD have recognized the changed threat and described broad strategic objectives, it will take some time for detailed changes to threats and strategies to be incorporated into DOD's planning and programming. Because of the uncertainty of specific threats to U.S. interests that may emerge in the future, DOD's plans and programs will to some extent always be catching up to events. We reported in February that DOD's traditional planning system may not be accommodating to the newly forming set of international relationships.

While DOD has plans to reduce the number of organizational units, such as Army divisions and Air Force tactical air wings, it is not clear whether force structure reductions have been based simply on budgetary conditions or on in-depth evaluations of threat, risk, roles, missions, and functions. In addition to eliminating organizational units, it is essential to reevaluate functions as well. For example, DOD needs to examine the feasibility of continuing both the Army's and Marine Corps' light forces and the Army's and Air Force's provision of close air support that may not be affordable in today's tight budgetary environment.

While DOD has submitted a Future Years Defense Program (FYDP) that is consistent with the administration's budget proposal, it still depends heavily on achieving about \$172 billion in savings through future legislative action, management initiatives, and program terminations. Of this amount, we have already identified some savings that will not come to fruition due to program changes and revised estimates. To the extent that savings are not achieved, DOD will have to find other ways to stay within reduced budgets.

I will elaborate on these and other issues that must be addressed in my assessment of the choices already made and yet to be made in responding to the five shortcomings you described. However, before proceeding, I would like to note that during the Gulf war, the world watched as our forces mounted a very successful campaign and much has been said about the performance of our weapons. Even so, in assessing the performance of our weapons during the war we need to keep three things in mind. First, the threat the United States faced was not as sophisticated as the threat that the weapons were designed to counter. Second, the services were able to deploy many mature weapons that had been fully tested and improved on. Third, the services were able to provide maximum support for those weapons, which they might not

be able to provide in an all-out war in Europe. For example, while the Air Force deployed about one-fifth of its tactical combat aircraft to the Gulf, it deployed four-fifths of its aircraft logistical support. How well individual weapons worked during the war is now the subject of extensive evaluation, the results of which will not be available for some time.

THE THREAT ISSUE

The order of my treatment of the shortcomings is not accidental. I begin with the threat, followed by the dollar issue, because these two factors are the shaping forces of U.S. military strategy--the third issue to be addressed. Mr. Chairman, in your March 22, 1990, address to the Senate, you stated that the administration's 1991 budget proposal had not defined the current and future threats to our national security (in light of the recent changes in the Soviet Union and Eastern Europe).

The administration has now acknowledged the changed threat. On August 2, 1990, at the Aspen Institute, the President stated that the world was less driven by an immediate threat to Europe and more driven by regional contingencies. He also emphasized the importance of not ignoring the enduring reality of the Soviet strategic threat and the corresponding requirement to maintain our strategic deterrence. The Secretary of Defense has since elaborated on this position, stating that the threat of massive conventional war in Europe, the major focus of our defense planning for 40 years, has declined substantially and that regional contingencies with well-armed adversaries have emerged as the most immediate threat to U.S. interests.

DOD also recognizes, of course, that the Soviet Union continues to have the most formidable military capability of concern to the United States. While the change in Soviet intentions and its capability to launch a conventional ground war in Europe has

permitted DOD to propose a reduction in the defense establishment, a resurgent Soviet military would prompt a reassessment of the nation's defense posture, with important implications for future defense budgets.

THE DOLLAR ISSUE

In your March 22, 1990, remarks you pointed out that DOD had not identified enough budget cuts to bring the Pentagon's spending in line with the 5-year targets for national defense the administration included in the 1991 budget. DOD has since submitted a FYDP that is consistent with the 1992 budget, but maintaining this consistency depends heavily on achieving substantial savings that may or may not materialize.

The Budget and the FYDP Assume Significant Savings

In previous testimony before this Committee, I stated that since the mid-1980s DOD's 5-year defense planning had been fiscally unrealistic--planned spending levels greatly exceeded actual appropriations. Specifically, unrealistic planning provided an unclear picture of defense priorities because it did not include tough decisions and trade-offs. Specific dollar amounts by which the DOD budget would be reduced were not matched with an indication of where the reductions would be made.

In developing the 1992-97 FYDP, DOD has done much to rectify these shortcomings. However, a new problem has emerged in the form of a heavy reliance on achieving substantial savings to stay within the budget totals while achieving defense objectives.

The 1992-97 FYDP incorporates many difficult decisions and is consistent with the President's budget. However, it includes about \$172 billion in anticipated savings and reductions that may not fully occur. These anticipated savings and reductions depend

on a combination of congressional action and DOD's achievement of difficult tasks. They include (1) about \$82 billion in reductions resulting from major program terminations, including about \$10 billion in fiscal year 1992; (2) about \$70 billion in anticipated savings resulting from a number of initiatives identified as part of the Defense Management Review; (3) about \$19 billion in anticipated savings expected primarily from proposed legislative changes, including savings from base closures proposed April 12; and (4) about \$1 billion resulting from the base closures and realignments that occurred in 1988. (See Figure 2).

Regarding program terminations, Congress has not always agreed with what DOD has proposed to terminate. For instance, Congress and DOD did not agree in the cases of the F-14 and V-22 aircraft. Regarding the Defense Management Review (DMR) savings, as with any new initiative, it remains to be seen whether all these anticipated savings will be achieved. We reported in December 1990 that most of the savings estimates identified in the DMR had been based primarily on management judgments and were not supported by historical facts or empirical cost data. Since that time, DOD has indicated that about \$3.3 billion in originally anticipated savings will not be achieved between fiscal years 1991 and 1995 because of various program changes. To the extent that the anticipated savings do not fully materialize, DOD will have to identify reductions in other programs.

Regarding base closures, much of the savings projected in the FYDP from the base closures are not likely to occur. When the FYDP was submitted to the Congress in February, prior to finalizing the base closure cost estimates, it projected that it would cost \$600 million to close the bases and that savings would amount to \$6.9 billion, for a net savings of \$6.3 billion. However, DOD's April 12 base closure report estimated that it would cost \$5.7 billion between fiscal years 1992-97 to close the

bases while savings from reduced operating costs during the same period would be \$6.5 billion, for a net savings of \$800 million. Consequently, the FYDP overstates base closure savings by \$5.5 billion.

How Much of the Burden Should Our Allies Share?

In addressing the dollar issue, we must determine the extent to which our allies should share the burden of maintaining U.S. forces overseas. The Secretary of Defense and the Chairman of the Joint Chiefs of Staff have implied in testimonies and speeches that it is in the U.S. interest to maintain a forward presence in key places around the world to serve as both a deterrent to any aggression and as a means of responding quickly to regional crises. Having a U.S. forward presence also benefits our allies, as was most recently demonstrated in the Gulf.

The United States, even with a reduced defense budget, spends considerably more on defense than does any of our major allies. For example, the United States outspent Japan and Germany together by about \$257 billion in 1989, the latest year for which comparable data were available. In 1989, the United States spent 5.9 percent of its national output on defense; Germany spent 2.9 percent; and Japan spent 1.0 percent.

The planned force drawdowns in Europe and the Pacific will reduce defense outlays; however, significant costs will continue to be incurred to keep reduced forces there. The issue of equitable cost-sharing for the U.S. presence has been a sore point in relations with U.S. allies, and we expect that it will continue to be contentious for at least two reasons. First, while a reduced Soviet threat will no doubt translate into lower defense expenditures for North Atlantic Treaty Organization (NATO) countries, Operations Desert Shield and Desert Storm demonstrate that common defense is not limited to the borders of NATO

countries. Second, the United States is the only country among the allies capable of projecting the military power needed to deter or defeat aggression.

THE STRATEGY ISSUE

In your March 22, 1990, remarks you stated that the administration had not yet developed a new military strategy that responded to the change in threat. The President, in his speech in Aspen, Colorado, and the Secretary of Defense, in speeches, testimonies, and reports, have now described broad strategic objectives for protecting U.S. interests in the new security environment. These objectives include (1) preserving strong strategic offensive and defensive capabilities, (2) maintaining a forward presence, (3) retaining the capability to respond to regional crises, and (4) retaining the capability to reconstitute our forces should a major reversal in Soviet intentions occur. While these broad objectives provide a basis for developing a detailed national defense strategy, many questions need to be answered, and many decisions need to be made. For example, to be able to reconstitute our forces, what procurement strategies should we pursue to preserve a strong defense industrial base, and how much of the defense budget should we commit to research and development?

Strategic Deterrence

As the President and the Secretary of Defense have said, the Soviet Union is the only country capable of destroying the United States. We must, therefore, continue to maintain a credible nuclear capability to deter nuclear attack. We must also be prepared to respond to lesser nuclear threats from the Soviet Union and other adversaries that may emerge in the future.

Maintaining a Forward Presence

Although the United States will decrease its forward presence as a result of the drawdown of forces in Europe, DOD plans to continue to maintain a forward presence in Europe and the Pacific. There will also be a new dimension to forward presence as the United States enhances its presence in the Middle East. This presence need not include an extensive stationing of troops in the area; rather, it could entail prepositioning equipment on either land or sea, conducting joint exercises with Gulf countries, and maintaining a military infrastructure.

Regardless of the implementation of the Conventional Forces in Europe (CFE) treaty, the level of U.S. forces in Europe is expected to significantly decrease during this decade. The administration has indicated that, because of budget constraints, it is seeking to reduce the number of troops in Europe below the 225,000 proposed by the President in January 1990. The Soviet Union also appears to be drawing down its forces in central Europe, with more reductions likely in the future. Data DOD has recently released on Atlantic forces suggests that by the middle of this decade U.S. forces in Europe could number about 130,000.

Regarding forces in the Pacific, some significant movement toward force reduction is occurring. DOD has begun to withdraw more than 15,000 personnel from the region, a process scheduled for completion by December 31, 1992. Further reductions are under consideration. Because outside of the Korean peninsula there are no well-defined threats to U.S. interests, the size of U.S. forward presence necessary to maintain regional stability is subject to debate.

Responding to Regional Crises

An uncertain world will require highly mobile forces that remain in a high state of readiness and capable of responding to crises on short notice.

The Need to Control Arms Transfers

U.S. forces involved in regional conflicts around the world will face well-armed foreign forces. These encounters will present difficult operational and sometimes conflicting policy issues as evidenced by the allies' experiences in the Gulf. The Iraqi forces had been built up over the years with weapons and supplies obtained from many sources, including the sale of high technology weapons from U.S. allies. Because of these sales, there was a strong potential for our armed forces to face western weaponry and technology.

On the other hand, pressure to sell arms to other countries continues even now because of supplier countries' needs to support their defense industrial bases. The easing of tensions in Europe, as well as reduced defense budgets, will result in greater competition in a shrinking world arms market--largely involving unstable third world countries. While arms sales are important to the U.S. defense industrial base during these times, the administration needs to be vigilant in monitoring the national and regional security implications of U.S. arms and technology transfers. A well-thought-out balance must be struck among these sometimes competing interests.

The Importance of Lift Capability

Over the past several years, DOD has not been responsive to congressional direction to expand sealift capability. In fiscal years 1988-90, for example, DOD used almost half of the sealift

funding provided by Congress for other programs. DOD has thus far not definitized any plans to spend the additional \$900 million Congress added for sealift in its fiscal year 1991 appropriation. It is also uncertain how DOD would invest additional sealift funds in the wake of the Gulf experience.

DOD is attempting to modernize its airlift fleet through the development and purchase of the C-17 aircraft. This aircraft would replace the aging C-141. However, our work on the C-17 has raised questions about whether it can be produced on schedule and meet its performance goals. Due to schedule and performance problems involving the C-17, it may be necessary to keep the C-141 in the inventory longer than planned.

The Gulf crisis demonstrated that lift capability is critical to military response in regional conflicts. While a large number of troops were moved quickly to the Gulf by air, it took months to move by sea the large quantities of material necessary for Operations Desert Shield and Desert Storm. In looking at the lessons learned in the Gulf, DOD needs to look at the major factors that affected the amount of time it took to deploy our forces and what these factors mean for setting funding priorities in the 1990s. We suspect that such analyses would question the historically low priority given to sealift.

Rebuilding U.S. Forces

A key element of the new U.S. strategy is the ability to rebuild U.S. forces should the Soviet threat reemerge. Recent events have lengthened the warning time for a major conflict in Europe substantially from the 14 days anticipated during the Cold War. This increased lead time has important implications for our weapons acquisitions strategy, our defense industrial base, and the role of research.

Acquisition Strategy

The 1980s was the decade of concurrency in weapons procurement. We have reported that DOD increased the risk of not achieving program objectives for some weapons by contracting for too much production before adequately demonstrating that the weapons would perform as intended. The Advanced Medium Range Air-to-Air Missile (AMRAAM) and the B-1 bomber are classic examples of weapons whose production started before the systems' designs had stabilized and their performance and reliability had been clearly demonstrated. As a result, the systems have undergone numerous design changes and multiple mission configurations, and there have been lingering concerns about their reliability.

We believe that budgetary pressures and the increased lead time available for responding to a security threat in Europe should move DOD to moderate concurrency in existing and future weapons programs whose requirements stem from a conflict with the Soviets. Planned production commitments need to be delayed or maintained at very low levels until assurances are obtained that the systems will perform as intended. DOD has policies and procedures to deal with excessive concurrency; the solution to concurrency problems lies with better and more disciplined implementation of these policies and procedures. However, the B-2 bomber is an example of DOD's failure to moderate concurrency. According to DOD's schedule for the program, DOD will have contracted for almost half the planned B-2 fleet and almost four-fifths of the program's anticipated total cost will have been appropriated before DOD has completed testing and established that the bomber can achieve its mission.

The Defense Industrial Base

A major component in the ability to rebuild U.S. forces is ensuring adequate defense industrial capability. In particular, DOD has expressed concern about U.S. production capacity. As the military is downsized and procurement needs are reduced accordingly, defense contractors will face difficult times.

There are, however, steps that DOD has not taken to address its concerns with the industrial base. For example, 3 years ago, Congress enacted legislation requiring DOD to develop (1) an integrated financing plan and (2) a plan for developing the technologies critical to defense. DOD has not fully developed an integrated financing plan and has done little to ensure that its policies are structured to meet its long-term needs for industrial resources and technological innovation as required by the legislation. As you know, your Subcommittee on Industry and Technology is planning hearings that will address DOD's failure to respond properly to the mandate for an integrated financing plan. We will be providing testimony outlining the steps necessary to produce a more meaningful integrated financing plan. Regarding the critical technologies plans, DOD has not fully described how the goals for each critical technology are to be achieved.

The defense industry claims that in 1984 a series of statutory, regulatory, and managerial changes began to adversely affect its financial viability. These changes include lower progress payments, faster tax payments, and the greater use of fixed-price contracts for developmental efforts. The defense industry maintains that, as a result, more investment is necessary to perform defense contracts and the profitability of defense firms has not kept pace with the rest of industry.

Financial data specific to the segments of a company that perform government work are needed to accurately establish reasonable levels of profitability for government contractors. However, such data are generally not publicly available. A financial reporting system that accurately measures defense contractors' profitability would require government contractors to annually report segment-level financial data. This information would enable policy-makers to evaluate the financial health of the defense industry and the need to revise DOD's policies. However, DOD and industry oppose such a system.

In addition, we have reported that an improved approach to defense industrial base data collection and coordination, especially at the subcontractor levels of production, is necessary for DOD to properly plan and be in a position to take appropriate action regarding the industrial base. Such efforts need to take into account, for example, the economic, trade, and technology security implications of procuring items and components of major weapons systems from foreign sources.

Congress and the administration will have to make difficult decisions about maintaining a strong defense industrial base. For example, should DOD procure weapons it might not need, such as more tanks, simply to keep capacity available? Should small quantities of many systems be procured to keep contractors in business? Further, how much additional costs should DOD incur to maintain competition through multiple production sources? To what extent should DOD rely on off-the-shelf civilian technology to meet its needs? Should the United States take steps to ensure that dependencies on foreign suppliers for critical weapons components such as computer chips will not pose a threat to national security? What is DOD's industrial and technological strategy to guide the build down and ensure that DOD decisions and industry adjustments relating to budget cutbacks result in an overall capability that meets our defense needs?

Maintaining a Vigorous Research Program

In his Aspen speech the President emphasized the importance of active and inventive defense research and development. This Committee has also been urging DOD to be more aggressive in emphasizing research and development. There is a strong relationship between today's research in new technologies and tomorrow's advanced weapons. However, the administration's request for research, development, test, and evaluation (RDT&E) funding between fiscal years 1992 and 1995 reflects a decline in support for research. Measured in 1990 dollars, RDT&E funding would receive one of the largest proportional reductions of all the defense appropriations accounts. Fiscal year 1992 RDT&E funding being requested represents a real increase of only 1 percent over 1990's funding. Moreover, much of that 1 percent growth reflects increased funding for the Strategic Defense Initiative. By 1995 real funding would be 16 percent below its 1990 level.

CBO recently testified that, despite congressional guidance to establish a 2-percent real increase in basic research, the administration did not propose real increases in funding for the technology base in either 1992 or 1993. In fact, CBO stated that funds for basic research and exploratory development would actually decrease in real terms by about 6 percent in 1992 and remain at that lower level in 1993. This decrease raises serious questions about the extent of DOD's commitment to research and development.

In addition to research and development sponsored by DOD, research and development work that defense contractors undertake on their own initiative, known as independent research and development (IR&D) is an important part of this country's effort to remain a leader in new technologies. As you know,

Mr. Chairman, last year this Committee sponsored legislation designed to promote IR&D efforts that focus on critical technologies, environmental issues, and the industrial base. Implementation of this legislation presents DOD with an opportunity to expand significantly its support for industry efforts in these areas.

FORCE STRUCTURE ISSUES

Force structure was another shortcoming you identified in the 1991 defense budget. You noted that DOD had not indicated what the size and structure of U.S. military forces would be over the next 5 years. The administration's 1992 budget proposal and its new FYDP continue the process of downsizing our military. Using as a base the 1990 budget (which was the last Cold War budget), the administration proposes a 20-percent reduction in the personnel level of our active armed forces by the end of fiscal year 1995.

The proposed active force level at the end of fiscal year 1995, however, is 40,000 troops higher than the end strength authorized for that year in the 1991 Defense Authorization Act. DOD will have to seek a change in its 1995 end strength authorization if it desires to maintain active forces at the higher level. It has already obtained authorization to exceed the levels authorized for 1991 in recognition of the need to retain personnel beyond their scheduled separation dates during the Persian Gulf crisis.

In terms of force structure, DOD has proposed dramatic reductions in the Army and the Air Force. Both Army and Air Force active units would be cut by at least one-third, principally reflecting the reduced European threat. Army reserve units would proportionately be reduced even more; Air Force reserve units, however, only minimally. The active Navy would receive the

smallest reduction, reflecting the continuing importance placed on seapower.

While DOD is shrinking the force, it has still not come to grips with some difficult decisions. These include how to eliminate overlap in the military services' functions and how to reassess the total force policy.

Overlap in Functions

DOD allows different services to perform the same functions. We have found at least two instances in which there are overlaps. One is in the Army's and Marine Corps' light forces. The other is in the Army's and Air Force's provision of close air support. In light of the changes in threat and strategy, DOD needs to rethink and prioritize the services' functions as well as reduce their size.

While both the Army and the Marine Corps have some unique capabilities, there is considerable overlap in their functions and in the way they have been used in conflicts. While the Marines have traditionally been viewed as a light, rapid response force, the Army also possesses significant light, rapid response capability. While the Marines have a unique amphibious capability, it only has the resources necessary to allow one-third of its combat forces to mount amphibious operations. The remaining two-thirds may be viewed as a land force because, like the Army, it does not rely on amphibious assault but, rather, is deployed to secured areas by aircraft or ships. In practice, in Grenada, Panama, and most recently in the Gulf, Army and Marine light infantry forces have been used similarly.

There are also important similarities in the functions of the Air Force's and Army's provision of close support. Essentially, both services support ground force commanders by attacking enemy

forces both in proximity to friendly forces and well behind enemy lines.

The Air Force provides close air support with fixed-wing aircraft that can cover large portions of the battlefield relatively rapidly. These aircraft can also be used for deeper strikes against enemy forces before they are in direct contact with friendly forces. Army attack helicopters can also engage enemy forces with deep strikes or engage enemy forces in the close battle. The Army also provides support to ground forces with such systems as artillery and short- and medium-range surface-to-surface missiles. These systems have more limited range in covering the battlefield than the fixed-wing aircraft, although the Army is increasing their range and accuracy, but offer other advantages.

Although these systems offer diverse capabilities, they provide overlapping support. Because many of them are capable of destroying the same targets in proximity to friendly ground forces, DOD needs to consider whether these systems and functions complement or unnecessarily duplicate each other.

Reassessing the Total Force Policy

The Army's failure to deploy its National Guard combat battalions to the Gulf war has been extensively debated as evidence that the total force policy does not work and should be abandoned. We do not agree with this assessment and, in fact, we believe that the Gulf war has in some ways shown the wisdom of this policy.

First, the fact that reserves were called from virtually every State went a long way toward building the public support so essential to the successful conduct of the war. Second, it showed that U.S. security interests can be met at reduced costs

by effectively integrating active and reserve forces, civilians, and host nation personnel.

This is not to say that implementation of the total force policy has been perfect. Our assessment is that the basic principles of the total force policy are sound but that weaknesses in program management and internal controls, as well as a lack of adherence to stated priorities have prevented DOD from fully achieving the aims of the policy. For example, a basic principle is that warfighting roles are to be assigned to the reserves only if there is a reasonable expectation that they can be readied to deploy within the expected timeframes. While this worked in the case of the Air Force, the extensive pre-deployment training that the Army needed to provide its brigade-size combat reserves leaves reason to doubt whether assigning these troops early deployment missions was a judicious policy.

The Army's lack of confidence in the readiness of reserve combat troops points to major deficiencies in implementing a second key principle of the policy--namely, that training strategies should ensure that reservists are adequately prepared for their missions. Over the past 5 years, we have reported numerous systemic problems in training reserves that have hampered their readiness. These include limited available training time, uneven participation and administrative diversions associated with weekend drills, shortages of equipment on which to train, lagging equipment modernization, and insufficient collective and realistic training opportunities.

Finally, a third principle of the policy states that priority in staffing, equipping, and training should be given to those units that are expected to deploy first. In the Gulf war, it was reserve support forces--traditionally shortchanged in terms of personnel, equipment, and training in peacetime--who ironically were the first forces to be needed. Meanwhile, reserve combat

units that received a high priority for resources prior to the war remained in training at its conclusion, never having been deployed.

If the total force policy is to work, DOD needs to ensure that its implementation of the policy is consistent with the principles that the policy advances. First, it must be more realistic in assigning roles to the reserves. It simply may not be reasonable to expect reserve combat forces to be able to achieve the proficiencies required to operate at the 4000-soldier brigade on a part-time basis--particularly if they must deploy within the first 30 to 60 days of a contingency.

Second, it should take a hard look at how it can best overcome past shortcomings in preparing reservists to carry out their missions. Fundamental changes in its reserve training strategies are required if these troops are to be given a reasonable chance to show that they can effectively perform their missions. Finally, it needs to reexamine how it sets priorities for equipment, personnel, and training in peacetime to ensure that those forces it depends on to sustain combat operations can be quickly readied to deploy.

Solutions do not necessarily require increased funding. With the planned downsizing of military forces, the answers may lie in a reallocation and reprioritization of existing resources. Improved program implementation and internal controls could also enhance the future prospects for effective implementation of the total force policy.

PROGRAM ISSUES

Mr. Chairman, the fifth shortcoming you identified concerned the billions of dollars requested in 1991 for weapons programs that were the subject of the major aircraft and warship reviews that

were then underway. DOD has completed its review of these programs but has yet to comprehensively reexamine all its weapons programs to decide which weapons systems are still necessary in light of the changes in Soviet intentions. While these changes are having a significant impact on the level of U.S. forces, they have apparently had only a limited impact on the determination of which weapons DOD procures.

In 1990 DOD performed the comprehensive reevaluations of selected major aircraft and warship programs you referred to in your March 22, 1990, remarks. The reevaluations were limited to 8 of the approximately 100 major acquisition programs underway. The result of the aircraft review was a decision to reduce procurement by about \$17 billion between 1991 and 1994 and delay the production of some new weapons--none were canceled at that time. The result of the warship review was a decision to reduce the annual production rate of the SSN-21 submarine and the DDG-51 destroyer.

The Defense Acquisition Board reviewed 24 programs in 1990. The Board examined these programs' developmental progress and studied the need for such systems. While these reviews produced suggested program changes, no recommendations were made to terminate the programs or substantially reduce their size. In reexamining the need for these systems, more attention is being given to regional threats. However, the threat driving the need is still viewed primarily in terms of Soviet technical capability. Changes in Soviet intentions, while having an impact on the level of U.S. forces, have apparently had only a limited impact on the determination of which weapons DOD procures. We are currently reviewing the extent to which the services reevaluate programs that are not subject to Board review.

To date, the termination of many major weapons programs have been confined to mature weapons nearing the end of their production

cycles. For example, the administration plans to terminate production of the Trident submarine, the Bradley Fighting Vehicle, and the F-14, F-15E, and F-16 aircraft.

Terminations of new programs have generally been limited to those experiencing problems. Such programs include the A-12 and P-7 aircraft programs--both terminated for default as a result of non-performance by the contractors--and the Tacit Rainbow missile program, terminated as a result of technical and cost difficulties. However, the Navy already has a replacement development program for the A-12. While we agree that programs experiencing management and technical problems need to be thoroughly evaluated, we also believe that all programs need to be thoroughly reevaluated in terms of today's budgetary constraints and security needs.

OTHER ISSUES

There are several other issues I would like to discuss that deal with managing DOD, particularly with regard to what we have defined as high risk areas of defense acquisition and inventory management. I would also like to note the need for better financial management.

Defense Acquisition

The Secretary of Defense's July 1989 Defense Management Report (DMR) to the President has resulted in numerous well-intended actions to improve the performance of the defense acquisition system. Nevertheless, the events leading to the cancellation of the A-12 aircraft program last January again make us ask whether DMR-related initiatives can really alter the "culture of optimism" that is part of the defense acquisition process. The consequence of such a culture is program officials' and contractors' reluctance to bring accurate but critical

information about a system's development to the attention of senior executives in DOD. In such situations, decisions about the acquisition of major defense systems are often based on overly optimistic information about cost, schedule, and performance. Four years ago we discussed this issue in reports on AMRAAM in much the same language that a Navy official used in his November 1990 report on the management of the A-12 program.

Internal Controls

We noted last May in a report on defense acquisition that a key element of effective management was the free flow of accurate information within organizations. Ensuring that such information is the best available is the job of an organization's internal control system. Without good internal controls, effective program oversight by management is especially difficult. The military services established three-tiered acquisition management structures that linked program managers with senior acquisition executives in a short chain of command. The three-tiered structure is intended to reduce the tendency of program managers to be program advocates and thereby increase the flow of realistic acquisition-related information to senior executives.

Despite this change, it may not be reasonable to expect that program management and program advocacy can be so neatly separated or that the culture of optimism will thereby be tempered by more realistic flows of information. Such separation didn't happen with the A-12. On the other hand, the cancellation of the A-12 program should have been a sobering and disciplining experience for everyone connected with defense acquisition, so perhaps there are grounds for another sort of optimism after all.

Inventory Management

In testimonies last year, we highlighted the long-standing problems of excessive inventory and limited control. Although DOD reported that it had \$34 billion in unneeded inventory last year, work we currently have underway indicates that the size of the inventory and the magnitude of the problems are much greater than previously reported.

We've reported over the last 20 years on many specific problems in the inventory system. Our recent and current reviews reveal the same problems over and over again. We believe that to solve these problems, DOD needs to emphasize economy, efficiency, and accountability in the inventory system. DOD often buys more than it needs and does not maintain accurate records on its stock in storage or in transit. Too frequently, these actions result in DOD's not knowing whether materials or parts have been stolen or just misplaced. There have been many instances in which items that have been recovered have never been reported as missing.

Although many efforts under DOD's Inventory Reduction Plan and DMR initiatives are underway to address the extensive problems that DOD faces in managing its inventory, we are concerned about whether these efforts will solve the extensive problems we see and, particularly, whether they will adequately address the problems of inventory visibility, accuracy, and accountability. For example, an Air Force plan to add a year of requirements to its Approved Force Acquisition Objective could serve to both mask inessential inventory and to increase acquisitions by preventing the cancellation of excess materials on order. We have recommended canceling the Air Force's plan, but DOD and the Air Force disagree.

Last year, we estimated a potential to reduce DOD's proposed 1991 funding for secondary items by at least \$2 to \$4 billion, and--

following the invasion of Kuwait--the Congress reduced the funding request by over \$2 billion. We believe the reductions were important, not only because they served to minimize unnecessary expenditures but also because they established a more reasonable base from which to measure later incremental costs incurred during the Desert Storm conflict. We are now following through on questions that arose since last year's hearings, including the impact of the Middle East crisis on the high risk area of inventory management.

Financial Management Systems

On November 15, 1990, the President signed into law the Chief Financial Officers Act of 1990, which establishes a leadership structure for improving financial management. DOD clearly needs reliable, responsive financial management systems that can provide timely information for use in managing programs and making difficult decisions during this period of shrinking budgetary resources and changing world threats. Our audits of the Air Force and other services have revealed serious shortcomings in their financial systems' ability to provide the data needed to monitor operations efficiently.

Without good financial management systems, DOD cannot successfully implement planned improvements. For example, DOD has proposed the establishment of the Defense Business Operations Fund to initially consolidate its industrial and stock fund operations into a single entity. DOD's long-range goal is to include all support activities, such as research and development and military construction, in the Fund. The Fund would provide services to DOD customers and be reimbursed from the customer's operations and maintenance funds. While we believe that the concept of the Fund might be valid, currently DOD does not have the financial systems in place to operate it as an effective and efficient business-type activity.

DOD recognizes that it has significant problems with its financial management systems and operations. It has made a "first step" toward improving its financial operations with the implementation of the DMR initiatives, particularly the Corporate Information Management initiative. However, much determination, tenacity, and long-term effort on the part of DOD's management are required to ensure that managerial improvements are achieved and that the DMR does not result in failure, as have many previous efforts. We urge the Committee to both encourage and scrutinize DOD's progress in achieving financial reform.

THE COST OF OPERATIONS DESERT
SHIELD AND DESERT STORM

We believe that the cost of Operations Desert Shield and Desert Storm will ultimately total as much as \$100 billion for fiscal years 1990 and 1991. This includes about \$50 billion that it cost the United States to raise, equip, and maintain the force that was deployed; \$40 billion for the additional cost of mounting the Operations; and as much as \$10 billion in other costs, including \$7 billion in debt forgiveness for Egypt. (See figure 3.) The allies, as of April 18, have contributed \$35 billion. Assuming the outstanding pledges of \$19 billion are ultimately received, allied contributions will have covered about half the war's cost.

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Mr. Chairman, this concludes my statement. I will be happy to respond to any questions.

(396750)

Figure 1: Comparison of Defense Outlays and Interest on Public Debt

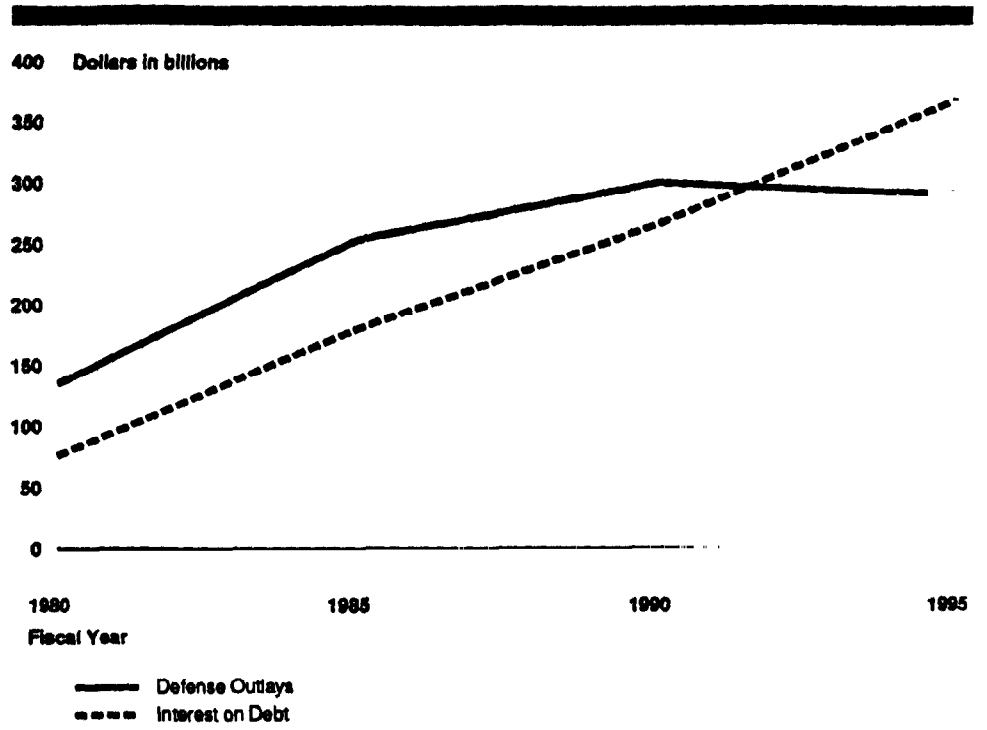
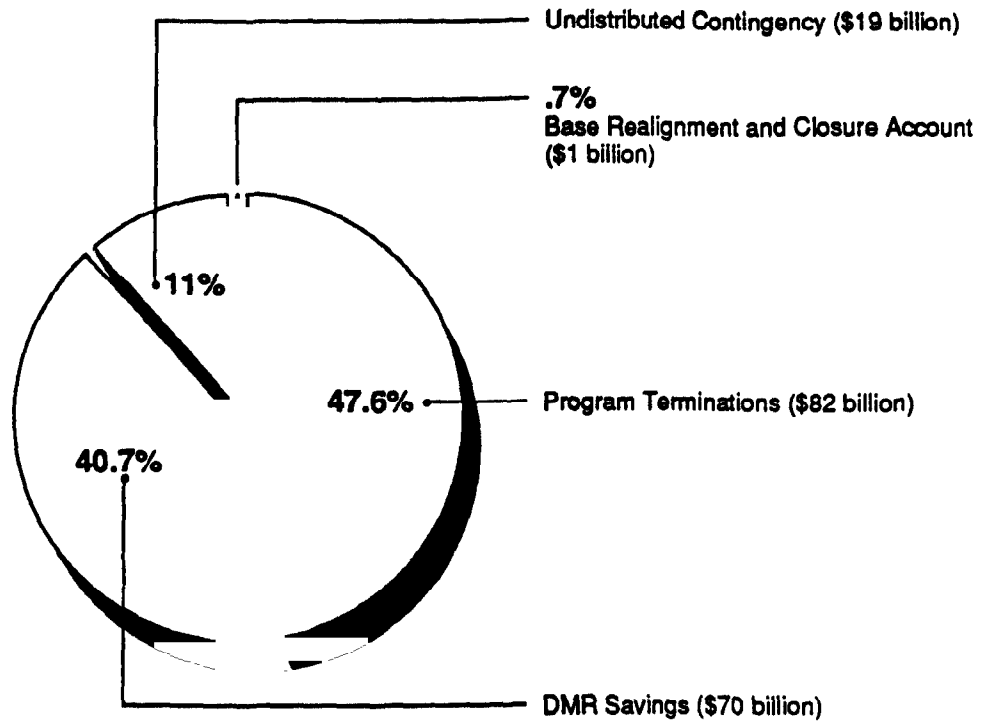
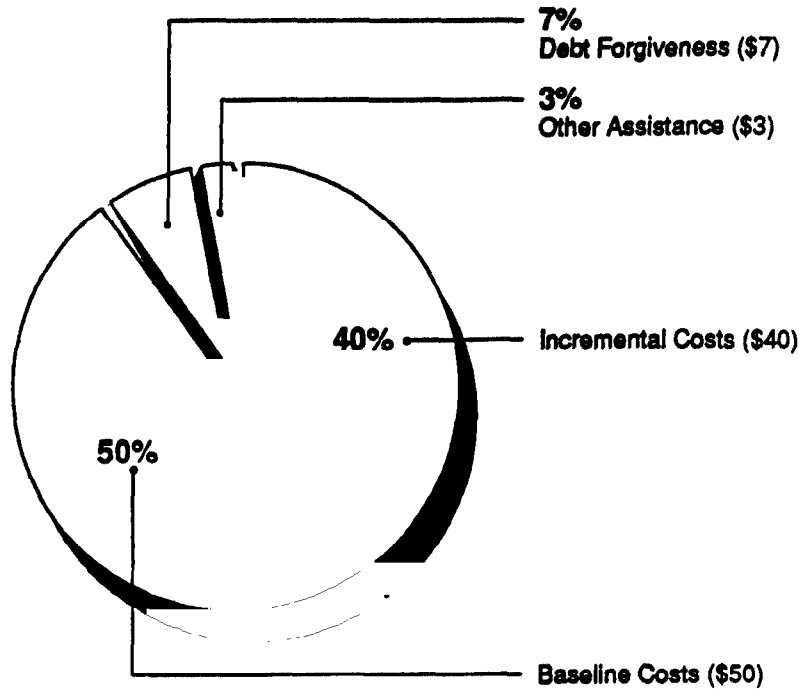


Figure 2: Breakdown of the \$172 Billion in Savings and Reductions Contained in the FYDP (Fiscal Years 1992-97)



Contingency account includes \$0.9 billion savings from the Davis-Bacon Act, \$6.9 billion savings from latest base closures proposal, \$0.5 billion in other legislative changes, and \$10.7 billion in retirement savings.

Figure 3: Operation Desert Shield/Storm Costs



Dollars in Billions

Total = \$100 billion