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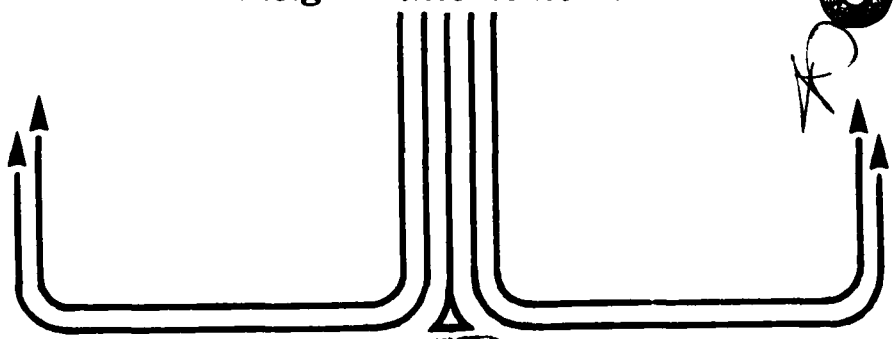
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AIR COMMAND AND STAFF COLLEGE

STUDENT REPORT
"THE ECONOMICS OF DEFENSE:
IMPACT OF GRAMM-RUDMAN-HOLLINGS
ON THE DEFENSE BUDGET,
FY86 THROUGH FY90 AND BEYOND"
MAJOR MICHAEL J. SNEDEKER 87-2330
"insights into tomorrow"

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TITLE "THE ECONOMICS OF DEFENSE: IMPACT OF GRAMM-RUDMAN-HOLLINGS ON THE DEFENSE BUDGET, FY86 THROUGH FY90 AND BEYOND"

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requirements for graduation.

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PREFACE

This is a study of how Public Law 99-177, commonly referred to as "Gramm-Rudman-Hollings", or more simply as "Gramm-Rudman" has affected, and will affect, the defense budget of the United States from Fiscal Year 1986 through 1990 and beyond. The law has had, and will continue to have, a profound impact upon how we plan for and conduct the future defense of this nation. The preparation of this study would not have been possible without the valuable assistance of several fellow officers. Colonel Calvin R. Johnson, Chief of the Air University Air Force National Security Briefing Team, proposed and sponsored the project at Air Command and Staff College, as well as provided both excellent suggestions on how to improve the text and additional information sources to help back up my arguments. Colonel Select James S. Boney of HQ USAF/ACBMP, one of my former supervisors at HQ MAC, provided me with invaluable data and editorial help. Major Aaron "Buck" Rogers of HQ USAF/ACBME first provided me with background information on Gramm-Rudman in January of 1986 that piqued my interest in the subject to begin with. Lastly, Major Manuel "Manny" T. Torres, my school advisor on the project, provided critically needed guidance and encouragement that helped enormously in completing this effort. My thanks to all of them for their help.



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Major Michael J. Snedeker is a 1974 graduate of the United States Air Force Academy with a Bachelor of Science Degree in International Relations. A senior pilot with over 2,000 flying hours, he has flown C-130s of various configurations for Air Force Systems Command, Tactical Air Command, and Military Airlift Command. In 1982, Major Snedeker became one of the first ten United States Air Force officers selected for the Air Force Institute of Technology's (AFIT) Cost Analysis program. Following completion of his master's degree at AFIT, he was assigned to Headquarters Military Airlift Command and became the Chief of the Cost and Economic Analysis Division, Directorate of Cost, Deputy Chief of Staff Comptroller. He is a 1985 graduate of the Professional Military Comptroller School. A recipient of awards from Military Airlift Command and the American Society of Military Comptrollers for his work in cost analysis, Major Snedeker was one of Military Airlift Command's nominees for the "Ten Outstanding Young Americans" program for 1986. He is currently a member of the Air Command and Staff College Class of 1987.

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EXECUTIVE SUMMARY

REPORT NUMBER 87-2330

AUTHOR MAJOR MICHAEL J. SNEDEKER, USAF

TITLE THE ECONOMICS OF DEFENSE: IMPACT OF GRAMM-RUDMAN-HOLLINGS ON THE DEFENSE BUDGET, FY86 THROUGH FY90 AND BEYOND

I. Problem: Implementing Public Law 99-177, the Balanced Budget and Emergency Deficit Control Act of 1985 (GRH) has, and will continue to have, a very significant impact on the nation's defense budget.

II. Objectives:

1. Determine how GRH law applies to and affects the defense budgeting process.
2. Determine how GRH affected the FY 1986 defense budget.
3. Determine how GRH will affect the FY 1987 defense budget.
4. Determine how GRH will affect the FY88-90 defense budgets.
5. Determine where Congress will place its emphasis on the control of deficit spending in FY 1991 and beyond.

III. Discussion of Analysis: The GRH law is a break with past Congressional budgetary history. GRH mandates a specific program of annual federal budget deficit reductions leading to a balanced budget by 1991. While the intent of the law is good, its approach is unbalanced in that it excludes (largely of necessity) a major portion of the federal budget from cuts. The result is that 100 percent of the amount that must be cut to make the target deficit figure each year must come from 15 percent of the total budget. Half of the cuts must come from the defense budget. A failure to meet the specific targets (adjustable upward by a \$10 billion cushion in the years FY87 through FY90 only) mandates automatic across-the-board cuts in every eligible program, without regard to the impact those cuts may have on defense readiness or sustainability. The automatic budget cutting procedures were ruled unconstitutional on a tech-

nicality, but there are manual backup procedures which may yet prove effective in the future, given political pressure.

IV. Findings: In Fiscal Year 1986, those cuts cost the Department of Defense (DOD) \$5.2 billion in money that *would have been spent* for operating ships, tanks, and airplanes, moving the people who man them, and providing ammunition and replacement systems to keep our defense armed and viable. Were it not for the flexibility built into the law in the first year of operation, DOD would have had to release 280,000 people from active duty--one for every eight people in service today. Thanks to the newly passed tax law, there will be no arbitrary cuts (referred to in the law as "sequestrations") in FY87. However, with tax revenues projected to lag in FY88 there is significant potential for sequestrations in that and following years if something is not done to more effectively balance income with spending. The options that appear most likely are for the government to spend less, tax more, or do both. Spending less must be done carefully so as not to leave the country underdefended in a time of increasing danger from the Soviet threat, terrorism, the third world, and other sources. A tax increase is unlikely before the upcoming change of administrations. Yet some combination of the two has typically been used in the past as a way to reconcile budgetary problems.

IV. Conclusions: While the nation cannot afford to continue running large deficits, neither can it afford to underspend for defense. The Congress has a constitutional duty to provide both for the "common defense" and the "general welfare" of the nation, but their new budget law is unbalanced in its approach. We as a people must be willing to pay for the government services we enjoy, whether they be medical, military, or whatever else, or our children and grandchildren will be condemned to pay for our financial indiscretions.

V. Recommendations: The study makes no formal recommendations since it is not the province of the DOD to tell Congress how to balance the budget. But the implications of their current method are clear--belated fiscal balance at the expense of a dangerously weak defense.

Chapter One

AN INTRODUCTION TO THE GRAMM-RUDMAN-HOLLINGS LAW AND HOW IT AFFECTS THE DEFENSE BUDGET

STUDY OBJECTIVES

Public Law 99-177, "Gramm-Rudman-Hollings", is a break with past Congressional budgetary history. Unable to produce a budget surplus since the Nixon administration (60:Table 22) and faced with steadily increasing annual budget deficits, the Congress seemed unable to effectively control spending. (20:22; 42:20) Given the near certainty of the President's veto on tax increases (57:5), Congress decided to adopt an automatic deficit reduction plan. Tacked onto a bill to raise the deficit ceiling, the Balanced Budget and Emergency Deficit Control Act of 1985 provided such an automatic system and is now law. While its intent is good, its potential impact on defense prompted Secretary of Defense Weinberger to remark that "We are entering a period in which national strategy may be held hostage to the accountant's pencil. . . ." (13:1,26)

The objectives of this study are to briefly examine the history and workings of the law, explain its impact on the defense budget to date, project its impact in the near future, and look at ways Congress may try to control deficit spending after the law's provisions expire in 1991. The law has already had a substantial impact on the Department of Defense (DOD) in terms of funds cut and plans delayed or cancelled, but this impact is minor when compared to the law's potential impact in Fiscal Year 1988 and beyond. Knowing how the law will affect defense budgets requires an understanding of its development and provisions.

BACKGROUND HISTORY OF THE LAW

The Balanced Budget and Emergency Deficit Control Act of 1985, better known as "Gramm-Rudman-Hollings" (GRH), or simply "Gramm-Rudman," is the product of three United States Senators who felt compelled to stop the seemingly relentless growth of the federal budget deficit in recent years. Signed by President Reagan on 12 December 1985 (66:1), the law

The law excludes many programs and public services from consideration, severely limiting how much of the budget can be automatically cut to make the targets. As Ronald Boster pointed out in his article on the law, ". . . 100 percent of the deficit reductions must come from only 15 percent of the budget."

a.	1986 - \$171,900,000,000.
b.	1987 - \$144,000,000,000.
c.	1988 - \$108,000,000,000.
d.	1989 - \$72,000,000,000.
e.	1990 - \$36,000,000,000.
f.	1991 - \$0. (61:3)

The basic intent of the GRH law is to systematically reduce the annual federal budget deficit (i.e., growth in the national debt) to zero by Fiscal Year 1991 through a series of deficit targets. The law defines the deficit as ". . . the amount by which total budget outlays for such fiscal year exceed total revenues for such fiscal year." (61:3) The law establishes the maximum allowable deficits through Fiscal Year 1991.

MECHANICS OF THE LAW

In late 1985 the Congress had to vote to raise the national debt ceiling above \$2 trillion (60:Table 6) to keep the government functioning. (23:81) Senators Gramm, Rudman, and Hollings realized that by attaching their proposed amendment of the Congressional budgetary process to the bill to raise the debt ceiling, they had the best chance of seeing their proposal enacted into law. On 11 Dec, the House by a vote of 271-154, and the Senate by a vote of 61-31, approved the Gramm-Rudman amendment as part of a bill extending the federal debt ceiling to \$2.08 Trillion. (66:1) Gramm-Rudman is the product of tough politics and a desire to put a brake on government overexpanding. (4:7-8) The law will formally affect the federal budget for six years.

The GRH law was not the first time Congress had seen the idea of automatic deficit control. In 1981, then U.S. Representative Jim Wright, both Texans, to propose a House majority leader Jim Wright, both Texans, to propose a House Resolution that ". . . would have required the President to "requester" sufficient budgetary resources to meet specified deficit levels, unless these targets were met by enacted legislation." (11:38) The bill did not pass in 1981, but Gramm would try again. (11:38)

represented Congress' attempt to take firm action to control and reduce the growth of the deficit, even if that control process had to be an automatic one.

(11:40) The law specifically excludes (from cuts) such programs as social security, veterans compensation and pensions, railroad retirement account payments and pensions, civil service retirement funds, military retirement funds, aid to families with dependent children, food stamps, and a host of other smaller programs. (61:48-52) Interest on the national debt is also excluded (61:49), since Congress must pay interest on the debt or the government would be in technical default on its loans. Much of the debt is held by the Social Security Trust Fund. This and other programs listed above, as well as many that are not shown, are part of the "social safety net" so often discussed in recent years. Understanding this, Congress provided a way to suspend GRH during a recession, if required.

The Congress can suspend the automatic reductions under GRH for either the current or coming fiscal year, or both, in case of a recession. (61:44) If the Congressional Budget Office (CBO) or the Office of Management and Budget (OMB) notifies Congress that the economy has a negative growth rate, and if they project the same for two or more of the next four quarters, or if the Department of Commerce reports that real economic growth for two consecutive quarters is less than one percent, Congress may suspend GRH on a temporary basis. The Congress may suspend GRH for the current year, the next year, or both. (61:44)

The law requires both the CBO and the OMB to ". . . estimate the budget base levels of total revenues and budget outlays that may be anticipated for such fiscal year as of August 15." (61:28) If it appeared the deficit target will be exceeded by more than \$10 billion (except for Fiscal Years 1986 and 1991), the real "teeth" of the law--the automatic budget reduction provisions--go into action. According to Part C of the law, "If the deficit excess for the fiscal year is greater than \$10,000,000,000 (zero in the case of fiscal years 1986 and 1991), such deficit excess shall be divided into halves." (61:29) Half of the OMB and CBO estimated reductions must come from defense and half from non-defense accounts. (61:29)

Before the Supreme Court decision, the OMB and CBO had to submit their initial estimates to the General Accounting Office (GAO) and the Comptroller General (CG) by 20 August of each year. (61:33) The CG then had to, by 25 August, review and certify their estimates in a report to the President and the Congress. (61:33) The report had to specify

. . . by account, for non-defense programs, and by account and programs, projects, and activities within each account, for defense programs, the base from which reductions are taken and the amounts and percentages by which such accounts must be reduced during such fiscal year in order to eliminate such deficit excess. . . . (61:33)

GRH assumed that Congress and the President will act to reduce any excess deficit below the target for each year. (52:1563) The OMB and CBO had to follow-up with a second report to the CG by 5 October each year that said ". . .whether and to what extent, as a result of laws enacted and regulations promulgated after the submission of their initial report. . .the excess deficit. . .has been eliminated, reduced, or increased." (61:33-34)

By 10 October, the CG had to follow up with a second report to the President and Congress that revised the previous estimate of what must be cut if the deficit was projected to be too high. (61:34) Should the deficit not be reduced to within \$10 billion of the year's target (or to zero for Fiscal Year 1991), the law then required that the deficit be automatically reduced by "sequestering" or withholding the total amount above the target deficit. For example, if the deficit for 1988 was projected to be \$200 billion with a GRH target for that year of \$108 billion, then the difference between the two, \$92 billion, would have to be sequestered--half from non-defense and half from defense. Let us next examine the way this hypothetical case would affect the 1988 defense budget.

HOW THE LAW AFFECTS THE DEFENSE BUDGET

The law specifies that defense monies will be sequestered according to a "uniform percentage." (61:34) This percentage is essentially the ratio of required outlay reductions divided by the outlays subject to possible cuts under the law for a given fiscal year. One half of the sequester figure from the previous paragraph (\$92 billion/2, or \$46 billion) must come from the defense segment. If one assumes that the basis of outlays available for consideration in defense for 1988 was \$230 billion, then one should divide \$46 billion by \$230 billion to arrive at a figure of 20.0 percent. That resultant uniform percentage cut would have to be applied across all military programs, projects, and activities to achieve the reduction. There is no differentiation under the law as to what account from which the money must be withdrawn (e.g., personnel, procurement, spare parts, etc.). Each account must reduce its outlays by that fixed percent for the upcoming budget year, *by whatever means required*. Such a procedure could have catastrophic results for selected military programs.

It is important here to make a distinction between outlays and budget authority.

The Congress appropriates Budget Authority for government activities. When an agency actually spends

money, it becomes an Outlay. Putting it another way, Budget Authority is permission to spend; Outlays are actual spending. Outlays are important because the annual deficit is determined by subtracting total Outlays from total revenues. (57:3)

The Congress recognized (some say intended [4:7-8; 28:40; 34:12]) that GRH's outlay cut requirement would slow the defense budget's growth or force the President to raise taxes. Fortunately, they chose to provide the President with some flexibility in making the first year's cuts. For example, he could exclude personnel programs from cuts and shift their percentage of the total cut to another program, provided that no other program took more than twice the computed uniform percentage in cuts. (61:38-39) He could not, however, reduce Congressional special interest programs (those funded at 110% or more of the level initially requested in the President's budget submission to Congress) by more than the uniform percentage under the law. (61:39)

The Congress also recognized some of the potential impact that GRH might have in their home districts and decided to prohibit military base closures or consolidations until after Fiscal Year 1986--a key election year for both parties. (61:39) Congress' unwillingness to compromise on base closures in tight budget years is understandable but costly. As Bulter and Pines noted, ". . . Congress fights to keep the bases open, presumably because they bring economic rewards to the local communities, and appropriates money to pay the communities for the "hardship" of harboring bases." (14:36) While base closures would not provide all the savings required to avoid a sequestration, the following example from J. Peter Grace (25:68) illustrates part of the President's problem when trying to make acceptable cuts under GRH.

Our state-of-the-art defense system includes an active army base in Virginia, dating from the War of 1812, that is surrounded by a medieval-style moat. Turning this facility into a museum could save \$10 million a year, but over the past 20 years Congress has turned down requests by the DOD to do this.

The two biggest problems defense will have with GRH will probably come from manpower and acquisition programs. By one account, had the President not been granted authority from Congress in 1986 to exclude personnel programs from cuts under GRH, over 280,000 military personnel would have been cut from the service--more than one out of every eight people in active service today. (19:92) It is conceivable that since cadet pay is a separate military personnel budget activity, an entire academy class might have to be cancelled to comply with some

future year's sequestration requirements. (67:--) The problem for current and future acquisition programs is that it requires a cut of about eight dollars of budget authority in the acquisition category in order to obtain a dollar cut in budget outlays. (57:4) This is somewhat akin to eating the seed corn in winter. When DOD has to cut equal percentages of outlays from all acquisition accounts, existing programs with more of their spending behind them will survive far better than sorely-needed new programs. As a result, modernization and high-technology advancements could be severely threatened.

Senator Sam Nunn of Georgia has pointed out that, for existing programs, ". . .any "sequester" [cancellation of funds by Gramm-Rudman] will result in slowdowns and stretchouts to existing programs and increase the inherent inefficiency in Defense procurement. . . ." (37:20) Alice C. Maroni, a budget analyst for Library of Congress, is concerned about the efficiency of the defense acquisition process under GRH as well. She asked if there are now ". . .incentives that were not there before for a program manager to work with his contractors to obligate money in the expectation that contracts face impending modification as a result of Gramm-Rudman?" (37:20) The Maverick missile program is an example of a stretch-out cost increase due directly to Gramm-Rudman (see Chapter Two). Such false economy calls the soundness of the GRH law into question.

Norman J. Ornstein is a legislative specialist with the American Enterprise Institute who is deeply concerned about other false economies under GRH. He sees cuts in defense that ". . .will occur in the worst possible places--operations and maintenance, spare parts, flying time, reenlistment bonuses for mid-level technicians. You end up with false and stupid economies, and in ways that make a war more likely, because you hurt readiness." (37:20)

The authors of the GRH law anticipated that its soundness might be challenged for another reason (61:65-67)--judicial review.

THE CONSTITUTIONALITY ISSUE

Representative Mike Synar of Oklahoma took exception to the constitutionality of the law from the outset and filed a suit against it within hours of its passage. (52:1559) One of the key points of the GRH law before the Supreme Court ruling on it was that the CG, an official responsible to the Congress of the United States, had to review the estimates of the CBO and OMB and then tell the President how much he had to cut from his budget. Since the CG works for Congress, that would amount to giving the Congress a "Congressional veto" (48:1583) over the

President's budget. Other members of Congress shared his doubts about the law's constitutionality and saw to it that an alternative procedure was included in the law if, as it ultimately did, the Supreme Court struck down the primary. (52:1559)

The United States Supreme Court, in a seven-to-two decision, found the law unconstitutional on two points. Chief Justice Warren Burger wrote that:

By placing the responsibility for execution of the Balanced Budget and Emergency Deficit Control Act in the hands of an officer who is subject to removal only by itself, Congress in effect has retained control over the execution of the act and has intruded into the executive function. (52:1560)

In concurring with the unconstitutionality of the law's provision with respect to the CG, Justices Stevens and Marshall cited a different reason for rejecting it, saying that ". . . Congress could not delegate its power to set national policy to one of its chambers, committees, or officers." (52:1560) Justice White called both arguments against the law's constitutionality "chimerical." (52:1560)

The Court's decision effectively disarmed the automatic feature of the deficit reduction mechanism. It left intact the rest of the law, including backup provisions to bring about the required deficit reductions if the automatic procedure failed.

THE BACKUP PROVISIONS

The backup provisions make the law *less* of a deterrent to deficit spending than the automatic ones, but its deficit reduction targets are hard standards. The Congress' record can be measured against them by the electorate in the next five years--a fact some in Congress find disturbing. (8:3; 52:1562) The backup provisions would require the same set of reports from OMB and CBO to be submitted directly to the Temporary Joint Committee on Deficit Reduction of the Congress. (61:65-67; 67:--) Congress would have to pass a bill for the President's signature that would direct sequestration to meet the law's targets. The key here is that the President could legally refuse to sign and thus "pocket veto" the bill, but circumstances could conceivably make this politically difficult (e.g., pressure from Congress through the media to put the blame on the President for a massive deficit otherwise). While some find it hard to believe that the President would willingly sign an order to sequester funds if he didn't have to (52:1563), the political climate in the future might require it. In fact, because the Supreme Court

decision invalidated the Fiscal Year 1986 sequestration order, the Congress was forced to pass it again as a law which the President then signed. (67:--)

The net result of the Court's ruling is that, for now, Gramm-Rudman is somewhat of a "toothless tiger" (10:22), lacking the strength to force automatic cuts unless the Congress passes, and the President signs a bill to cut spending in a given year. Having examined the law's history, provisions, and current status before the Supreme Court, we turn next to the impact it had on the recently completed Fiscal Year 1986 Department of Defense budget.

Chapter Two

HOW GRAMM-RUDMAN-HOLLINGS AFFECTED THE FY 1986 DEFENSE BUDGET

THE ORIGINAL REQUEST

The Reagan Administration submitted to Congress a Fiscal Year 1985 budget that projected Fiscal Year 1986 DOD outlays totaling \$310.6 billion. (58:Table 3) This figure represented an increase of \$38.6 billion (14.2 percent) over the projected 1985 DOD outlays in the Fiscal Year 1985 budget document and provided funds for the continued buildup in defense which President Reagan began upon taking office. The figure for 1986 had been constructed some months before submission of the Fiscal Year 1985 budget and was based upon the best estimates of the Department of Defense well before the introduction of the GRH law into the process. The 1985 budget estimated a total deficit in 1985 of \$168.6 billion. (58:Table 23) The realities of politics, and some changing priorities, would influence the new 1986 budget by bringing about substantial cuts, but GRH would add to the impact of those cuts.

HISTORY OF THE ADJUSTMENT PROCESS

The budget request that went forward in the Fiscal Year 1986 budget contained only \$285.7 billion in projected outlays for defense and estimated that \$253.8 billion in outlays were made for defense in Fiscal Year 1985. (59:Table 3) While economic assumptions differed from one year to the next (e.g., lower inflation and interest rates, lower costs for fuel, etc.), the *projected* percentage increase for defense from Fiscal Year 1985 to 1986 did not change greatly from the Fiscal Year 1985 budget projection the year prior. (12.6 percent in 1986 versus 14.2 percent in 1985.)

When the Fiscal Year 1986 budget was published, the new Fiscal Year 1985 deficit was estimated at \$190 billion (59:Table 21), up \$21.4 billion from the previous year's estimate. As a result of the updated figures, the national debt would top \$2 trillion in Fiscal Year 1986 and thus exceed the \$1,823.8 billion limit set by Public Law 98-475. (59:Table 12)

As pointed out in Chapter One, the Gramm-Rudman law set a limit of \$171.9 billion on the Fiscal Year 1986 budget deficit. Above that level, the automatic budget cut provisions of the law would come into play. With the passage of the Gramm-Rudman law, it quickly became obvious that the deficit was going to be well above the target \$171.9 billion set for Fiscal Year 1986. The \$166.1 billion originally estimated in the Fiscal Year 1986 budget (59:Table 21) was re-estimated under the Gramm-Rudman law by the OMB and CBO to be closer to \$220.5 billion. (29:5) This new estimate exceeded the GRH law by \$48.6 billion and thus triggered the automatic cut provisions of the law. The next step was to calculate what those cuts would actually be.

CALCULATION OF THE CUTS

Congress realized that the new deficit reduction law could play havoc with the government if implemented too quickly, so it softened the blow with special provisions for Fiscal Year 1986. The \$171.9 billion figure for 1986 was the "... deficit level contained in the First Congressional budget resolution for FY 1986. . . ." (61:75) The Congress anticipated that, based upon the previous year's \$190.0 billion deficit, the \$171.9 billion figure might be exceeded by more than \$20 billion. In the Conference Agreement on the House and Senate versions of the law, the two sides agreed on the following first year requirements:

Should the Comptroller General project an actual FY 1986 deficit which is more than \$20.0 billion higher than \$171.9 billion the FY 1986 sequester is limited to a maximum of \$20.0 billion at an annual rate. The \$20.0 billion maximum deficit reduction for FY 1986 will be prorated by 7/12 and take final effect as of March 1, 1986. For FY 1986, the maximum prorated sequester amount would be \$11.7 billion. (61:75)

Under these rules, therefore, the President was required to produce \$11.7 billion in outlay cuts, of which \$5.85 billion would be applied against defense.

IMPACT ON THE FY86 BUDGET

The \$5.85 billion in outlay cuts for defense was reduced under one of the provisions of Gramm-Rudman which allowed defense and other departments to take credit for Cost of War Inflation Adjustments increases which had been cancelled to save money. This reduced the required DOD outlay cuts by \$3.5 billion to \$2.35 billion. When the Department of Energy (DOE) portion of the required cuts (\$3.23 billion) was removed from the equation, the DOD was left with a \$5.169 billion

cut in its outlays. (65:5) Table 1 shows the outlay cuts made, and budget authority (including FY84 and FY85 unobligated balances) sacrificed as a result of those cuts. (65:5)

	BUDGET AUTHORITY	OUTLAYS
Army	2,943	1,264
Navy	4,884	1,572
Air Force	4,873	1,818
Defense Agencies	943	515
Total DOD	13,643	5,169

Table 1. FY86 DOD REDUCTIONS
(millions of dollars)

The substantial difference between the outlay cuts required and the budget authority cuts needed to achieve them is due to the way money is appropriated and spent for defense. Some kinds of defense spending are accomplished almost entirely in the year the money is appropriated, as in operations and maintenance (O&M). For each O&M dollar of outlay cut needed, DOD must cut only about \$1.03, since fuel, military pay and allowances, and other things are normally paid for in the same year in which DOD receives the money. (57:4) Procurement BA is quite different in that the monies appropriated in one year typically are spent over several years, due primarily to the time involved in building the complex weapons we must buy today. In order to achieve a one dollar cut in *procurement* outlays, DOD must cut eight dollars in BA. (57:4)

Cutting O&M and personnel equates to reduced defense capability *today*. The savings benefit is immediate, but so also are losses in mission capability and readiness. Trained people must be released from active duty, training activity must be reduced (e.g., fewer flying and ship steaming hours, less exercises, etc.), and spare parts buys suffer. Readiness is also impaired.

Reducing procurement money amounts to eating defense "seed corn." Cuts made to save money today may stretch out, delay, or cancel needed weapon systems tomorrow. Stretching out a program means producing systems at uneconomical rates. This increases the unit costs for weapon systems which ultimately increases what government must spend and borrow, defeating the law's purpose.

Cuts in Research and Development (R&D) mean putting off until some future date improvements which might deliver more cost-effective weapon systems today. As Donald A. Hicks, then Assistant Secretary of Defense, pointed out in defending research in general and SDI in particular, from sequester before the Senate, "You're talking about the future. You're talking about where Stealth came from and lots of other things." (33:51091) Referring to the FY 1986 cuts, Secretary of Defense Weinberger observed that "One looks in vain to discover just what reduction in the risks we face occurred last year to justify this approach." (35:20) While one can question the logic of automatic cuts, the logic of their mathematical determination is a somewhat mechanical process.

The portion of the FY 1986 defense budget subject to cuts under Gramm-Rudman (\$104.6 billion), divided by the \$5.169 billion to be sequestered, amounted to a DOD "sequester rate" of 4.9 percent. It is fortunate that the President had the latitude in Fiscal Year 1986 to exclude personnel programs from the cuts. This FY 86 exclusionary provision did, however, ". . .redouble the burden of deficit reduction on all other activities." (35:19) While personnel pay or force levels did not directly suffer in Fiscal Year 1986 (except for over 23,800 Permanent Change of Station (PCS) moves being curtailed, and not all directly because of GRH), there were 5,448 enlisted personnel released early from active duty before the end of the fiscal year. (62:15) The law gave the President the option of ". . .freezing promotions. . .or delaying the entry of new recruits to active duty. . ." (12:4) as well. The Army ". . .slowed the pace of promotions by 30 to 50 percent. . ." (35:19) in efforts to help cut personnel costs without cutting personnel. However, other items of the budget, especially acquisitions, took their losses under the new law.

IMPACTS ON SPECIFIC PROGRAMS

Appendix A provides a summary of program reductions, without civilian personnel and military construction costs, by service for Fiscal Year 1986. (22:93-95) Appendix A reflects the greater correlation between outlays and budget authority for O&M and personnel that exists, as compared to that for procurement. In each case, dividing the numbers in Appendix A by 4.9 percent will yield essentially the originally budgeted amount for each spending category, in line with the fixed percentage sequestration required under Gramm-Rudman. About \$2.3 billion of fiscal year budget authority was sequestered, in addition to the \$10.3 billion shown in Appendix A (55:89), under provisions of the law. Some \$66 million in outlays and \$457 million in budget authority for military construction was also sequestered. (39:27) Cuts in military assistance to other nations made up the balance of the sequestered funds.

(39:23) But what was the immediate impact of these reductions on real weapon systems? Would such cuts affect readiness?

Representative Les Aspin, Chairman of the House Armed Services Committee, ". . . said the Gramm-Rudman legislation counters all past congressional efforts to shield personnel and readiness from cuts. 'In truth, it reverses national priorities to the detriment of readiness'. . ." (2:5) The following examples are typical of his concerns. Under GRH, for the Air Force F-16 the ". . . reduction could result in a slippage of Peculiar Support Equipment from FY 86 to FY 87-91, deferral of Airborne Self Protection jammer by 1 to 2 years. . . ." (62:3) For the Air Force F-15, "The G-R-H impact will be a further delay in AN/ALR-56C Radar Warning Receiver depot level support equipment procurement, resulting in increased interim contractor support costs of \$1.5M in FY 89." (62:3) For spare parts, the "Reduction has been applied to 8 weapon systems, plus support equipment. System Program Offices are assessing impact on each system." (62:4) Combined previous Congressional budget reductions in FY 86 before GRH, plus the FY 86 sequester order, ". . . will result in an additional decrease of approximately 2,000 wartime tactical sorties. . . ." (62:4) due to reductions in War Readiness Spares Kits and Base Level Support Systems (WRSK/BLSS).

Given that slowing down a production program can mean an increase in cost over the long run on a per unit and total cost basis, will Gramm-Rudman actually *add* to the cost by trying to save money? The answer is "yes." GRH in FY 86 will slow the procurement of missiles of all types for the Air Force, and in the case of the Maverick missile, will *increase* the Procurement Unit Cost of the missile some 24.3% over the 31 December 84 Selected Acquisition Report (SAR) estimated cost. (62:4) The higher cost per missile and reduced funds for them will give the Air Force 360 fewer weapons in FY 86 than had been programmed (total reduced buy will be 2,240), plus the higher cost will force the breach of one of the "price thresholds" in the Nunn-McCurdy law. Congress had specifically designed Nunn-McCurdy to preclude abrupt increases in weapon costs. (62:4) We thus have an example of one policy of the Congress (GRH) operating in direct conflict with another policy of the Congress (Nunn-McCurdy), and increasing the price the taxpayer must pay for defense weapons.

None of the uniformed services went untouched by the FY 86 sequester. To make its share of the sacrifice for FY 1986, the Army cut back on a number of programs including a new shoulder-fired anti-tank weapon and an advanced anti-tank weapon system, and dropped altogether an armored gun system. (35:31-32) "Also 'zeroed out' in DOD review were any research funds for the Army's proposed 'family of medium tactical vehicles,' designed to ultimately replace the service's mostly overaged 2 1/2- and

five-ton truck fleets." (35:32) Development of a new helicopter, the LHX, was pushed back, and may be discontinued. The procurement of Copperhead laser-guided artillery shells was reduced "... from a level of 5,874 shells to be purchased with \$219.1 million in fiscal 1986 funds to 220 rounds for \$8.2 million." (35:32) The shells were to go to Europe. The Navy abandoned its "... research for a new anti-submarine-warfare aircraft to replace the Lockheed-California P-3C, termed the VPX program." (36:11:25) However, "The Navy, under its new acquisition policies, fared better than the Army and Air Force by having 13 programs exempted under the Defense Department guidelines." (37:1)

The Fiscal Year 1986 budget allowed the President to shield the Strategic Defense Initiative (SDI) and certain defense contracts from the initial round of cuts (19:92), but programs such as the B-1B were not quite as fortunate. In combination with previous Congressional budget cuts before GRH, those cuts in the B-1B program made necessary by the sequester

... have turned a highly successful, low-risk program into one with great uncertainty from a funding standpoint. While we are confident the certified cost cap of \$20.5B (1985\$) will not be exceeded, we are uncertain at this point whether we can bring the program in within the total funds currently available. As a result, the Air Force characterizes this program as potentially mission-dependent, for example, on the contractor's sustaining and adhering to a delivery schedule and specific contract requirements. An assessment of potential overtarget liability, up to \$1B, will be made early next year based on contractor performance if available by then. (62:3)

As DDIC's counterpart, the Honorable Richard W. Helm observed in January of this year, "I don't think it's healthy at all to have program efficiency threatened by having funding dropping out from under the people who are program managers who are on generally tight budgets and are doing a 'real' job." (54:90) This fact has not been lost on some of our leaders such as Senator Sam Nunn of Georgia, who has introduced Senate Armed Services Committee Chairman noted that "... the sequester cancellation of funds by Gramm-Rudman will have the effect of adding and stretching to existing programs which are already plagued by inefficiency in Defense procurement and production. Cuts in future programs were taken from the budget and the program as well."

The Air Force's Fiscal Year 1986 budget has the Air Force one percent of the total budget for the fiscal year program, for example, the Air Force's fiscal operations and other financial operations. The Air Force's Air National Guard flight operations and other operations, reduced

7,000 and 25,313 hours respectively. GRH in FY 86 had already started to "nibble away" at the hard-earned gains in readiness won over the past five years. Representative Les Aspin, Chairman of the House Armed Services Committee, termed the 4.9 percent reduction under Gramm-Rudman as something "That you can live with. . .But the real problem with Gramm-Rudman is not the 1986 cut; it's what's scheduled to come up in 1987." (9:37)

Chapter Three

HOW GRAMM-RUDMAN-HOLLINGS WILL AFFECT THE FY 1987 DEFENSE BUDGET

THE ORIGINAL REQUEST

The DOD began the budget process for Fiscal Year 1987 by requesting a three percent real increase (above inflation) over the Fiscal Year 1986 level.

Secretary Weinberger has tried to minimize the impact of the rise in defence [sic] spending by claiming that the budget is only a 3% real increase over the FY 1986 level Congress authorised [sic] in August 1985. This claim is correct. The President originally asked for \$313.7 billion in defence [sic] budget authority in January 1985. The Congress did support a compromise during the authorization phase of the defence [sic] budget cycle of zero growth in FY 1986, and a 3% real growth in FY 1987. This cut the original FY 1986 request to \$294.5 billion, the base for Secretary Weinberger's calculation of a 3% increase. (16:313)

Because of GRH, many in and out of Congress predicted that what was asked for, and what was to be received, would be considerably far apart.

HISTORY OF THE ADJUSTMENT PROCESS

Estimates of the consequences of GRH for the defense budget in Fiscal Year 1987 were uniformly grim. Representative Les Aspin had predicted that GRH could lead to ". . . a cut in defense appropriations of about \$80 billion through 1987. That would result in a Pentagon budget some 20 percent below President Reagan's 1987 defense plan." (6:7) One estimate put the size of the potential defense budget cut at \$65 billion in Fiscal Year 1987 (39:23); another at between \$45 billion and \$60 billion. (45:19) A cut this size could mean danger for defense given that, "In general, it takes annual budget increases of from 3 percent to 5 percent above inflation merely to maintain and modernize US military forces at their

current state of readiness." (56:8) At best, Senator Nunn of Georgia ". . .said it was probable there would be no real growth in defense spending--that is, no increase after allowing an adjustment for inflation--over the next five years." (38:22) The attitude of the more liberal members of Congress seemed to be that ". . .as for the three percent growth in defense spending Reagan envisions, you can kiss it good-bye." (4:7-8) Mr Aspin's words probably best sum up the feelings of those best informed in Congress on the potential defense impact of GRH: ". . .Gramm-Rudman could give us a defense budget that Jimmy Carter would assail as a threat to our national security." (40:92) Well aware of these sentiments, the President sent to the Congress in February 1986 a defense budget already sharply reduced from his original plans.

The budget the President sent to Congress for Fiscal Year 1985 estimated that Fiscal Year 1987 defense outlays would come to \$348.6 billion. (58:Table 3) When issued on 1 February 1984, the intent of this projection was to continue the planned military buildup. But by the next year's budget submission, Congress had made known its desires to reduce the scale of the President's military buildup to help reduce the deficit. The planning budget for Fiscal Year 1987 contained in the Fiscal Year 1986 budget document had been cut to \$321.2 billion in outlays, anticipating cuts by the Congress. (59:Table 3) This reduction was part of

. . .the so-called "zero-three-three" compromise (under which President Reagan agreed with House and Senate leaders that he would accept a "no growth" defense budget in fiscal year 1986, in return for their promise that the FY 1987 and FY 1988 defense budgets each would be increased to a level three percent above the previous year's level). (30:36)

Before GRH entered the equation, the administration already had reduced its planned outlays by \$27.4 billion, or 7.86 percent. The estimated budget deficit for 1987 submitted with the President's Fiscal Year 1986 budget was just under \$165 billion. (59:Table 24) The "zero-three-three" agreement quoted above was agreed on before GRH came into being. (30:36) The President's Fiscal Year 1987 budget took into account GRH and submitted a defense outlay plan of \$282.2 billion (60:Table 4), a 12.14 percent reduction in outlays from the figure the year before and a 19.05 percent reduction from the planning figure submitted with the Fiscal Year 1985 budget. In spite of these substantial reductions in planned military spending, and primarily because of the domestic spending cuts required to meet the GRH target for Fiscal Year 1987 of \$144 billion, the President's budget was derisively referred to by some in Congress as "dead before arrival". (49:48)

In a game of what was called "chicken" (42:15; 50:20) on Capitol Hill and elsewhere, the President submitted his budget for Fiscal Year 1987. It met the required Gramm-Rudman target, but ". . . would eliminate the crop insurance subsidy, Amtrak, urban development action grants, small business credit programs, and a host of similar activities. . ." (16:313), while increasing defense. The budget called for \$320.3 billion in budget authority for defense. (1:5; 60:Table 8) To support the defense portion of the budget, Secretary Weinberger pointed out that in 1986, ". . . Congress did not provide even the zero real growth in defense spending which it had endorsed only three months earlier, but instead (legislated) a 6.2 percent decline." (35:20) Despite opposition from Congress to the internal composition of the President's budget for Fiscal Year 1987, it did comply with the GRH target of a \$144 billion deficit, putting its 1987 deficit estimate at \$143.6 billion. (60:Table 22)

Even though the constitutionality question had gone against the law's supporters, by forcing the executive branch to aim for a target deficit, GRH had already started to accomplish its purpose. The former head of the CBO, Alice Rivlin, pointed out that ". . . Gramm-Rudman has changed the rules of the congressional budget game. In the past, Congress would pass a budget, then proceed merrily to bust it. In 1980 Congress missed its target by \$48 billion; in 1985 it spent \$5 billion more than it had budgeted." (43:89)

The chief architect of the court action against GRH, Representative Synar, thought that the onus had been put back on Congress by the decision in that "The court said: no more tricks, no more gimmicks, no more easy answers. Congress must do its job and it cannot give its responsibility away." (3:16)

Regardless of which side, executive or legislative, would bear the burden of reducing the deficit, the GRH law required the OMB and CBO to examine the Fiscal Year 1987 budget to determine what the most likely deficit would be under their respective economic assumptions. In their joint initial sequestration report of August 20, 1986, the directors of the CBO and OMB informed the Congress that they felt the deficit would exceed the GRH target, plus the \$10 billion "pad" for differences between the two organizations' estimates. (63:2) Their average estimated deficit of \$163.4 billion was \$19.4 billion more than the \$144 billion allowed, requiring a cut of \$9.2 billion in Fiscal Year 1987 DOD spending outlays and a matching cut for non-defense budget items (63:6,21). The Congress would have to cut at least \$9.4 billion from the budget to avoid the GRH backup budget cut procedures that took effect after the Supreme Court's ruling. (24:1943)

Although the \$10 billion cushion above the targets set each year was intended as a pad for differences between CBO and OMB estimates, the Congress and the administration would use it to their advantage. In combination with another major piece of budget related legislation--the tax overhaul bill (HR 3838), the two would provide the government a way out of sequestration in 1987.

. . .it seems that the tax overhaul bill (HR 3838) approved Aug. 16 by House and Senate conferees could provide a one-shot windfall of \$11 billion. That would make it easy for Congress to fulfill the requirements of the Gramm-Rudman anti-deficit law (PL 99-177) for fiscal 1987. (24:1943)

In their follow-up report of October 6, 1986, the CBO and OMB directors noted that essentially nothing had changed from their previous report, and that sequestration was still required. (64:1) They did note that "A number of legislative actions, however, are currently under way that, if enacted as expected, would reduce the estimated budget deficit for 1987 below \$154 billion and avoid the need for a sequestration of budgetary resources." (64:1) President Reagan signed the tax overhaul bill into law which provided the funds necessary, according to projections, to reduce the deficit below \$154 billion maximum.

CONGRESSIONAL RESOLVE NOT TO SEQUESTER

In a not altogether unexpected move, the Congress decided not to invoke the backup procedures in the law and chose not to submit a bill to the President proposing sequester of funds. (65:12,13) Relying on the projections to do the job, rather than budget reconciliation legislation which both chairmen of the House and Senate Budget Committees had counted on to reduce the deficit to just below \$154 billion before sequestration became required, Congress chose not to go for sequestration. (53:1865) This decision could be interpreted as either a retreat from spending restraint or a conscious choice to avoid the arbitrary pain of an across-the-board percentage cut in spending required under sequestration. Either way, the defense budget would be spared further arbitrary cuts for Fiscal Year 1987.

IMPACT ON THE FY87 BUDGET

While the Fiscal Year 1987 Defense Department Budget did not suffer reduction as a result of a GRH sequestration, it has just as effectively been reduced to comply with the GRH targets--the outcome originally intended by the law's authors. Even with the reduction from the original plan for defense in

FY87, the President remains committed to the "zero-three-three" percent real growth for 1986, 1987, and 1988, as outlined earlier this year. (30:36)

Avoiding sequestration in FY 1987 helped the DOD protect manpower and force structure levels from further cuts for the time being. But as Stephen Gettinger observed in Congressional Quarterly Weekly Report, depending on the revenues from the new tax law ". . .makes it extremely difficult to meet the 1988 deficit target of \$108 billion, since the tax bill could create a \$17 billion shortfall that year. . . ." (24:1943) As the chairman of the House Budget Committee, Representative William H. Gray III said, "What you're doing is setting yourself up for one monstrous problem come January, when it's time to start putting together the 1988 budget." (24:1943) The budgets for the next four years constitute dangerous and uncharted waters for the nation's defense.

Chapter Four

HOW GRAMM-RUDMAN-HOLLINGS WILL AFFECT THE FY 1988 THROUGH FY 1990 DEFENSE BUDGETS

THE ORIGINAL REQUEST

Gramm-Rudman-Hollings has already had a substantial impact on the projections for the upcoming Fiscal Year 1988 DOD (and overall Federal) budget, and on the years that follow. The DOD budget outlay numbers from the Budget of the United States Government for Fiscal Years 1985 and 1987 are compared below in Table 2 for the period 1988 through 1990. (58:Table 2; 60:Table 3)

Fiscal Year	1988	1989	1990
1985 Budget Figures	369.8	398.8	N/A
1987 Budget Figures	290.7	313.3	335.5
Reductions	-79.1	-85.5	N/A
Percent Reduction	21.39	21.44	N/A

Table 2. DOD OUTLAY BUDGET PROJECTIONS
FROM FISCAL YEAR 1985 AND 1987 BUDGETS
(billions of dollars)

There are some important subtleties about this table that do not immediately strike the casual reader. First, although there is no comparison possible between the Fiscal Year 1985 and 1987 Budget projections for 1990, note that the number projected for 1990 in the 1987 budget is \$34.3 billion less than the figure projected for 1988 in the 1985 budget. If one were to project the increase in GRH-related budget reductions projected from the 1985 to the 1987 documents, the reduction would be over \$90 billion--again more than a 20 percent reduction from what was needed before the start of GRH. Second, note that, although inflation has been relatively benign under the Reagan administration, it has still been at work undermining the purchasing power of future

dollars. Therefore, the smaller numbers proposed in the later years under the 1987 budget document, if converted to 1985 dollars, would be smaller still than those shown in Table 2. The devastating bottom line is that the DOD budget is taking cuts, not only from actions required to comply with GRH, but from loss of purchasing power as well. Will the DOD face a sequestration of funds in 1988?

OUTLOOK FOR SEQUESTRATION IN FY 1988, 1989, AND 1990

There are many unpredictable elements that could affect whether or not GRH forces sequestrations in the next three fiscal years. The most important are economic and political considerations. Apart from automatic set aside procedures that disable GRH in a recession, there is the opposite and more optimistic possibility of a robust economy. Rudolph Penner, director of the CBO, estimated that a three percent growth rate in the economy would provide enough revenue under current laws to make sequestration unnecessary. (67:--). The politics of a new Democratic majority in the United States Senate, and fallout from the still unfolding case of arms sales to Iran may put the Democrats in a position to force fundamental changes in GRH and the tax laws overall. Secure with a majority for the next two years, they may feel it is time to press for an increase in revenues to counterbalance increased spending in future budgets.

Without the OMB and CBO projections for the Fiscal Year 1988 budget (not required until fall of 1987), there is no way to accurately predict whether or not sequestration will be required for next year. Looking beyond that time is next to impossible. However, it looks for now as if it might be avoided in 1988. The 1987 Budget of the United States Government forecast a deficit of \$93.6 billion. (60:Table 22) That estimate preceded the signing of the tax overhaul bill. The preliminary estimated impact of the new tax law in 1988 is a loss in tax revenues of \$17 billion. (24:1943) Adding this \$17 billion to the \$93.6 billion already projected results in a deficit of \$110.6 billion--\$2.6 billion over the \$108 billion target, but within the \$10 billion cushion that the law provides. If this turns out to be the case, there will be no sequestration. But to make that deficit reduction target, defense has had to endure the cuts shown in Table 2. The long term planning assumptions of slow and steady growth in the defense budget are being replaced by ones that see the ". . . Defense budget actually shrink by 3-5 percent annually through 1991." (21:9) What is this going to do to our defense, and to the plans our allies have for their own defense?

LONG TERM IMPACT IF GRH IS NOT CHANGED

Assuming the administration and Congress keep to the deficit reduction targets without an increase in expected revenues, the outlook is at best unpleasant for our defense capabilities. With less money for personnel pay and a shrinking manpower pool in the close of this century,

The United States would face. . .re-establishing the military draft. . .to maintain the quality and size of even a drastically reduced force. The nation may have to reduce its military--and thus, political--influence abroad, posing risks to traditional U.S. alliances and to international stability. The weakening of U.S. conventional military power would increase the likelihood that in a major battlefield conflict, the United States would have to use nuclear weapons to avoid catastrophic defeat. (56:8)

A report on war simulations ". . .published by the respected Center for Strategic and International Studies. . .[concluded that, under GRH,]. . .Capability was so diminished and (forces) spread so thinly that the result was virtual military failure everywhere." (56:8) Senator Robert C. Byrd, the new Senate Majority Leader, believes GRH reductions may force the United States to consider:

- * Reducing its present treaty and historical commitments around the world.
- * Reducing its strategic triad, including the possibility of dropping or cutting back the Midgetmen, the Stealth Bomber, and/or the Strategic Defense Initiative.
- * Dropping the All Volunteer Force.
- * Seeking increased defense contributions from our allies to relieve this country of certain defense missions.
- * Reevaluating arms control as a means to reduce United States military requirements if that can be done so as to maintain United States security. (15:12)

Can we afford to return to the defense budget reduction cycle of the 1970s? From the Navy point of view:

With fewer dollars. . .ships won't be able to sail as far and as often as they do now, the Navy says. And if ships don't sail, Navy pilots can't train and ships' crews can't polish their skills. What's more, overseas mission requirements cannot be met, and the ships themselves slowly rot from inaction. "Steaming

hours equal fleet readiness," says Jack Shanahan, a former admiral who commanded the Navy's Second Fleet in the mid-1970s. (7:29)

The Navy cut 60,418 steaming hours out of the last half of Fiscal Year 1986 to make its part of the GRH cut, and had to cut more from operations and maintenance again to make the FY 1987 target. (7:32) Even if the Congress provided the agreed three percent annual growth in the budget for 1987 and 1988,

The Navy would be required to give up three of 15 planned aircraft carrier battle groups and 20 percent of the ships it uses to move Marine amphibious forces. The Army would lose three of 18 full divisions and the Air Force would have to give up six of 26 tactical fighter wings. (56:8)

The Air Force also worries about the impact of sustained GRH-related budget cuts pushing them back to the spare parts headaches of the late 1970s and early 1980s.

It is not so much readiness as sustainability that would be at risk. "If we don't get those parts, we will be robbing our war reserve stocks, we will be doing a lot more cannibalizing," says Mosemann (Air Force Deputy Assistant Secretary for Logistics and Communication). (26:35)

Cannibalizing takes working parts off grounded airplanes and puts them on other grounded aircraft to get them working again. "Manhandling these sensitive parts frequently causes them to break, so then you've compounded the problem", says Mosemann." (26:38) Congress had already cut \$900 million from Air Force spares before GRH took another \$144 million in 1986. (62:4) Impartial in its approach, GRH has not spared the Army, either.

...in my judgement, it is cutting into muscle," says Brig. Gen. William Reno, TRADOC's deputy chief of staff for resource management. "It will transfer more of the training from the field into the classroom. Soldiers will report to their units not as well-trained as they otherwise would have been. (27:44)

"We are already cutting into bone," says Army Under Secretary James R. Ambrose, who presides over the Army's efforts to cut its budget. "We are taking some increased chances that war isn't going to come tomorrow." (56:8)

Potentially more serious than the above consequences are the signals GRH is sending our allies. Sir Patrick Wall, a member of the British Parliament, calls GRH ". . .an abdication of responsibility." (51:69) He points out that if GRH continues to cut back the U.S. defense effort,

Those (NATO nations) that have reached the target suggested (by Gen. Bernard Rogers, USA, NATO's Supreme Allied Commander Europe) of spending 3 percent of real annual gross national product (GNP) on defense will now abandon this target in 1986-87. Many others have never reached that target. (51:69)

In the same article by Sir Wall, he points out that GRH reductions in the future could force a cut of ". . .at least 50,000 of the 300,000 U.S. troops in West Germany. . ." (51:69) at a time when the free world can least afford to show the Soviets weakness--during arms control negotiations.

Must GRH be, as Mr Aspin has called it, ". . .a march down the mountain. . ." away from the President's military buildup? (5:31) Mr Aspin early on saw some possible ways out.

PROBABLE ALTERNATIVES

Mr Aspin offered five logical alternatives (5:35) to the current problems with Gramm-Rudman. (1) Congress could rescind the law altogether, but he doubted if they would ". . .have the good sense to rescind." (5:35) (2) Mr Aspin anticipated the Supreme Court's ruling on the law's constitutionality and expected it to be rendered ineffective. However, the previously mentioned psychology of measurable targets may not fully eliminate GRH effectiveness, as the Fiscal Year 1987 budget reductions show. (3) The Congress might make the cuts required to meet the targets, but if they had done so in the first place GRH would not have been necessary. (4) Congress may be unable to arrive at a solution that avoids sequestration, and the automatic cuts would begin to dismember the government at a fixed percentage rate in all areas subject to the law. (5) The Congress could increase taxes to pay for the deficit, but Mr Aspin thought "That may be too rational." (5:35) How likely are these alternatives?

There has been no movement to rescind the law as yet, perhaps because it has considerable political appeal at the grass roots level. (5:19-20) "Many voters, even while forecasting hardship, agreed that stringent action against deficits is necessary. Said Martin Montie, who runs a mental-health agency: 'On behalf of my great-great-grandchildren, we have to do it.'" (46:20)

Although the Supreme Court declared a portion of the GRH law unconstitutional, the Congress has not been quick to try to amend the law and reinstate the automatic cuts. Neither have they been interested in making specific cuts to meet the targets when other means (such as asset sales and tax overhauls already mentioned) have been available. That leaves either automatic cuts under the backup procedures of the law or an increase in taxes.

There is very little support for continued across-the-board cuts in military and other government spending.

The automatic sequestration process of the Gramm-Rudman deficit reduction amendment must be avoided. Such a mindless across-the-board cut ignores strategic, tactical, and operational priorities. . . Cutting force levels must be a last priority: Reducing weapons programs and U.S. force levels or changing U.S. strategic priorities to meet budget constraints should be at the bottom of the list for meeting Gramm-Rudman deficit reduction targets. (31:1)

The kinds of cuts that would be generated under a sequestration after 1986 would be dangerous to military capability overall since manpower would no longer be excluded. At one point in the 1987 process, the experts predicted cuts of up to 20 percent in active manpower strength. (18:7; 36:23) Given the easily recognizable danger such reductions in manpower (and other major portions of the defense budget) would pose to our security, what support would there be for increased taxes to cut the deficit?

There is support in Congress for increased taxes as a way out. (42:15) "Most members of Congress, Republicans and Democrats alike, are now convinced that Gramm-Rudman cannot work unless President Reagan accepts a tax increase and military reductions." (34:12) It is low key because the Democrats would like to see Mr Reagan make the first move. (42:15-17) However, "Even senior White House officials. . .[were]. . .telling reporters on a not-for-attribution basis, that a tax increase (would) be an inevitable part of the 1986 budget bargain." (34:12) Here again, politics may enter the arena. The Democrat majority in both houses of Congress may now force the President to accept higher taxes unless the law is changed.

POTENTIAL FOR CHANGES IN THE LAW

While the Congress quietly tabled the issue of sequestration before the election, now that the results are final, the

country can anticipate a renewed effort to reintroduce the automatic budget cut feature of the law. Should the automatic budget cut provisions of the law come back into force by such a change passing the test of judicial review, the nation will be faced with a very painful choice: cut defense and the rest of government to save money (at what cost?), or raise taxes to pay the price.

Perhaps some modification of the reduction schedule to slow the rate at which the deficit is reduced might offer some needed relief. Keeping the deficit trigger level high enough to give government time to adjust and revenues time to grow under the new tax overhaul law (by 1990 they are expected to climb \$9 billion over previously projected tax collections [24:1943]), might avoid the problem altogether. Whether or not Congress and the President elect to use automatic or backup provisions of GRH, or some modified version of it, to eventually get the budget balanced, GRH has a fixed life that ends with the close of Fiscal Year 1991. How will government prevent deficit spending past that point, or will it try?

Chapter Five

HOW CONGRESS MAY CONTROL DEFICIT SPENDING IN FY 1991 AND BEYOND

PRESENTATION OF THE OPTIONS

Mr Aspin outlined better than anyone what the Congress's options were for controlling deficit spending in the immediate future as shown in Chapter Four. For the long term, however, Congress has only three ways to achieve and maintain a balanced budget:

1. Take in more money in taxes.
2. Spend less money.
3. Do some combination of both.

The ever growing interest component of the federal budget provides a strong built-in incentive for the Congress to get and keep the budget balanced. Table 3 below illustrates the problem of growth in the national debt. (60:Table 18, Table 22)

Fiscal Year	1977	1978	1979	1980	1981
Total Outlays	409.2	458.7	503.5	590.9	678.2
Outlays for Interest	29.9	35.4	42.6	52.5	68.7
Interest % of Outlays	7.3	7.7	8.5	8.9	10.1
Deficit for this year	53.4	59.2	40.2	73.8	78.9
Interest/Deficit (%)	56.0	59.8	106.0	71.1	87.1
Fiscal Year	1982	1983	1984	1985	1986
Total Outlays	745.7	808.3	851.8	946.3	979.9
Outlays for Interest	85.0	89.8	111.6	129.4	142.7
Interest % of Outlays	11.4	11.1	13.1	13.7	14.6
Deficit for this year	127.9	207.8	185.3	212.3	202.8
Interest/Deficit (%)	66.5	43.2	60.2	61.0	70.4

Table 3. ANNUAL BUDGET OUTLAY TOTALS COMPARED TO
OUTLAYS FOR INTEREST ON THE NATIONAL DEBT
AND THE ANNUAL BUDGET DEFICIT, FY 1977-86
(in billions of dollars)

The percentage of the budget dedicated to servicing the national debt continues to grow. At \$148 billion for FY 1987 it will make up 14.9 percent of the budget for this fiscal year. Note that from 1977 to 1986 the percentage of the national budget devoted to interest payments exactly doubled. In the unlikely event that such a trend were to continue unchecked, at that rate the entire federal budget would be devoted to paying interest on the debt in less than 30 years. Over the ten years shown in Table 3, interest payments on the debt averaged 68.1 percent of the deficit in each year's budget. What does this mean for the government's ability to perform its many tasks for the people?

As our population grows older and larger, the demand for government services (e.g., social security, medicare, etc.) increases. Annual budgets must become larger if they are to fulfill this need. In a more dangerous and complex world, the threats we face from the Soviets, from terrorism, from involvement with third world conflicts, and other from other still unknown sources become worse. This spectrum of threats translates to a demand for greater defensive capabilities. The cost for these and other government services continues to increase as a function of both the rise in quantities and types of services demanded, and in the long term inflation of prices overall. As the percentage of the budget dedicated to interest continues to increase, it crowds out more and more government services in the budget. Government must either cut back on services, at an undetermined increased level of danger to the citizens it serves, or tax and borrow more to pay for the increased amount of services needed. The choice is not a politically popular one.

More borrowing simply feeds the growth of interest payments and delays further the day when the budget must be balanced. It is important to remember that simply balancing the budget will not solve the interest payment problem altogether. A balanced budget does not reduce the debt but only defers its repayment until some future date. The percent of the budget devoted to interest payments actually declined from 1982 to 1983 due to the decrease in interest rates which occurred during that time. But should inflation be rekindled and interest rates return to the double digit levels they reached in 1980, interest payments on the debt would increase sharply as a result. To avoid undesirable further growth in the national debt past the 1991 target date of a balanced budget under GPH, the government must eventually adopt one of the three options presented at the beginning of this chapter.

TAX INCREASES TO MEET SPENDING NEEDS

Perhaps the easiest solution from a logical standpoint (and perhaps even a political one), would be to raise taxes. In fact, individuals like Mr John Makin, the Director of Fiscal Policy Studies at the American Enterprise Institute expected Congress to call for higher taxes as early as this year. (47:34) Lester C. Thurow, Professor of Management and Economics at the Sloan School of Management at M.I.T. said "I would be willing to bet. . .that the next president, whether a Republican or Democrat, will propose a very large tax increase on the first day of office." (50:78) Congress has, in a roundabout way, already raised taxes with the new tax overhaul law (24:1943), but those tax revenues may not rise fast enough to meet the need. When one thinks of an increase in taxes one generally thinks of income, social security, or corporate taxes, but there are other affordable options.

There are a number of ways the Congress could provide additional revenue to offset the deficit without resorting to higher individual taxes (44:21):

A \$5 levy on each barrel of imported crude would generate \$9.5 billion in new revenues in 1987. Gasoline pump prices could go up 10 cents a gallon. . . .A \$5-a-barrel tax on all petroleum used in the U.S. could net \$22 billion annually. . . .a 5 percent tax on all energy consumed--oil, natural gas, coal and electricity. . . .could add \$15 billion. . . .each penny more (of federal gasoline tax) would raise about \$1 billion annually. . . .A 5 percent VAT (value added tax) would raise \$60.4 billion in 1987. If food, medical care, and housing were exempted, the gain would be \$38.7 billion. . . . One proposal would impose a 5 percent transfer tax (on business) that would raise \$50 billion a year.

The chief problem with all these proposals is that they would raise prices and subsequently reduce consumption (44:21) with probable concomitant decreases in economic growth, employment, and ultimately, decreases in the tax revenues from business and individuals. Despite these problems, increasing taxes may be easier after the 1988 election since Mr Reagan has continually made clear his opposition to higher taxes. Our next President may in fact be politically forced to do so at once so that the increase ". . .can easily be blamed on the mistakes of the preceding president. If the newest inhabitant of the White House waits until later, he or she will have to take the blame." (50:78) If Mr Aspin is correct in his assessment that

Congress would find a tax increase "too rational" (6:35), and it seems likely at this point that Congress will reject a tax increase, what about cutting back on spending?

SPENDING CUTS TO MEET REVENUES

Spending cuts are another way to reduce the deficit, but where should they come from? Should they come from the defense share of the budget? Secretary Weinberger thinks such a position would be unfair and unwise.

He said that the Gramm-Rudman cuts--piled on top of previous "voluntary" cuts agreed to by the Pentagon, or forced on it by Congress--mean that DOD already has taken "more than its share of reductions" and cannot take any more without seriously compromising the nation's security. (30:36)

The Secretary made the point more quantitatively in a speech on 30 January 1986 to the Economic Club of Detroit.

Still, some in Congress, whose vocal support for a strong defense is not matched by their voting record, maintain that this is only fair, since they say defense caused the deficit. This is the most specious and false argument of all. It ignores the reality that defense is not an economic tool, but a means to national security and world peace--and nothing less than that. Further, this popular canard ignores the facts. Actually, between FY 1980 and FY 1985, federal revenues increased by \$217 billion--that's a 42 percent increase despite, or as some of us believe, because of the president's tax cut. Federal *expenditures*, on the other hand, *increased* by \$335 billion. But less than one-third of that increase, \$111.2 billion, was for defense. (54:295)

Under Gramm-Rudman-Hollings, defense must bear 50 percent of all cuts in the total federal budget, even though it makes up only 29 percent of the Fiscal Year 1987 budget. (32:25) Whether the cuts come from GRH or from budget negotiations before the final version is put to the OMB and CBO for scrutiny, defense has provided more than its proportionate share of the funds given up to make the targets Congress set. Would it make more sense to combine tax increases with spending cuts?

COMBINING INCREASED TAXES WITH SPENDING CUTS

This option is

. . . what former Budget Director David Stockman used to call 'the big fix'. This comes when everybody reluctantly agrees to both some budget cuts and some tax increases. One formula being mentioned is known as 20-20-20, meaning \$20 billion in new taxes and \$20 billion less for both military and nonmilitary spending. (23:82)

By combining increased taxes with cuts in spending, the "pain" is spread more evenly throughout society and government with each component taking less of a reduction in purchasing power. One possible (and potentially very beneficial) byproduct of this process may be the eventual reduction in the amount of "pork barrel" spending for pet projects. As J. Peter Grace observed, "Faced with the reality of having to come clean with the voters, or else, we may in fact learn from Congress that a budget supposedly cut to the bone has all kinds of fat." (25:66) Whether the budget deficit is cut by increased taxes, reduced federal spending, or both, the hard fact remains that it must be reduced to abide by the GRH legislation, and to be fiscally responsible as a nation.

CONCLUSIONS

The United States can ill-afford to continue running massive budget deficits each year. Neither can the country afford to underspend for its national security needs. Such inaction or lack of commitment would encourage our allies to do likewise and our potential enemies to be more aggressive in an already dangerous world. Since we must pay for the government services we consume, we will have little choice but to pay higher taxes (individually, collectively, or both) to the federal government.

The will of both the people and their elected representatives may force the eventual reinstatement of the automatic budget cutting procedures as a strong incentive for the Congress to get the deficit problem permanently under control. The outlook for reinstatement of automatic budget cutting procedures is now bleak, considering that Congress rejected the idea in August. They did, however, once again raise the national debt ceiling, this time to \$2.111 trillion. (24:1944) Only if the Congress reinstates the mandatory deficit controlling features of the law and then fails to bring spending and revenues back into balance (clearly a possibility in today's political climate) will the nation face the grim possibility of a defense

dictated not by needs but by some arbitrary budget-cutting formula. Such an arbitrary procedure would, by any measurement, be unwise and unsafe.

The author believes the need to control and reduce the deficit is indisputable. It is also clear that government has an obligation to provide services to its citizens. The Preamble of the Constitution of the United States says that government will ". . .provide for the common defense. . .(and). . .promote the general welfare. . . ." The law as it now stands is neither balanced in its approach, nor respectful of this implied hierarchy of the government's responsibility to the citizenry. One thing is clear. Given the need to control the deficit, Senator Rudman was probably correct in calling Gramm-Rudman-Hollings ". . .a bad idea whose time has come." (21:9)

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APPENDIX A

Sequesters of Outlays and Budget Authority
in FY 1986 by Service, with DOD Agencies Added
(in thousands of dollars)
(Taken from "Fiscal Year 1986 Defense Sequestrations
Under Gramm-Rudman." Defense Daily, Vol. 144,
No. 12 (17 January 1986), pp. 93-95.)

Operations & Maintenance Cuts	Outlays	Budget Authority
Air Force	727,552	957,304
Air Force Reserve	36,654	44,205
Air National Guard	77,152	88,502
Army	720,643	929,800
Army Reserve	31,725	38,225
Army National Guard	65,205	79,663
Marine Corps	60,374	78,990
Marine Corps Reserve	1,822	2,801
Navy	864,018	1,199,376
Navy Reserve	29,412	43,853
Defense Agencies	316,179	364,196
Defense Other	5,234	19,268
Totals	2,935,970	3,846,183

Personnel Cuts	Outlays	Budget Authority
Air Force	45,615	46,553
Air Force Reserve	3,479	3,923
Air National Guard	3,773	3,919
Army	73,108	74,481
Army Reserve	30,797	33,370
Army National Guard	8,796	9,750
Marine Corps	15,607	16,072
Marine Corps Reserve	1,176	1,324
Navy	41,111	41,898
Navy Reserve	2,793	3,135
Totals	226,455	234,425

Procurement	Outlays	Budget Authority
Air Force Aircraft	108,793	1,139,516
Air Force Missiles	128,978	407,310
Air Force Other	256,075	419,001
Army Aircraft	32,453	172,686
Army Missiles	13,934	142,312
Army Weapons & Vehicles	13,576	229,555
Army Ammunition	36,442	122,363
Army Other	27,873	256,856
Marine Corps	11,019	81,378
Navy Aircraft	61,195	547,608
Navy Weapons	38,750	256,157
Navy Shipbuilding/Conversions	66,472	490,059
Navy Other	43,177	295,999
Guard & Reserve Equipment	1,434	32,262
All Other Defense	23,911	77,603
Totals	864,082	4,670,665
Research, Development, Test, and Evaluation (RDT&E)	Outlays	Budget Authority
Air Force	361,293	672,192
Army	130,218	235,110
Navy & Marine Corps	263,373	493,197
DOD RDT&E Director	1,613	4,582
Defense Agencies	158,583	325,232
Totals	915,080	1,730,313
Grand Totals	4,941,587	10,481,586

APPENDIX B

BRIEFING SCRIPT ON "THE ECONOMICS OF DEFENSE: IMPACT OF GRAMM-RUDMAN-HOLLINGS ON THE FY86-91 DEFENSE BUDGETS AND BEYOND"

PUBLIC LAW 99-177, PERHAPS BETTER KNOWN TO YOU AS "GRAMM-RUDMAN-HOLLINGS", OR SIMPLY "GRAMM-RUDMAN", IS A BREAK WITH PAST CONGRESSIONAL BUDGETARY HISTORY. THE CONGRESS VOTED FOR, AND ON DECEMBER 12TH, 1985, THE PRESIDENT SIGNED, THE NEW LAW WHICH PLACES THE GOVERNMENT ON A LEGAL TIMETABLE TOWARD A BALANCED FEDERAL BUDGET BY 1991. (66:1) ALTHOUGH THE INTENT OF THE LAW IS GOOD, SECRETARY OF DEFENSE WEINBERGER FEELS THAT, BECAUSE OF GRAMM-RUDMAN, "WE ARE ENTERING A PERIOD IN WHICH NATIONAL STRATEGY MAY BE HELD HOSTAGE TO THE ACCOUNTANT'S PENCIL. . . ." (13:1,26) WHAT DOES THIS LAW DO, AND WHY SHOULD YOU BE CONCERNED ABOUT IT FROM A DEFENSE STANDPOINT?

MECHANICS OF THE LAW

GRAMM-RUDMAN SETS A TIMETABLE FOR REDUCING THE DIFFERENCE BETWEEN WHAT THE GOVERNMENT TAKES IN AND WHAT IT SPENDS. UNDER THE LAW, FROM NOW UNTIL 1991, THE CONGRESS AND THE PRESIDENT MUST WORK TOGETHER TO REDUCE THE ANNUAL BUDGET DEFICIT BY INCREMENTS OF \$36 BILLION EACH YEAR UNTIL 1991 WHEN THE DEFICIT MUST BE ZERO, I.E., THE BUDGET MUST BE BALANCED. THIS YEAR, FISCAL 1987, THE TARGET DEFICIT IS \$144 BILLION. UNDER THE LAW, THE ACTUAL DEFICIT (THE SHORTAGE CAUSED BY SPENDING MORE THAN GOVERNMENT TAKES IN) CANNOT EXCEED THAT TARGET BY MORE THAN \$10 BILLION. IF IT DOES EXCEED THAT FIGURE BY MORE THAN \$10 BILLION, THE LAW REQUIRES CONGRESS AND THE PRESIDENT TO CUT THE AMOUNT THAT GOVERNMENT SPENDS FOR THAT YEAR TO UNDER THE TARGET. IT SOUNDS SIMPLE ENOUGH, BUT IT HAS POTENTIALLY GRAVE CONSEQUENCES.

HOW THE LAW AFFECTS THE DEFENSE BUDGET

THERE ARE CERTAIN THINGS IN THE FEDERAL BUDGET THAT CAN'T BE CUT FOR ONE REASON OR ANOTHER. INTEREST ON THE NATIONAL DEBT, SOCIAL SECURITY, AND CERTAIN OTHER BENEFITS TO PEOPLE ARE THEREFORE EXCLUDED FROM CUTS UNDER GRAMM-RUDMAN. SO MUCH OF THE BUDGET IS PROTECTED UNDER THE LAW FROM AUTOMATIC CUTS THAT 100 PERCENT OF ALL BUDGET CUTS MADE TO MEET THE GRAMM-RUDMAN TARGETS MUST COME FROM ONLY 15 PERCENT OF THE BUDGET. (11:40) HALF OF THE TOTAL CUT EACH YEAR UNDER THE LAW MUST COME FROM DEFENSE.

THE LAW SAYS BASICALLY TO TAKE THE AMOUNT YOU HAVE TO CUT DEFENSE, DIVIDE IT BY THE MONEY YOU WOULD HAVE SPENT OTHERWISE ON

DEFENSE, AND SUBTRACT THAT PERCENTAGE FROM EVERY PROGRAM IN DEFENSE THAT CAN BE CUT. FOR EXAMPLE, IF THE DEFICIT FOR 1987 WAS GOING TO BE \$164 BILLION, THAT WOULD BE \$20 BILLION MORE THAN ALLOWED BY THE LAW. GOVERNMENT WOULD HAVE TO CUT SPENDING THAT YEAR BY \$20 BILLION. TEN BILLION DOLLARS WOULD HAVE TO COME FROM DEFENSE. IF DEFENSE HAD \$200 BILLION TO SPEND THIS YEAR IN THE BUDGET BEFORE THE AUTOMATIC CUTS, THEY WOULD NOW HAVE TO CUT EVERY PROGRAM BY \$10 BILLION DIVIDED BY \$200 BILLION, OR FIVE PERCENT. THAT MAY NOT SEEM LIKE MUCH, BUT CONSIDER THESE POINTS.

IN 1986, THE FIRST YEAR THE LAW WAS IN EFFECT, A 4.9 PERCENT CUT ACROSS THE BOARD IN MILITARY SPENDING WOULD HAVE REQUIRED US TO JUST DISCHARGE 280,000 TRAINED PEOPLE IN UNIFORM. (19:92) THAT IS ABOUT ONE FOR EVERY EIGHT PEOPLE IN THE SERVICE TODAY! THE CONGRESS SAW THIS MIGHT BE A PROBLEM AND ALLOWED THE PRESIDENT TO PROTECT PERSONNEL FROM CUTS LAST YEAR. HE CAN'T DO THAT IN FUTURE YEARS UNDER THE LAW. (61:38-39)

MUCH OF THE MONEY NEEDED TO MAKE THE CUTS LAST YEAR CAME FROM WHAT WE NEEDED TO TRAIN OUR PEOPLE AND EQUIP THEM. OF THE \$4.92 BILLION THAT THE DEPARTMENT OF DEFENSE HAD TO GIVE UP LAST YEAR (65:5), OVER \$2.9 BILLION CAME OUT OF WHAT WAS TO HAVE FUELED AND OPERATED SHIPS, TANKS, AIRCRAFT, AND OTHER BASIC MILITARY SYSTEMS. THE AIR FORCE AND AIR GUARD AND RESERVE HAD TO GIVE UP ABOUT 50,000 FLYING TRAINING HOURS LAST YEAR TO MAKE THAT CUT. ANOTHER \$0.2 BILLION CAME OUT OF PEOPLE PROGRAMS. OVER 5,000 PEOPLE HAD TO BE RELEASED FROM SERVICE EARLIER THAN PLANNED TO MEET PART OF THIS CUT. (62:15) THE REST CAME FROM CANCELLATIONS OF PLANNED PROCUREMENT OF NEEDED AMMUNITION AND WEAPONS (\$0.9 BILLION), OR FROM THE DEVELOPMENT OF FUTURE SYSTEMS TO KEEP OUR DEFENSE STRONG AND VIABLE (\$0.9 BILLION). THE ARMY WAS SUPPOSED TO GET ABOUT 5,900 NEW LASER-GUIDED ARTILLERY SHELLS FOR EUROPE LAST YEAR TO HELP DEFEND AGAINST SOVIET TANKS. INSTEAD, IT ONLY GOT 200!

DOES THIS KIND OF ARBITRARY CUT INCREASE THE COST OF DEFENSE SYSTEMS TO THE TAXPAYER? LET'S LOOK AT TWO WEAPONS--ONE BIG ONE THE B-1B, AND ONE SMALL ONE, THE MAVERICK MISSILE. UP UNTIL THE CUTS MADE LAST YEAR, THE B-1B PROGRAM WAS BEING MANAGED SO AS TO GUARANTEE AN ON-TIME AND ON-BUDGET DELIVERY OF EACH AIRCRAFT. THE APPROXIMATELY \$250 MILLION IN CUTS IT TOOK UNDER GRAMM-RUDMAN, HOWEVER, HAVE MADE IT A ". . . POTENTIALLY HIGH RISK--DEPENDENT, FOR EXAMPLE, ON THE CONTRACTORS' ATTAINING AND ADHERING TO A DELIVERY SCHEDULE THAT EXCEEDS CONTRACT REQUIREMENTS. AN ASSESSMENT OF POTENTIAL OVERTARGET LIABILITY, UP TO \$1 BILLION, WILL BE DONE EARLY NEXT YEAR BASED ON CONTRACTOR PERFORMANCE DATA AVAILABLE BY THEN." (62:3) AS FOR THE MAVERICK MISSILE, CUTS IN THE PLANNED PROCUREMENT OF THE MISSILE MEANT SPREADING COSTS OVER FEWER MISSILES WHICH RAISED THE UNIT COST BY 24.3 PERCENT. (62:4) WE GOT 360 MISSILES FEWER THAN WHAT WE PLANNED FOR, WHILE AT THE SAME TIME PAYING MORE FOR THEM. THIS ONE PARTICULAR INSTANCE WENT AGAINST CONGRESSIONAL

INTENT TO CONTROL DEFENSE COST GROWTH AND VIOLATED THE NUNN-MCCURDY LAW AGAINST SUCH COST GROWTH. (62:4) OUR REASON FOR CONCERN OVER GRAMM-RUDMAN'S IMPACT ON DEFENSE NOW BECOMES CLEAR: IT IS NO LONGER THE THREAT WE FACE OR THE STRATEGY WE PLAN THAT DECIDES WHAT WE SPEND FOR DEFENSE, BUT RATHER THE "ACCOUNT'S PENCIL." WILL THIS CONTINUE?

GRAMM-RUDMAN'S IMPACT ON DEFENSE IN FISCAL YEAR 1987

THANKS TO THE PASSAGE OF THE NEW TAX OVERHAUL LAW, AND TO SUBSTANTIAL CUTS ALREADY AGREED TO ON DEFENSE BEFORE THE BUDGET FOR THE CURRENT YEAR WENT TO CONGRESS, THE TOTAL DEFICIT IS PROJECTED TO BE BELOW THE \$144 BILLION (PLUS \$10 BILLION "CUSHION" ALLOWED FOR UNDER THE LAW) FOR THIS YEAR. THAT MEANS NO MINDLESS AUTOMATIC CUTS IN DEFENSE THIS YEAR. IN ADDITION, THE SUPREME COURT RULED THAT THE AUTOMATIC CUT PROCEDURES IN THE LAW WERE UNCONSTITUTIONAL BECAUSE THE COMPTROLLER GENERAL OF THE UNITED STATES, WHO WORKS FOR THE CONGRESS, COULD EFFECTIVELY TELL THE PRESIDENT HOW MUCH HE COULD SPEND IN HIS BUDGET FOR THE COUNTRY. THAT KIND OF LEGISLATIVE VETO IS PROHIBITED BY THE SEPARATION OF POWERS IN THE CONSTITUTION. YET THE BACKUP PROVISIONS OF THE LAW STILL REQUIRE CONGRESS TO ACT TO MEET THE DEFICIT TARGETS. HAS THE DEFENSE DEPARTMENT DONE ANYTHING TO TRY TO HELP CONGRESS MEET THOSE TARGETS?

PROJECTED REDUCTIONS IN FY1988 AND FY1989

WHEN PRESIDENT REAGAN SUBMITTED HIS BUDGET TO CONGRESS IN 1985, BEFORE GRAMM-RUDMAN WAS SIGNED, IT CONTAINED PROJECTIONS OF \$370 BILLION FOR 1988 AND \$399 BILLION FOR 1989 TO SUPPORT HIS PLANNED SUSTAINED BUILDUP OF OUR DEFENSE. IN THE BUDGET SUBMITTED FOR THIS FISCAL YEAR, THE DEFENSE DEPARTMENT SCALED BACK THEIR PROJECTIONS FOR THOSE TWO YEARS BY MORE THAN 21 PERCENT. (58:TABLE 2; 60:TABLE 3) YET THESE CUTS MAY STILL NOT BE ENOUGH TO COUNTERBALANCE SPENDING IN THE NON-DEFENSE PORTION OF THE BUDGET IN THE COMING YEARS TO PREVENT THE GRAMM-RUDMAN CUTS FROM REDUCING DEFENSE SPENDING FURTHER. THE 1987 BUDGET PROJECTED THE FISCAL YEAR 1988 DEFICIT TO BE \$93.6 BILLION. (60:TABLE 22) BUT UNDER THE NEW TAX LAW PASSED AFTER THAT BUDGET, TAX REVENUES WILL BE \$17 BILLION LESS THAN EXPECTED NEXT YEAR (24:1943), MAKING THE DEFICIT CLOSER TO \$110.6 BILLION--\$2.6 BILLION MORE THAN ALLOWED. CAN THE COUNTRY AFFORD TO KEEP CUTTING THE DEFENSE BUDGET AS IT DID IN THE 1970S BEFORE ANGOLA, AFGHANISTAN, THE IRANIAN HOSTAGE CRISIS, AND THE TAKEOVER OF THE SANDINISTAS IN NICARAGUA? WHAT ARE THE OPTIONS UNDER THAT KIND OF CONTINUED REDUCTION?

LONG TERM IMPACT IF GRH IS NOT CHANGED

THE NEW SENATE MAJORITY LEADER, SENATOR ROBERT BYRD OF WEST VIRGINIA THINKS WE MAY HAVE TO CONSIDER REDUCING OUR TREATY COMMITMENTS, CUTTING THE STRATEGIC TRIAD THAT HAS GUARANTEED THE PEACE FOR MORE THAN A QUARTER CENTURY, AND BRINGING BACK THE

DRAFT TO MAKE THE LAW WORK. (15:12) REPORTER DAVID WOOD OF THE NEW YORK TIMES SAYS THAT "THE WEAKENING OF U.S. CONVENTIONAL MILITARY POWER WOULD INCREASE THE LIKELIHOOD THAT IN A MAJOR BATTLEFIELD CONFLICT, THE UNITED STATES WOULD HAVE TO USE NUCLEAR WEAPONS TO AVOID CATASTROPHIC DEFEAT." (56:8) THE UNDER SECRETARY OF THE ARMY, JAMES R. AMBROSE, FEELS "WE ARE TAKING SOME INCREASED CHANCES THAT WAR ISN'T GOING TO COME TOMORROW." (56:8) SINCE WE CAN ILL-AFFORD AS A NATION TO UNDERSPEND FOR DEFENSE, HOW DO WE PROVIDE FOR IT WITHOUT MAKING THE DEFICIT WORSE?

HOW CONGRESS MAY CONTROL DEFICIT SPENDING IN THE FUTURE

THERE ARE THREE PRACTICAL WAYS TO MEET OUR NATION'S NEEDS--THE SAME WAYS YOU USE IN YOUR OWN BANK ACCOUNT: SPEND LESS MONEY, TAKE IN MORE MONEY, OR DO BOTH. AS A NATION, WE HAVE NO CHOICE BUT TO CONTROL AND REDUCE THE GROWTH IN THE DEFICIT. IN THE TEN YEARS SINCE 1977, THE PERCENT OF THE TOTAL FEDERAL BUDGET PAID IN INTEREST ON THE NATIONAL DEBT HAS DOUBLED. (60:TABLE 18, TABLE 22) WHEREAS 7.3 CENTS OF EVERY DOLLAR IN 1977 PAID INTEREST ON THE DEBT, LAST YEAR 14.6 CENTS WENT FOR INTEREST. IF THIS GROWTH RATE WENT UNCHECKED, IN LESS THAN 30 YEARS THE ENTIRE BUDGET WOULD GO TO PAY INTEREST ON THE DEBT! WAS IT THE PRESIDENT'S INCREASES IN DEFENSE SPENDING, OR HIS BIG TAX CUTS THAT GAVE US THE PRESENT LARGE DEFICIT WE HAVE TO DEAL WITH?

AS SECRETARY WEINBERGER POINTED OUT EARLIER THIS YEAR, ". . . BETWEEN FY 1980 AND FY 1985, FEDERAL REVENUES INCREASED BY \$217 BILLION--THAT'S A 42 PERCENT INCREASE DESPITE, OR AS SOME OF US BELIEVE, BECAUSE OF THE PRESIDENT'S TAX CUT. FEDERAL *EXPENDITURES* INCREASED BY \$335 BILLION. BUT LESS THAN ONE-THIRD OF THAT INCREASE, \$111.2 BILLION, WAS FOR DEFENSE." (54:295) DEFENSE MAKES UP ONLY 29 PERCENT OF THE FISCAL YEAR 1987 BUDGET. (32:35) IF WE ARE TO CUT THE BUDGET, THERE ARE OTHER PLACES TO LOOK BESIDES DEFENSE. WHAT ABOUT INCREASING REVENUES?

TAX INCREASES DON'T AUTOMATICALLY MEAN INCOME OR SOCIAL SECURITY TAX RAISES. THE CONGRESSIONAL BUDGET OFFICE HAS PROPOSED TO CONGRESS POSSIBLE ENERGY, VALUE-ADDED, AND BUSINESS TRANSFER TAXES THAT COULD RAISE FROM \$1 TO \$50 BILLION PER YEAR TO HELP REDUCE THE DEFICIT. (44:21) WOULDN'T SOME COMBINATION OF CUTS AND TAX INCREASES WORK BETTER?

THEY HAVE BEEN USED IN THE PAST. ONE OPTION, CALLED "20-20-20", PROJECTS A \$20 BILLION TAX INCREASE AGAINST \$20 BILLION CUTS IN BOTH THE DEFENSE AND NON-DEFENSE SECTORS OF THE BUDGET. (23:82) REMEMBER THOUGH THAT THE DEFENSE DEPARTMENT HAS ALREADY REDUCED ITS REQUEST FOR NEXT YEAR FROM WHAT IT PLANNED ON IN 1985 BY NOT \$20 BILLION, BUT \$75 BILLION. (60:TABLE 18, TABLE 22) WITH

GRAMM-RUDMAN AS THE PRIME MOTIVATOR FOR THESE CUTS, DOES THE LAW HAVE ANY ADVANTAGES FOR THE TAXPAYERS BEYOND A BALANCED BUDGET?

AS J. PETER GRACE, HEAD OF THE 'GRACE COMMISSION' ON EFFICIENCY IN GOVERNMENT SAID ABOUT GRAMM-RUDMAN, "FACED WITH THE REALITY OF HAVING TO COME CLEAN WITH THE VOTERS, OR ELSE, WE MAY IN FACT LEARN FROM CONGRESS THAT A BUDGET SUPPOSEDLY CUT TO THE BONE HAS ALL KINDS OF FAT." (25:66) WHETHER THE BUDGET DEFICIT IS CUT BY INCREASED TAXES, REDUCED FEDERAL SPENDING, OR BOTH, THE HARD FACT REMAINS THAT IT MUST BE REDUCED TO ABIDE BY THE GRAMM-RUDMAN LEGISLATION, AND TO BE FISCALLY RESPONSIBLE AS A NATION.

CONCLUSION

THE NEED TO CONTROL AND REDUCE THE DEFICIT IS INDISPUTABLE. GOVERNMENT MUST PROVIDE BOTH DEFENSE AND SOCIAL SERVICES TO THE PEOPLE, AS PROVIDED FOR UNDER THE CONSTITUTION. BUT THE LAW AS IT NOW STANDS IS NEITHER BALANCED IN ITS APPROACH, NOR RESPECTFUL OF THE FACT THAT THE FIRST DUTY OF A GOVERNMENT IS TO DEFEND ITS CITIZENRY. GIVEN THE NEED TO CONTROL THE DEFICIT, SENATOR RUDMAN WAS PROBABLY CORRECT IN CALLING THE GRAMM-RUDMAN-HOLLINGS LAW "A BAD IDEA WHOSE TIME HAS COME." (21:9)

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