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Background and Perspective on Important National Security and Defense Policy Issues, Written and Produced by

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From the Chairman...

The past few years have been frustrating for those of us who oversee the Department of Defense and the nation's national security policy. I view it as a failure on the part of both the President and the Congress that the American public has no sense that its military is confronting some of the most critical challenges and fundamental decisions since the end of World War II. Yet to the extent that any debate has occurred, it has been here, inside the beltway.

Since the American public assumes that all is well with its military, and since the public's attention is focussed on more day-to-day economic and social concerns, there is neither broad public controversy nor political consensus over the direction in which the nation's military forces are

Defense In Decline

headed. As hard as we in the Congress try, the nation's only true "bully pulpit" is being used to further neither the public debate nor to forge a consensus.

Against such odds, trying to address the services' deepening readiness, quality of life and modernization problems will require great resolve. It will also require strong bipartisan leadership if we are to hold out any hope of sustaining the long-term commitment of resources necessary to ensure that our military remains second-to-none.

Such an effort will, by definition, be swimming against a popular political tide that is increasingly characterized by the push for smaller federal government and less federal spending. Maintaining a strong defense requires a strong federal role and, after thirteen consecutive years of declining defense budgets, additional

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U.S. Defense Budget:
Walking the Tightrope Without a Net

The Clinton administration's defense budget request of $265.3 billion for Fiscal Year (FY) 1998 represents a 2 percent real decrease from current (FY 1997) spending. As such, it continues a 13-year-long trend of real defense spending decline and it marks a 38 percent real reduction in spending from defense budgets in the mid-1980s.

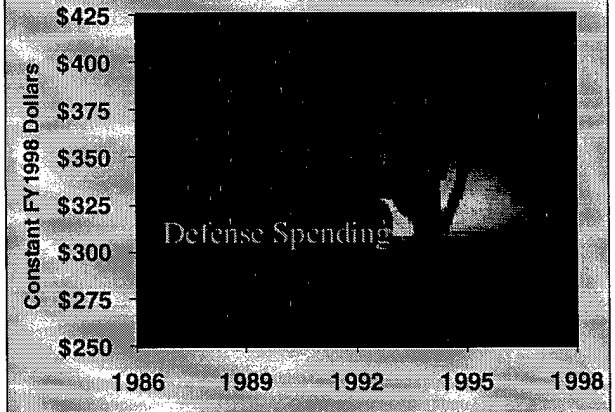
The FY 1998 defense budget request represents 3.1 percent of the nation's gross domestic product, down more than 50 percent from the 1985 level of 6.4 percent. The FY 1998 defense budget request, when measured in constant dollars, represents the smallest defense budget since 1950.

Indeed, cuts from the defense budget have provided a substantial contribution to reductions in the federal deficit in the 1990s. In fact, defense cuts account for the vast majority of deficit reduction to date that is attributable to the discretionary budget. Based on the president's FY 1998 budget, between FY 1990 - 2000, entitlements and domestic discretionary outlays will increase substantially, while outlays for defense will decrease 32 percent (*see chart on p.2*). So the trend contintinues.

From the standpoint of military capability, the administration's FY 1998 defense budget request perpetuates the mismatch between defense strategy and resources – the widening gap between the forces and budgets required by the national military strategy and the forces actually paid for by the defense budget. In January 1997, the Congressional Budget Office (CBO) estimated the president's defense budget to be underfunded by approximately $55 billion over the course of the next five years. However, many independent analyses, including that of the General Accounting Office, assess the shortfall to be much greater.

The FY 1998 defense budget request also reflects the administration's continued pattern of cutting long-term investment funding necessary for the modernization of aging equipment in order to pay for near-term readiness shortfalls. The FY 1998 procurement request of $42.6 billion is actually less than current (FY 1997) procurement spending levels and approximately 30

Thirteen Consecutive Years of Decline in the Defense Budget

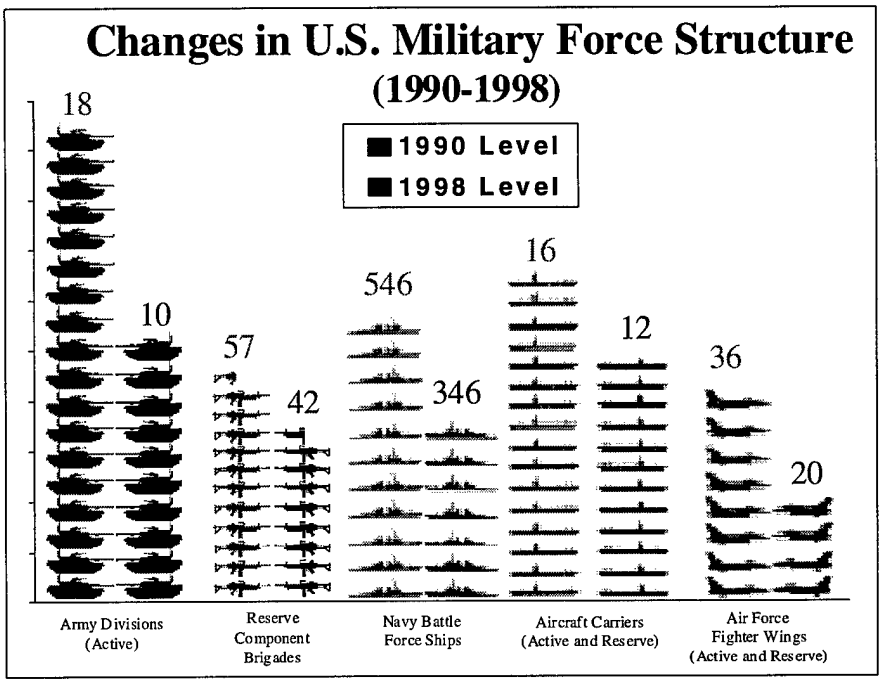


Source: President's FY 1998 Defense Budget

percent below the procurement spending level identified by the Joint Chiefs of Staff as necessary to modernize even the smaller military of the 1990s. Since 1995, the administration has vowed to end the "procurement holiday," but its plan to increase modernization spending is skewed heavily toward the later years of the five-year defense program, with the bulk of the proposed increases projected to occur beyond the end of the President's second term in office.

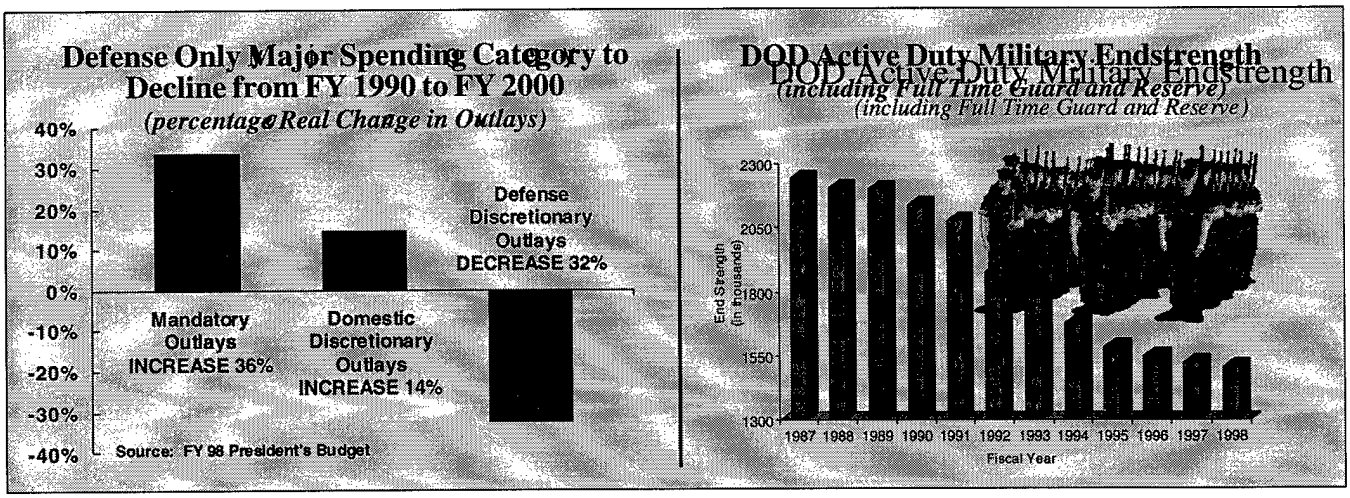
The inability to field new systems is highlighted by the administration's lack of funding for missile defenses. Six years after the Gulf War, which demonstrated both the strategic and military importance of effective ballistic missile defenses, the administration continues to shortchange spending for such programs, cutting the national missile defense program to protect the American people from the threat of ballistic missile attack by over $300 million from current (FY 1997) spending levels.

One of the primary reasons modernization spending continues to be reduced and used as a "billpayer" for shortfalls elsewhere in the defense budget is the administration's persistent underestimation of readiness and operational requirements. The FY 1998 defense budget request includes $2.9 billion less for procurement and $5.2 billion more for operations and maintenance (O&M) spending than was projected for FY 1998 by the administration just last year. This miscalculation results from the Pentagon's underestimation of its own infrastructure and overhead costs as well as from the continuing high and costly pace of manpower-intensive peacekeeping and humanitarian operations.



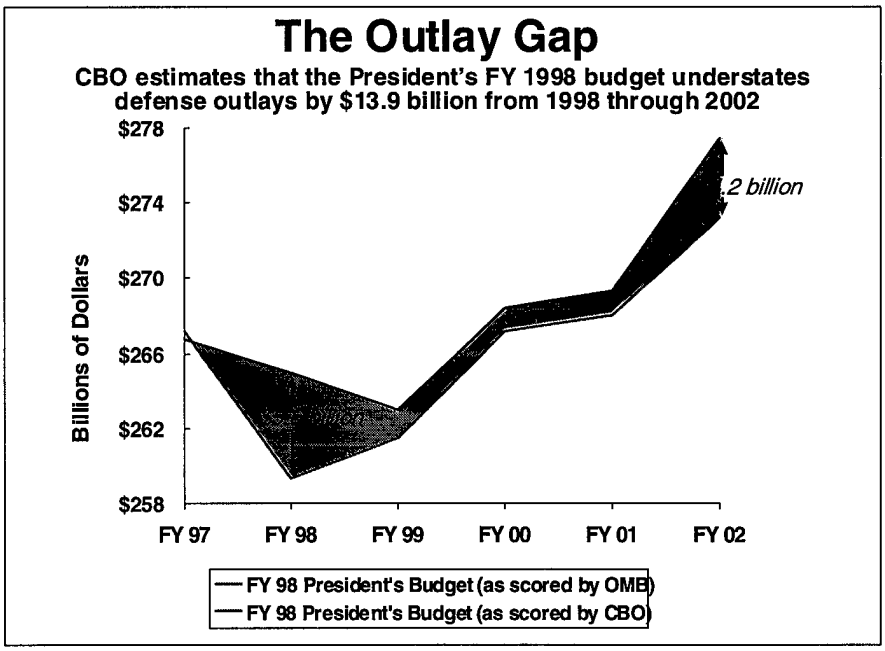
The diversion of troops, equipment, and resources from necessary day-to-day training in order to support these ongoing operations means that even those O&M funds being requested are not purchasing the kind of readiness central to the execution of the national military strategy.

Although the administration contends that the post-Cold War defense drawdown – a drawdown that has cut the nation's military by one-third since 1990 — is nearly complete, the FY 1998 defense budget request reduces both the Navy and Air Force below the personnel levels mandated by law and below the levels called for by the national military strategy. While military forces are shrinking to dangerously low levels, the pace and duration of contingency operations are increasing. These conflicting trends are hurting military readiness, are eroding quality of life, and are certainly not conducive to maintaining a high quality, all-volunteer force in the long run.



CBO - OMB Outlay Dispute

A particularly critical problem facing the administration's FY 1998 defense budget request is the divergence in "scoring" between the Office of Management and Budget (OMB) and the CBO. The CBO recently reported that the administration has underestimated the amount of defense outlays – funds actually obligated during the fiscal year and therefore critical to deficit reduction calculations – by approximately $5.6 billion in FY 1998 alone. In other words, the CBO estimated that the president has underfunded his own defense budget request by $5.6 billion. The primary problem, according to the CBO, is that the administration has underestimated the rate at which procurement and research and development (R&D) funding approved in prior years is actually being spent. The administration's calculations of these rates of spending are lower than those computed by the CBO. One potential implication of this complex outlay scoring problem could actually be reductions to the president's already underfunded defense budget – reductions required to address the accounting discrepancies between OMB and the CBO.



From the Chairman...

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federal resources. While the last two years were unprecedented from the perspective that, for the first time in the twenty plus year history of the Budget Act Congress used the congressional budget resolution to increase a president's defense budget, one cannot help but wonder if what we are doing is simply moving around deck chairs on the Titanic.

No matter how much resolve Congress brings to the task of maintaining a strong defense, we cannot help the administration if the administration does not want the help. Despite obvious and compelling evidence of shortfalls, each of the last two years the administration has aggressively opposed Congress' decision to add funding to the president's defense budget. We have been accused of adding funds that "the Pentagon" never asked for and does not need. And we have been pilloried both in and by the press for "increasing" defense spending when, in fact, defense spending continues to decline even when you consider the additional resources provided by Congress.

It is a stunning commentary on the depth to which the defense budget is being cut when Congress can add $8-$10 billion a year to a president's budget and the nation still ends up with a budget that fails to even keep pace with inflation. Yet each of the past two years the president has ultimately signed these increases into law, only to turn around within months and propose using the added funds he opposed to pay for the inevitable operational and readiness shortfalls endemic to his own budgets. As I said, it has been a frustrating couple of years.

Once again, the defense budget request before us does not appear to offer many solutions. Instead of representing a bridge to the 21st century for our military, the budget looks more like the same old tightrope without a safety net. In the years ahead, the global demands on our military will continue to grow, which guarantees that personnel and operational tempos will stay high. Yet the topline continues to drop, attainment of even modest modernization spending is once again pushed further to the right and cuts in endstrength below the minimum Bottom-Up Review levels are assumed in the president's budget.

In the months ahead, we will all hear the familiar refrain that a particular issue will be addressed in the Quadrennial Defense Review (QDR). Yet much like the Bottom-Up Review, the context for the QDR is largely set. It assumes essentially fixed budgets and will, therefore, most likely end up presenting the services with the dilemma of choosing between further reductions in force structure and endstrength if they hope to free-up resources necessary to modernize. It is not a choice any service secretary or chief should have to make. Nor is it a choice that will be based on threat or mission-driven requirements. Nonetheless, we all suspect it is coming.

My deepest suspicion is that the services will be faced with exactly this kind of untenable choice and, as a result, that the force will shrink further as our military leaders desperately try to end what CBO has termed the "procurement holiday." However, my fear is that any force structure or endstrength reductions compelled by the QDR will not come close to funding the kind of recapitalization needed to take even the smaller military of the mid-1990s into the 21st century with unquestioned technological superiority.

The result is just apt to be a smaller force, spread thinner than today and still struggling to find ways to modernize their 1970s and 1980s era equipment. It is a road fraught with peril and one, unfortunately, that this nation has already been down with disastrous consequences several times this century.

The National Security Committee will continue to work long and hard, and in a bipartisan fashion, to address as many of the shortfalls in this budget as we can. Frankly, it would be a nice change of pace if this effort included the administration.

— Opening statement of Chairman Spence, Posture Hearing with Secretary Cohen & General Shalikashvili, February 12, 1997

Update

SFOR officials decide to dismantle a number of checkpoints in northern Bosnia in order to allow greater freedom of movement for local residents. The removal of checkpoints will also allow more troops to patrol the zone of separation established by the Dayton accord. An SFOR spokesman states, "The goal – if everything goes well – is to dismantle all of the checkpoints, but there's no specific timeline."

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A psychological study conducted by the Army of U.S. soldiers participating in Operation Joint Guard reportedly indicates that their combat skills, readiness, and morale deteriorate markedly after six months of peacekeeping duties. The results of the study are to be published in the fall.

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SACEUR General George Joulwan says the "return of refugees will be the biggest challenge" to ensuring the peace in Bosnia this year. He expresses concern with the slow pace of civilian rebuilding efforts, noting, "The longer these issues are unresolved, the more difficult it will be to maintain stability in the Balkans after NATO departs in June 1998."

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Bosnian Serbs destroy additional Muslim houses in Gajevi as SFOR troops are unable to prevent the attacks. The latest destruction follows a week-long "cooling off" period established by SFOR after several Muslim homes in the hamlet were demolished by Bosnian Serbs. This is the third time in four months that such attacks have occurred in Gajevi, which is located in the zone of separation.

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SFOR troops confiscate rifles, machine guns, and ammunition from three Bosnian Serb weapons storage sites. An armored vehicle intended to be used by U.N. troops is also seized at a storage site in Karakaj, in northeast Bosnia.

Congressman Kasich and a bipartisan group of House members introduce a bill calling for the withdrawal of U.S. troops from Bosnia by the end of the year. House National Security Committee chairman Floyd Spence, a co-sponsor, declares, "Achieving a sustainable peace in Bosnia is unlikely under any realistic time frame. The U.S. should begin to work immediately toward a policy that permits the orderly withdrawal of U.S. ground forces." Defense Secretary Cohen says he "strongly opposes" such legislation, noting that it "will undercut the NATO organization....It will cause some dissension. It will fracture relations to some degree. I think it's unnecessary."

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President Clinton pledges that U.S. ground troops will leave Bosnia as scheduled in June 1998, declaring that "we all understood that we couldn't have an international security presence in a country forever."

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Bosnian President Alija Izetbegovic, in a visit to the United States, warns that the situation in Bosnia is not yet stable. He states, "If the civilian aspects of the Dayton agreement are not implemented, its military results will be null as if they never even were. We could again have war." He also accuses Bosnian Serbs of failing to abide by arms control agreements and says the United States has failed to fulfill its commitment to arm and train the Bosnian army.

President Clinton and Russian President Boris Yeltsin sign agreements on arms control and security issues, including future strategic force reductions, the relationship between theater missile defenses and the 1972 Anti-Ballistic Missile Treaty, and conventional force levels in Europe.

According to an alleged top secret CIA report leaked to the press, Russia is constructing yet another deep underground facility designed to survive a nuclear war, even as it continues construction of several other new nuclear bunker complexes. The article notes concern that the construction activity reflects the Russians' continued cold war- and nuclear fighting attitudes. A DOD spokesman states, "We do not regard the program as a threat," but admits, "We don't understand why they're continuing to do this, but they are."

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Russian President Boris Yeltsin, urges CIS countries to form a single integrated economic space with Russia to protect themselves from Western financial predations. Yeltsin also repeatedly refers to the CIS as the "post-Soviet space" and asserts that "the consolidation of anti-integration and anti-Russian tendencies" on Russia's borders "is absolutely unacceptable."

For the fourth year in a row, the joint United States - South Korean "Team Spirit" military training exercise is cancelled.

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Three Chinese warships make unprecedented visits to U.S. ports in Hawaii, Washington, and California. The visits take place on the one year anniversary of China's military exercises in the Taiwan Strait.

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China and Russia reach an agreement for China to purchase at least two Russian *Sovremenny*-class cruise missile destroyers. Many observers believe these ships will significantly enhance China's naval strike capabilities and increase the operational range of China's navy.