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STATEMENT ON "THE MILITARY BUDGET  
AND NATIONAL ECONOMIC PRIORITIES"

Malcolm W. Hoag

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For the Subcommittee on Economy in Government,  
Joint Economic Committee,  
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Dr. Malcolm W. Hoag\*

The RAND Corporation, Santa Monica, California

I

Gentlemen, I am honored by your invitation to testify on so important a topic. This statement summarizes only a few points from my paper submitted for the record.\*\*

We all desire that military spending take as little of our resources as is consistent with a safe world, and with maintaining military capabilities that can fulfill our pledged commitments to cooperative allies. Ideally, dependable arms control agreements with the Soviet Union would, post-Vietnam, permit us to cut defense budgets sharply.

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\* Any views expressed in this paper are those of the author. They should not be interpreted as reflecting the views of The RAND Corporation or the official opinion or policy of any of its governmental or private research sponsors.

\*\* Malcolm W. Hoag, The RAND Corporation, P-3959, "A New Administration Faces National Security Issues: Constraints and Budgetary Options" [published in part in Japan in The National Defense (April 1969), pp. 51-64]. Extracts from my P-4048-1, "What New Look in Defense?", have been used for other parts of this statement. This paper is to be published in World Politics (October 1969).

Further, we should always produce desired military capabilities at the lowest possible cost. Our military establishment is not as "cost-effective" as it should be, and I shall later suggest how it can be made more efficient.

Dependable arms controls and greater efficiency are today more desirable than ever. Otherwise, post-Vietnam military budgets may never fall below \$70 billion a year in the 1970s, and would tend to rise during the 1970s.\* These budget projections assume, which is controversial, that we maintain the policy guidance for peacetime military planning that prevailed in Fiscal 1965, before Vietnamese spending became large. But before turning to the important policy arguments, a realistic quantitative perspective must be established.

## II

Fiscal 1965 was an austere year, as military spending took the lowest share of the Gross National Product (GNP), 7.3 percent, that it had in any year since before the Korean War. In contrast, the proportion of the GNP devoted to defense never fell below 8.8 percent in President Eisenhower's Administration, despite an allegedly inexpensive doctrine of retaliation at times and places of our choosing.

For post-Vietnam budget projections, Fiscal 1965 expenditures must be repriced in 1969 dollars. Two items alone -- pay increases, and price increases in standard consumables such as jet fuel -- account for an inflation of 21 percent in only four years.

More importantly, the costs of weapon systems, but also their effectiveness, rose as much or more. Thus from Fiscal 1961 to Fiscal 1968 the payload capability of our tactical aircraft rose by a factor of 2.4; our long-range airlift capability rose five-fold; and the

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\*For amplification, see my submitted P-3959.

percentage of our fighters with all-weather capability rose from 15 percent to 50 percent. But a now-outmoded F-100 cost about \$1.1 million in 1961, a F-4 costs about \$2.5 million now, and a F-111A may cost more than \$7 million.

Realistic budget calculations for a hypothetical peacetime Fiscal 1971, to fit Fiscal 1965 peacetime policy, are dominated by modernization costs for weapon systems. Such costs add about 30 percent to Fiscal 1965 expenditures, on top of the 21 percent increase in pay and consumables that has already happened in the last four years.

A Fiscal 1965 force structure, but with modernized weapon systems, would cost about \$72 billion in 1969 dollars, even with a "McNamara-like" disapproval of many new weapon systems recommended by the Joint Chiefs of Staff. Apart from price inflation, continuous modernization during the 1970s could be expected to increase defense budgets about 3 percent per year, and effectiveness still more. However, as our GNP is expected to grow still faster, these defense budget projections fall to about 7 percent of GNP, or a lower share than any since before the Korean War.

Dr. Carl Kaysen projects a much lower \$50 billion defense budget for "197X". He assumes a total freeze on strategic forces in agreement with the Soviet Union, while he cuts General Purpose Forces to fit less ambitious objectives. But his budget is badly underestimated, even given his policy assumptions. First, from Fiscal 1964 to Fiscal 1969, inclusive of modernization costs for weapon systems, he allows for only a 21 percent inflation! A 21 percent inflation is fully accounted for by the last four years, not five, by increases in pay and standard consumables alone. His method misses the most important element, modernization costs, and consequently produces a grossly misleading budget projection.

If one prices his stated forces in the "197X" year most favorable to his case (Fiscal 1973), they would consume about two-thirds of his \$50 billion budget in Operating Costs alone. Only one-third would be left for the Development and Investment that reflect modernization.

During Fiscal 1961-Fiscal 1965, Operating Costs left about one-half of the defense budget for modernization. In short, the Kaysen-proposed forces would be restricted to outmoded weapons systems in Fiscal 1973, and still more so thereafter. If our Armed Forces have to live with a \$50 billion budget, it would be far better to cut them more sharply, so that our forces would be well-equipped.

### III

Now we can concentrate upon the policy arguments. I favor seeking agreement with the Soviet Union upon a limit on strategic weapon systems, offensive and defensive. For offensive missiles, while I prefer a limit on the aggregate "throw-weight" of total forces, I should settle for a simpler limit upon numbers of bombers and missile launchers. For defensive missiles, I favor seeking agreement upon a maximum of 1,000 interceptor missiles on each side. Such a limit would preclude "thick" ABM systems. Neither side's capability for "Assured Destruction" would therefore be brought into serious question, and the stability of the bipolar equilibrium between the two superpowers would not be upset. At the same time, the permissible 1,000 interceptor missiles would permit each side to exploit the multiple utilities of a "thin" ABM": (1) the hard-point protection of its missile silos; (2) the denial of high-confidence to either side that it could launch "light" nuclear attacks upon the other's homeland, i. response, say, to use of nuclear weapons in European conflicts, and thus the reinforcement of deterrence against any such light attack; (3) protection against any small accidental attack; and (4), for any would-be nuclear power that aspires to retaliatory capabilities against one or both of the superpowers, raising the price-tag for such capabilities to high, and perhaps prohibitive, levels.

Others favor a strategic freeze at today's (or, rather, yesterday's) level of technology, a dangerously unrealistic position. Specifically, the main question is whether the United States can put high confidence

in a ban upon MIRV systems, without any inspection within the territory of the Soviet Union. We cannot. The simplest way for the Soviets to evade such a ban is by testing the critical new mechanism for a MIRV capability -- the ejector mechanism for a re-entry vehicle -- with only one ejection per launch. And there are better ways to evade the ban.

Lacking high confidence in such a ban, therefore, the vulnerability-reducing measures for our Strategic Retaliatory Forces should be so modernized that we can still put high confidence in our retaliatory capability, even when we assume a sizable Soviet MIRV capability. Nothing less would be prudent.

Note that I stress vulnerability-reducing measures, and not multiplication of missile launchers in an unlikely quantitative arms race. As for our offensive systems, because we cannot rule out a Soviet MIRV capability, we should seek lower costs per target covered by incorporating programmed MIRV capabilities within our missile forces. Those who assert that this will move the Soviets to build a "thick" ABM have the logic of the argument precisely backward. It is the specter of U.S. MIRV capabilities that will best deter a "thick" Soviet ABM, because it will make such an ABM look cost-ineffective to a Kosygin, if not a Grechko.

#### IV

For General Purpose Forces, the main policy issue is whether we retain a capability goal to meet "two-plus" major contingencies concurrently, or reduce the goal to "one-plus" contingencies.

If we publicly adopt the latter course, we shall repudiate our commitments to South Korea and Thailand. We shall of course save money, because then the size of our General Purpose Forces can be cut. But the first point to emphasize is that we cannot then cut these Forces drastically, because preparedness for a major contingency in Europe alone requires most of our General Purpose Forces.

The Asian requirements to meet a "two-plus" contingency goal need not be large, fundamentally because mainland China does not pose a large offensive threat. Furthermore, the strong South Korean Army needs little beyond air reinforcement. Thailand is different, because its Army of only 95,000 men could not meet overt Communist aggression, as distinct from subversion. Yet, even here, little or no peacetime U.S. presence appears to be desired, and our reinforcement capabilities need not be magnified, as in NATO Europe, by a rigid commitment to forward defense of extended boundaries.

Meanwhile, against the dollar economies to be realized from a change to a "one-plus" contingency policy, we must balance the political costs. These are not vague. The Australian/New Zealand commitment to Singapore and Malaysia is related to American choice as between a "forward" commitment to some part of mainland Asia or an "island-rim" strategy. For major threats to Malaysia and Singapore, Australia's Prime Minister has said, "we would have to look to the support of allies outside the region."<sup>\*</sup> If we repudiate all of our mainland Southeast Asia commitments, our staunch ANZUS allies are likely to follow. In such an event, the United States would have reneged upon pledged, and recently reaffirmed,<sup>\*\*</sup> SEATO commitments. How credible then would be our security guarantees anywhere? How much stronger would the pressures be for our allies, in consequence, to opt for nuclear proliferation?

Consequently, despite its sizable cost, I favor retention of a modified "two-plus" contingency goal for our General Purpose Forces. Some economies from lesser overseas troop commitments in peacetime should be possible. As our lift capabilities grow, and the readiness of our reserve forces improves, we should urge our allies toward an enlarged matching mobilization capability, at lower costs than ready

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<sup>\*</sup> Survival (April 1969), p. 118.

<sup>\*\*</sup> Secretary of State Rogers, as quoted in The New York Times, May 21, 1969.



forces. Given allied views of a small probability of any surprise attack "out of the blue," rather than one preceded by months of political warning, the penalty of reduced capabilities against surprise attack seems acceptable.

V

How we place a greater emphasis upon a mobilization base, with resultant economies, brings me to my promise to indicate a general way to achieve greater "cost-effectiveness." Rather than simply cut our troops in Europe drastically, and then wait for our allies to reduce their forces similarly, we should have one more try at greater NATO cost-effectiveness. We should be sick and tired of the paradox that NATO outmans the Warsaw Pact by about 30 percent, spends far more, and yet remains inferior in conventional strength in Europe. Our problem is that our units, e.g., Army divisions, are so deluxe and costly that, unlike the Pact, we have too few of them to cover the ground to be defended. We need more units, but more austere ones.

Here is my suggestion for getting them. Let the American Secretary of Defense send a memorandum to the Department of the Army somewhat as follows: "Effective 'X' months from today, I order that the Soviet model for Army design be adopted as the standard for U.S. Army design, from top to bottom, at least for European contingencies, with a phasing period of no more than 'Y' years in which to accomplish the complete transition. However, this order will be rescinded or modified at any time within 'X' months, if, to my satisfaction, you present more cost-effective designs than the Soviet model. For this planning purpose, you are to assume that current long-term policy guidance for combat contingencies remains as now stated, and that budgetary outlays for General Purpose Land Forces will average 'Z' billions of dollars per year for the next decade. My staff and I look forward to continuous consultation about this extremely important matter. In particular, we expect your analysis to provide the professional foundation for

U.S. proposals for NATO ground force redesign, as we invite counter-proposals from our allies."

I do not mean to single out the Army for such reform, but all our services. From such an action we may well get sizable economies in the best possible way, as our true planning professionals are given the strongest of incentives to reduce costs without impairing desired capabilities. Let us exploit every avenue toward greater "cost-effectiveness" before we precipitately retreat from our pledged commitments and our prudent policies for "flexible response."

Thank you.