



Center for Strategic & International Studies  
Washington, DC

The CSIS Japan Chair Global Dimensions Briefing

**"U.S. Defense Budget: Impact on the U.S. Defense Capability and Defense Industry"**  
**with**

**Dr. Daniel I. Goure**  
*Deputy Director, International Security Program*

Monday, April 24  
CSIS 4th Floor Conference Room

**Overview**

The needs of the U.S. armed forces have been constrained by constricting defense budgets in the past few years. At the same time, the United States has increased its commitment to conflict resolution and international security. Given rising costs within the armed forces, and the need to replace aging equipment, the defense budget must be increased to meet increased needs. Otherwise the United States will not be able to maintain its support of personnel and operations in all theatres.

**Defense Budget and Current Military Costs**

The United States has a fundamental defense problem. The current force to support the U.S.'s national security strategy is called the QDR (Quarterly Defense Review) force. This is the equivalent of the people, activities, and support paid for by the Dept. of Defense. This force is running out of useful life, and is aging to the point where it will no longer be effective. Alternative programs, such as acquisition programs or new inventions, are not going to provide sufficient capability before the majority of this force is ineffective. Thus there is a gap between the end of the lifespan of existing capabilities, and when the next generation can be procured. In addition, the costs of acquiring new technologies are rising. This is because the armed forces have asked for more capabilities from technology that is acquired and put into use.

The U.S. is now spending three percent of its GDP on defense, the lowest amount spent since before WWII. This amount needs to be increased to four percent of GDP, an increase of about \$80-100 billion dollars. Critics of defense budget increases believe new technology will be a significant improvement over previous equipment. This new technology will allow the U.S. to reduce the size of its force, and be equally capable. However, new technology will not be able to fully replace existing equipment. Given rising maintenance costs each year, any opportunities for additional expenditures on new technology or research and development are nullified. The defense budget must be increased to accommodate these costs and allow for procurement of new technologies.

If the size and activity of forces is maintained, costs grow each year. The defense budget has been flat while operational costs have been growing. This situation will lead to an inability to recapitalize in new equipment as older equipment depreciates. By the year 2020 or 2025, all available money for defense will be used entirely to pay for personnel. This will preclude spending for procurement or research and development. This situation will obviously be changed before a crisis arises, but it will require a large amount of money.

## **Savings**

The United States has done all that it can in saving money in its operations. Most of the easy savings have been done, such as the three rounds of base closures. The fact that costs are rising for existing operations is unavoidable. The U.S. military has had an increase in the number of married personnel, from forty to seventy percent in the last fifty years. This has caused increased expenditures for dependent care, housing, and medical care. During the last two decades the military has also equipped its installations with computer technology, another significant cost. These costs have essentially morphed any savings, and will not diminish in the future.

For the 2000 budget, the acquisition budget was \$53 billion, but should have been over \$100 billion. This amount was calculated only to replace depreciated equipment, not for acquisition of new forces, or a National Missile Defense (NMD). Because costs of replacing existing equipment are increasing over time, delaying procurement will not defray costs in the long run. For example, aircraft costs increase annually by six percent, and double every twelve years. If the new aircraft are not purchased for 24 years, costs will have quadrupled, while the capabilities of the aircraft might only be twice that of existing aircraft. The U.S. has 15,000 aircraft in its inventory. If this force is maintained 600 aircraft need to be purchased yearly, a cost of \$70 billion in procurement alone. This last year, 188 aircraft were bought, a total of \$19 billion. This figure exceeds the expected entire procurement budget for 2001.

Forces are also limited by human capabilities. With decreased equipment, human resources will be spread thin to engage conflicts worldwide. An average procurement budget of at least \$164 billion dollars is needed, which is \$100 billion dollars less than current provisions. Within the next half century, the military will be at 25-50 percent of its current capabilities, because of decadent equipment. This will mean reduced commitments to conflicts, or possibly that the US does not deploy to a certain theatre (Asia, Europe, Middle East). Even if the number of personnel are reduced by one-quarter to save money, there would still be a reduction of equipment by 28%. Even this reduced force would be stretched too far for current commitments

In 1997, the QDR stated that Defense procurement needed to be \$47-63 billion dollars by the end of the period, depending on the economic situation. \$164 billion is needed to buy a new force, which would comprise of existing forces. The military would be one-third to two-thirds smaller at current spending levels. Because the U.S. has not been buying at Cold War levels, where unit costs were low based on high levels of spending, there is a massive shortfall.

## **Implications for a Reduced Defense Budget**

The Pentagon has responded that smaller defense budgets will produce the worst possible situation. It will lead to cannibalizing of equipment, shortages of spare parts, and a high rate of personnel leaving the service. Politicians have responded that smaller budgets are inevitable, that there is no choice but to reduce spending levels. The problem is that the current force is the minimum needed to meet the United States' international security obligations and alliance commitments. A second problem is that the current military is overstretched. It is too small to cover all of its missions. The smaller scale means that the ability to meet these commitments goes away. When the 2002-08 defense budget is projected, there will be a crisis, because the results will show that there is not enough money to match all of these needs.

The next decade is crucial to fixing this problem, for two reasons. First, the QDR has stated that the U.S. and its allies will see stronger than current regional threats, and thus will need militaries that are prepared to deal with these threats. Second, in 2010 there will be a great bulge in U.S. social spending as the baby boomer generation starts to retire. In addition, economic growth will slow down as the workforce diminishes with high retiree rates. As the U.S. is forced to reduce its military-industrial base, its allies will be significantly affected. If the U.S. withdraws from current commitments, allies in Europe and Asia will have to increase their security commitments. This may not be feasible given current needs and concerns in other countries.

If the U.S. slowly reduces its commitments over the next few decades, a smooth transition might take place. Two problems arise though. First, there is no clear replacement for U.S. presence in any theatre right now. The U.S. would have to discuss with its allies who would take over the leadership role in each theatre. Japan would be the obvious replacement in Asia, however this might not be successful. The second problem stems from uncertainty in the future. If instability or economic crises come about, the U.S. would face a serious defense crisis. The United States will need to reduce export controls and share technology with allies if it is going to reduce its commitments.

## Questions and Answers

Q: Is cost-benefit analysis the best means of determining cost effectiveness of a project?

A: This depends upon what kind of conflict you think you are fighting. Cost-benefit analysis applies directly to evaluating project, but the problem is that it is an objective analysis. Although military logic would be to invest in new technology such as F-22s and JSFs, this may be self-defeating. That requires more money than the military is going to have. The alternative to air power is to invest in missiles and naval power. Groundpower is too costly and slow.

Q: What is your prospect over the next QDR for troop assignments and support in East Asia?

A: No radical changes will be made in next QDR. The Republicans have talked about a major aircraft review, because of the significant costs involved. The Democrats may not do anything at all. Changes will need to be made in the national security strategy and alliance arrangements, but there is not much will to change current strategy.

Q: Do you see that the national missile defense or missile defense program will be prudent for the future?

A: This study did not include any projections for NMD or a missile defense program, other than the one established site (cost of \$15 billion).

Q: Would replacement mean buying the original models of equipment, or the current ones?

A: The current models of equipment in use, such as the F/A-18 E/F. There are cost savings in buying aircraft currently in use rather than buying the next generation. The next generation has not been proven yet, and capabilities of adversaries needs to be considered.

The Army is spending \$10 billion on procurement, but most of this money is spent on digitization of old vehicles and supplies. Army is trying to keep up heavy armor, increase light armor, and also purchase Commanche helicopter.

Q: Is Commanche the same model in use now, or will be a new model?

A: Not in use now, will be a new model. Army has stopped purchasing new helicopters (Apaches) so that it can buy Commanches in the future. There is a possibility that the Commanche will never be built, and the Army will have to purchase helicopters from Europe because the American market will have dried up.

Q: Why is Marine Corps doing away with helicopters to superimpose V-22s Ospreys?

A: Better savings in numbers, repairs, etc. Better speed and range than helicopters. But more expensive. The V-22s have a higher payload, less will be needed to support troops. This will bring about savings. The Marine Corps has only invested in V-22s as its support aircraft, and if this project is scrapped they will not have air power.

Q: Host Nation Support?

A: Political issue. Clinton administration did not admit that it brought economic prosperity and yet sacrificed national security budgets. Politically unacceptable to ask for more money for defense. U.S. should have discuss defense with its allies. If the U.S. does not increase spending on

defense now, it will be behind in later years, and will have to spend significant amounts of money to increase its military. Europeans have moved to next generation because of arms sales to other countries.

Q: Why has there been no increase in defense spending?

A: No incentive for major increase in defense spending. 1995: increase in defense budget by \$50 billion. Only \$1 billion increase this year because Republicans want to save social security, increase in medicare and education, tax cuts. \$3 trillion surplus, only \$180 billion goes to defense budget. If recession hits, U.S. will reduce forces even more, and allies will increase security commitments.