Policy Analysis

Cato Institute Policy Analysis No. 110: More Defense Spending for Smaller Forces: What Hath DoD Wrought?

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Executive Summary

U.S. defense spending (adjusted for general inflation) is now about 60 percent higher than it was in 1978 (and about 20 percent higher than it was in 1968, the peak spending year during the Vietnam War).(1) The buildup from 1979 to 1987 was the largest and longest peacetime increase in real defense spending in U.S. history. At the current real spending level, however, several important elements of the nation's military force are projected to be smaller or more vulnerable in 1990 than they were in 1978.

This paper examines the characteristics of the defense buildup and addresses the following questions:

-- What were the origins of the buildup?

-- How was the money spent?

-- How did the buildup affect U.S. military capability as measured by changes in force structure, the number and quality of modern weapons, the quality of military personnel, and force readiness and sustainability?

-- Was the buildup affordable?

-- To what extent did the buildup resolve the perceived national security problems at the beginning of the period?

-- Was the buildup worthwhile?

-- What effects will the buildup have on the U.S. defense budget and program in the near future?

-- What lessons of the buildup period should guide U.S. defense policy during the next administration?

Some of those questions are difficult, and there will continue to be disagreement over the answers, even among defense analysts with access to classified data. A better understanding of the issues by the broader community of public officials and voters, however, is necessary to rebuild a consensus on U.S. defense policy. This paper is intended to serve that objective.

The Origins of the Buildup

Real defense spending declined substantially from 1968 through 1978, partly as a result of the reduction of conventional forces following the U.S. withdrawal from Vietnam, the large number of conventional weapons at the end of the war, and the disintegration of the consensus that had guided defense policy from President Truman through President Johnson. Developments elsewhere in the world, however, presented an increasing threat to U.S. security interests. The Soviet Union continued to strengthen its strategic forces, despite several arms control agreements and a long interval of U.S. restraint. Warsaw Pact forces maintained a substantial advantage over NATO forces in central Europe. A series of communist coups in Third World countries was followed by revolutions in Nicaragua and Iran.

The deterioration of international political conditions finally led to a broad bipartisan consensus for a new defense buildup. In May 1977 the United States and its NATO allies made a joint commitment to a 3 percent annual increase in real defense spending. Although President Carter deferred the U.S. response to that commitment, the Soviet invasion of Afghanistan and the Iranian hostage crisis locked in the consensus for the defense buildup. Both presidential candidates in 1980 proposed to sustain the buildup. In a tabular supplement to a major campaign speech in September 1980, Ronald Reagan advocated a 5 percent annual increase in real defense spending. In January 1981 President Carter, in his last budget, also recommended a 5 percent annual increase.

One month later, however, President Reagan recommended a 9 percent annual increase--without a major review of national security objectives and prior to the development of a defense program consistent with such a budget. Congress approved the initial phase of the president's proposed buildup without serious reservations. Although Congress later reduced the proposed defense budgets, real defense outlays increased at a 7 percent annual rate from fiscal years 1981 through 1986.

The consensus that led to that record peacetime defense buildup, however, has dissolved. Beginning in FY 1986, real defense budget authority has declined each year, and real defense outlays are projected to decline slightly in FY 1988 and FY 1989.(2) It is thus time to review the buildup, as part of the process of determining the future defense budget and program.

Defense Spending during the Buildup

Figure 1 displays the annual real defense outlays (in FY 1987 dollars) and the annual percentage increases during the buildup period.(3) As the figure illustrates, from FY 1978 through FY 1987 real defense outlays increased by 64 percent and by about $110 billion. The rate of increase in real defense outlays rose sharply through FY 1982 (the year of the first Reagan budget), declined gradually through FY 1986, and was barely positive in FY 1987.

How was the money spent? The simple answer: with great haste and, apparently, considerable waste. A more thorough answer must be based on an examination of spending by appropriation and mission.

Outlays by Appropriation

Table 1, which displays real defense outlays by appropriation, reveals that spending increases took two quite different paths. The combined real outlays for military personnel, operations, and maintenance increased at a 3 percent annual rate. The combined real outlays for procurement, research, development, testing, and evaluation, however, increased at a 10 percent annual rate. Thus, most of the increase in real defense spending was in outlays for procurement and R&D. Other DoD outlays (for military construction, family housing, and revolving funds, minus offsetting receipts) and outlays for defense-related activities by other agencies (primarily the Department of Energy) were much smaller but also increased sharply.

Budget Authority by Mission

Table 2 displays real defense budget authority by mission.(4) As it illustrates, the largest increase was in real budget authority for general-purpose forces. Real budget authority for intelligence and communications, airlift and sealift, and administration, however, increased at a higher rate. Real budget authority for training and other activities declined, probably because of the higher quality of recruits and the higher reenlistment rates during the buildup period. On net, however, the share of budget authority allocated to each mission did not change very much.

Figure 1
Real Defense Outlays, FY 1978-87
(Graph Omitted)

Source: Based on data in Budget of the United States Government, FY 1989.

Table 1
Real Defense Outlays by Appropriation, FY 1978-87

	FY 78	FY 87	
Category	Billions of FY 87 Dollars		% Change
Department of Defense--military			
Military personnel	58.5	72.0	23.1
Operations and maintenance	55.3	76.2	37.8
Procurement	32.9	80.7	145.3
Research, development, testing, and evaluation	17.3	33.6	94.2
Other	4.5	10.0	121.7
Total	168.4	274.0	62.7
Other agencies--defense-related activities	3.5	8.0	128.6
Total outlays	171.9	282.0	64.1

Source: Budget of the United States Government, FY 1980 and FY 1989.

Table 2
Real Defense Budget Authority by Mission, FY 1978-87

	FY 78	FY 87	
Category	Billions of FY 87 Dollars		% Change
Strategic forces	15.0	21.1	40.7
General-purpose forces	68.0	114.9	69.0
Intelligence and communications	13.0	27.7	113.1
Airlift and sealift	2.6	7.1	173.1
Guard and reserve	11.4	15.7	37.7
Research and development	16.5	27.5	66.7
Central supply and maintenance	19.7	22.7	15.2
Training, medical, etc.	39.3	35.5	-9.7
Administration	3.6	6.6	83.3
Support of other nations	0.5	0.7	40.0
Total budget authority	189.7	279.5	47.3

Source: Budget of the United States Government, FY 1980 and FY 1989.

Changes in U.S. Military Capability

How did a 64 percent increase in real defense outlays affect the capability of the nation's military forces? An answer

to that question must be based on an examination of changes in force structure, the number and quality of modern weapons, the quality of military personnel, and the readiness and sustainability of the forces.

Force Structure

Table 3, which displays changes in the level of active U.S. military personnel and forces by service and by type of force, reveals the following patterns:

-- The level of the strategic forces declined slightly. The combined number of Minuteman and Peacekeeper (MX) missiles was constant, but the phaseout of Titan II missiles and two bomber squadrons slightly reduced the number of Air Force strategic systems. The reduction in submarine-based missiles is temporary; the higher level is projected to be restored in FY 1989.

-- The Army added two light divisions but did not experience a significant change in total personnel. Light divisions are best suited for rapid deployment in low-intensity conflicts; they would be much less effective in a European conflict.

-- Only the Navy experienced a substantial increase in forces, even though it was considerably superior to the Soviet navy at the beginning of the defense buildup.

-- Air Force tactical air wings and airlift squadrons were about constant, despite a sharp increase in real outlays for those forces.

In no case was the increase in personnel or force units as large as the increase in real defense spending. With the exception of naval general-purpose forces, the substantial increase in real defense spending had very little effect on the level of U.S. military forces.

Table 3
Active Military Personnel and Forces, FY 1978-87

Service or Force Category	FY 78	FY 87	% Change
Military personnel (in thousands)			
Army	771	777	0.7
Navy	526	582	10.7
Marine Corps	191	199	4.2
Air Force	572	609	6.5
Total	2,060	2,167	5.2
Strategic forces Intercontinental ballistic missiles			
Minuteman	1,000	973	-2.7
Titan II, Peacekeeper	54	27	-50.0
Polaris, Poseidon, Trident	656	640	-2.4
Strategic bomber squadrons	25	23	-8.0
General-purpose forces			
Land forces			
Army divisions	16	18	12.5
Marine divisions	3	3	0.0
Tactical air forces			
Air Force wings	26	25.2	-3.1
Navy attack wings	12	14	16.7

Marine Corps wings	3	3	0.0
Naval forces			
Attack and multipurpose carriers	13	14	7.7
Nuclear attack submarines	70	97	38.6
Other warships	166	217*	30.7
Amphibious assault ships	64	61	-4.7
Airlift and sealift			
C-5A airlift squadrons	4	4	0.0
Other airlift squadrons	13	13	0.0
Sealift fleet	48	61	27.0

Source: Budget of the United States Government, FY 1980 and FY 1989.

*Includes three reactivated battleships not present in the FY 1978 force.

Weapons Modernization

The second dimension of military capability is the number and quality of modern weapons. The sharp increase in real spending for procurement and R&D did not lead to a proportionate increase in the number of major weapons purchased, because the average real unit price of weapons also increased. Table 4 displays the number and real unit price of major weapons purchased in 1981-87 relative to those purchased in 1974-80. Although there was a substantial increase in the procurement of some types of weapons--the most important of which are helicopters, theater nuclear missiles, tanks and other combat vehicles, and noncombat ships--the procurement of other types of weapons increased only slightly or declined.

The average real price of most types of weapons, moreover, increased sharply. At the level of aggregation shown, of course, the change in average real price reflects both a change in the mix of weapons purchased within each category and a change in the average real price of each weapon. Most of the increase in the average real price of air transport aircraft, for example, reflects purchases of the very expensive C-5B intercontinental airlifter and smaller purchases of the less expensive C-130 intratheater cargo plane. Similarly, the decline in the average real price of strategic and theater nuclear missiles largely reflects the relative increase in purchases of the less expensive theater missiles. One study, however, indicates that the real prices of a sample of major weapons increased by 9 to 64 percent from 1981 through 1985. The increase in the real price of most major weapons seems to have declined somewhat since 1983, but the real price of weapons first purchased after 1980 (such as the C-5B and the MX) increased sharply.(5)

For several years the Department of Defense claimed that an increased procurement rate would reduce real unit prices; the available data are more consistent with the conventional view that real unit prices may decline as a function of the cumulative number of weapons purchased but are likely to increase as a function of the annual production rate.

As noted earlier, U.S. weapons expenditures (for procurement, R&D, military construction, and defense-related activities by other agencies) increased sharply from FY 1978 through FY 1987--to a level that slightly exceeded the Soviet Union's estimated weapons expenditures in FY 1987.(6) During the same period, however, the Soviets produced far more weapons in every major category other than surface warships. Table 5 compares the two countries' production of selected weapons during the buildup years.

Table 4
Major Weapons Purchased and Average Real Unit Price: 1981-87 Relative to 1974-80

	Number Purchased	Real Unit Price
Weapon Category	% Change	

Fixed-wing aircraft	8	48
Combat	18	627
Airlift		
Rotary aircraft	79	126
Missiles		
Strategic and theater nuclear	162	-25
Tactical	-21	166
Ships		
Combat	0	46
Noncombat	333	-74
Tanks and other combat vehicles		
Heavy	99	50
Light	-44	77
Other	131	51

Source: Congressional Budget Office, September 1987.

Table 5
U.S. and Soviet Production of Selected Weapons, 1978-87

Weapon Category	U.S.	Soviet
Tanks	7,600	25,300
Other armored vehicles	10,800	46,000
Artillery, mortars, and rocket launchers	3,200	27,300
Tactical aircraft	3,600	7,700
Surface warships	87	83
Attack submarines	33	65

Source: Secretary of Defense, Annual Report to Congress, FY 1989. The difference between those production levels is striking and disturbing, but the implications for U.S. policy are less clear. The Department of Defense maintains that the quality of most U.S. weapons is superior to that of Soviet weapons.

That may be true, but the quality of some Soviet weapons is impressive. The new FST-1 Soviet tank, for example, is reportedly "virtually impervious to weapons currently in NATO's arsenal, and the new tank carries a new 135-mm gun with shells that can pierce the West's toughest tank armor."(7) DoD also asserts that it would be risky to reduce the current U.S. weapons production levels. That may also be true, but the available data suggest that the rapid increase in U.S. real expenditures for weapons procurement and R&D did not increase the number and quality of U.S. weapons relative to those of our main potential adversary.

Moreover, the comparative weapons production data should lead us to inquire whether the United States has made the correct tradeoff between quantity and quality, whether it has been producing the right types of weapons, and whether it has been relatively inefficient at producing weapons (and if so, why). Before approving a renewed increase in real defense spending, Congress should ask DoD to address those questions.

Military Personnel

The most dramatic improvement in U.S. military capability was in the quality of enlisted personnel. Today more than 90 percent of Army recruits are high-school graduates, compared with 70 to 75 percent during the draft era.(8) Less

than 10 percent of Army recruits are now drawn from Category IV (the lowest acceptable rating on the Armed Forces Qualification Test), compared with about 50 percent in 1980. The reenlistment rates for the total military force are now over 50 percent after the first term of service and over 80 percent after the second term and subsequent terms, compared with 39 percent and 71 percent in 1980. About 50 percent of the enlisted personnel now have more than four years of service, compared with 42 percent in 1980.

Those substantial improvements in the qualifications and experience of military personnel have enabled the military to use more complex weapons and have permitted a reduction in real outlays for training and related expenses. The improvements were a consequence of substantial increases in both real military compensation and pride in service. Moreover, they were achieved during a period in which the absolute size of the U.S. teenage population declined and real outlays for military personnel increased much less sharply than any other major component of defense outlays. The Reagan administration deserves credit for strengthening the nation's commitment to a volunteer professional military.

Readiness and Sustainability

There does not appear to have been a substantial increase in the readiness and sustainability of U.S. forces during the defense buildup.(9) Such indicators as training days per battalion, flying hours per crew, steaming days per ship, and years of schooling did not change very much. Equipment and supplies on hand was reported to have increased for the Navy and Marine Corps air forces, remained fairly stable for the Marine Corps land forces, and declined for the Army and the Air Force. DoD reported that the percentage of "mission capable" equipment was only "steady or slightly increasing." As a percentage of the war reserve requirements, the stock of munitions increased substantially, but the stock of secondary items declined slightly after 1980 for all services other than the Air Force.

A General Evaluation of Military Capability

The most difficult dimension of military capability to evaluate, even for those with access to classified data, is the quality of weapons. A large share of the increase in real defense spending since 1978 was in outlays for procurement and R&D, so such indicators as force size, the number of weapons purchased, and readiness may understate the overall increase in U.S. military capability during the buildup period. Ultimately, military capability can be evaluated only during a war, and, fortunately, we have not had a critical test of whether the quality of modern U.S. weapons has increased in proportion to their average real cost. On the basis of the available data, one can only conclude, as did the Congressional Budget Office, that "despite widespread improvements, most of the aggregate indicators have not increased markedly, with a few exceptions like personnel quality."(10)

Some Important Related Considerations

Was the Buildup Affordable?

The answer is an unambiguous "yes." As a share of GNP, U.S. defense spending is now lower than it was in any year from 1951 through 1972.

We can clearly afford to spend more for defense, even a great deal more, if doing so is essential to our national security. However, we cannot afford to keep spending the amount that Americans now spend for all purposes. In 1987 we spent about 3.5 percent more than we produced, borrowing the difference from foreigners. That would not have been a problem if domestic private investment had been unusually high. In that case, the investment would have yielded a stream of returns sufficient to pay the interest on the increased foreign debt. For the past several years, however, domestic private investment has been weak, and the United States has increasingly borrowed abroad in order to finance unusually high private consumption and government purchases. The need to reduce the growth of either private consumption or government purchases relative to the growth of output will be a central political issue for some time. It is also a central feature of the economic context in which decisions about the defense budget should be based.

To What Extent Did the Buildup Resolve the Perceived National Security Problems at the Beginning of the Period?

The answer is "not very much." Several examples provide a basis for that conclusion.

A decade ago there was serious concern that the increased number and accuracy of Soviet strategic warheads had increased the vulnerability of the U.S. land-based strategic forces. Most of the U.S. strategic systems deployed since then have not reduced that vulnerability. The MX missiles now deployed in Minuteman silos, unfortunately, should probably be considered destabilizing, in that they increase the payoff (in terms of U.S. warheads destroyed) of a Soviet first strike. If some or all of the MX missiles were deployed in rail garrisons, their vulnerability would be reduced only if the United States had sufficient strategic warning time (probably around two hours) to move them onto the general rail network.

For reasons that have yet to be explained, DoD recently proposed a large reduction in development funding for the road-mobile Midgetman, the only potential land-based missile system that would be relatively invulnerable. The B1-B bomber, the new Stealth bomber, and an advanced air-launched cruise missile would increase the possibility of penetrating the Soviet Union's extensive air defense system, but they would not reduce the vulnerability of the U.S. bomber force to a Soviet first strike. (Each of those systems is both late and substantially over budget.) Only the new Trident submarine and the D-5 missile make a significant contribution to a stable strategic deterrence, but the small number of submarines deployed would be increasingly vulnerable to an improved Soviet antisubmarine warfare capability.

For many years the Soviets have maintained conventional forces in central Europe that are larger than the combined NATO forces.(11) The major changes in the structure of U.S. conventional forces during the recent defense buildup did not significantly alter the balance. The two additional Army divisions are U.S.-based light divisions designed for low-intensity conflict. The number of Air Force tactical air wings is now lower than it was in 1978 and is scheduled to be reduced further. Although the U.S. Navy was superior to the Soviet navy prior to the defense buildup, it was the only service that experienced a substantial increase in conventional forces during the buildup--and the military value of these additional forces in a European conflict is not obvious.

The balance was altered slightly by the United States' improved tactical weapons and increased ability to move forces to Europe, the latter a consequence of increased airlift and sealift and the pre-positioning of heavy equipment for U.S.-based divisions committed to the continent's defense. In general, however, the buildup did little to alleviate the longstanding concern about the force balance in Europe.

An increased ability to respond to outbreaks of low- intensity conflict in regions other than Europe was probably the most significant change in U.S. military capability during the buildup period--an improvement provided by the two additional Army light divisions, the additional Navy forces, and the increased airlift and sealift. During the same period, however, both the American public and the Department of Defense expressed an increasing reluctance to commit U.S. forces to regional conflicts that do not directly threaten vital U.S. interests. Secretaries of State Alexander Haig and George Shultz both chafed at DoD's reluctance. Nevertheless, Secretary Weinberger's 1985 statement on defense strategy was probably correct--military commitments should be made in response to only those conflicts that involve our most important national security concerns and cannot be sustained in the absence of popular support. One wonders, however, why Weinberger promoted the increase in U.S. military forces to respond to low-intensity conflicts.

In summary, the defense buildup did not do much to resolve the perceived national security concerns that were the basis for the initial consensus for the buildup. The nature of the buildup appears to have been determined more by longstanding "service requirements" than by a change in national security objectives or military commitments.

Was the Buildup Worthwhile?

The answer is "maybe." Political and military conditions have improved markedly in several respects since 1980. The recently ratified INF treaty will eliminate all U.S. and Soviet intermediate-range nuclear missiles from Europe, and the START treaty being negotiated promises to reduce U.S. and Soviet strategic nuclear forces by about 50 percent. Both of those measures go far beyond the "nuclear freeze" proposal by leftist critics of U.S. defense policy. Moreover, no additional nations have been drawn into the Soviet orbit, and the Soviets have begun a withdrawal from Afghanistan. Something important may be happening in the Soviet Union as a result of the Gorbachev initiatives, and there may soon be a basis for a new European arrangement in the interest of both blocs. No one in the West anticipated such

favorable developments at the beginning of the buildup period.

It is plausible to assert that the U.S. defense buildup was one of the causes of those developments. The case would be stronger if it were more clear that the substantial increase in real defense spending led to a corresponding increase in military capability. A sustained increase in real defense spending of 3 to 5 percent annually plus a coherent defense program consistent with that funding, however, might have brought about the same developments at a much lower cost. The increase in real spending by itself may have contributed to those developments, because the Soviets may have as much difficulty evaluating the capability of U.S. military forces as we do. Our current challenge is to channel U.S. defense spending into more-demonstrable military capability and to focus that capability on our most important national security interests.

The Near-Term Defense Budget and Program

Real defense outlays are now projected to decline by about 3 percent through FY 1989, and Secretary Carlucci recently instructed the services to prepare a defense program based on a 2 percent increase in real budget authority in each subsequent year. Thus, after a few years real defense outlays will be about as high as they were in FY 1987.

Given a roughly constant real defense budget, however, U.S. military force levels are projected to decline.(12) Military personnel are to be reduced by 35,000 by FY 1989. The personnel in two Army divisions will be reduced, and the Army will be smaller than it was in FY 1978. Midgetman development will remain at a minimal level, and four B-52G squadrons will be reassigned to the conventional forces. About 450 helicopters will be eliminated from the force structure. The procurement of two sets of division equipment for pre-positioning in Europe has already been slowed. One Navy tactical air wing and 16 frigates will be deactivated, and the planned procurement of the A-6F carrier-based fighter bomber has been canceled. Air Force active and reserve tactical forces will be reduced by three wings in FY 1990.

Thus, the levels of at least three important elements of the nation's military forces will be lower in FY 1990 than they were in FY 1978: strategic missiles and bombers, Army personnel, and Air Force tactical air wings. The force reductions since FY 1987 are primarily the result of the bow wave of procurement spending approved in prior years. As observed at the beginning of this paper, a real defense budget about 60 percent higher than that of FY 1978 will soon support a military force that is smaller and more vulnerable in some dimensions than it was at the beginning of the buildup.

Moreover, the Department of Defense has yet to prepare a Five Year Defense Program (FYDP) consistent with the new Carlucci budget guidance. According to the latest FYDP, DoD's plans are based on cumulative budget authority for FY 1989-92 that is about $282 billion higher than that of the Carlucci guidance and $362 billion higher than a path of constant real budget authority.(13) If current procurement plans are not substantially revised, U.S. military forces will undergo a larger reduction than has been scheduled to date.

The next several years are likely to be a period of blood- letting in the Pentagon that has not been observed for two decades, even if real budget authority continues to increase at the 2 percent rate consistent with the Carlucci guidance. According to an anonymous DoD budget official,

The administration of the Pentagon has collapsed. Not only are we cheating the public by signing them up for things that we can't afford, but we're hurting the military because there's going to be a readiness bloodbath. We would be worse off in 1992 than in 1979 and still be spending $260 billion a year.(14)

The critical choice will be whether to maintain the weapons procurement plan or the level and readiness of U.S. forces. Secretary Carlucci has chosen to maintain most elements of the procurement plan at the expense of small reductions in the military forces. The next administration should undertake a major review of national security objectives and the defense program before deciding whether to continue on that path.

Lessons of the Defense Buildup

As noted earlier, the sharp increase in real defense spending during the Reagan administration was approved without a

review of national security objectives and before the preparation of a defense plan consistent with the increased real budget authority. The broad consensus for a buildup permitted DoD to transform a window of vulnerability into a window of opportunity for defense spending. Accelerating the buildup was an understandable and possibly correct initial response to the concerns and the sense of urgency that prevailed in 1981. Secretary Weinberger, however, never resolved the growing disparity between defense plans and approved funding levels. That problem was recognized as early as 1982, when it was the focus of a briefing by then defense logistics chief Lawrence J. Korb to the Defense Resources Board. Moreover, an internal study by program analyst Franklin Spinney concluded that the planned defense buildup was underfinanced by as much as 30 percent.

A January 1983 report by the conservative Heritage Foundation described an "internal cancer" at DoD, citing increasing modernization and readiness costs and unrealistic budget projections. The report concluded, "We see no sign that Department of Defense planning is more realistic for the future."(15) That assessment proved to be correct. At no time did Secretary Weinberger force the services to develop a defense program consistent with the first-year budgets approved by Congress.

Asked recently whether defense programming should have precluded a plans-reality mismatch, former Navy secretary John Lehman responded, "No, it should not have been done differently. It would have been highly irresponsible to plan for the Congress's stupidity."(16) Lehman was apparently referring to the failure of Congress to approve budgets as high as those on which defense plans were based. Many of the actions of Congress are indeed stupid, but Lehman's position is wrong; defense plans should be based on approved budgets, not budget approval on defense plans. In failing to recognize that principle, DoD was irresponsible. At any rate, Weinberger and Lehman were ultimately unable to convince Congress that the continued increase in real defense spending necessary to fund the defense program planned for the late 1980s would be worth the cost.

The first lesson of the buildup period is that Congress will not sustain an increase in real defense budget authority in the absence of a war. Before the buildup real defense budget authority had never increased in peacetime for more than three years; thereafter it increased for six years (from FY 1980 through FY 1985). DoD received more funding than it had reason to expect. It only recently started to base defense plans on approved budgets.

A second lesson of the buildup is that national security objectives must ultimately conform to what the nation is prepared to support. Lehman was half-right in asserting that

we have to stop living beyond our means and playing as if we can be the world's policeman as we used to do during the Marshall Plan days. If we are not willing to pay for it, then [we should] stop pretending that we can do it. If you are going to cut defense, then you have to cut commitments.(17)

Our national security objectives and military forces have been remarkably stable, except during the Korean and Vietnam wars, for about 40 years. Although the Soviet Union has maintained a formidable military establishment and has continued to improve its military technology, however, other conditions have changed dramatically. At the time the United States organized NATO and made a commitment to defend Europe, the economies of the West European nations were in shambles, the stability of their political systems was tenuous, and U.S. strategic forces were much stronger than Soviet strategic forces. Our European allies now have a combined economic output about twice as high as that of the Warsaw Pact, and the United States has lost its strategic superiority.

Likewise, at the time the United States committed forces to northeast Asia, the economies of Japan and Korea were in shambles, and China was the main adversary in the region. Japan now has the second-largest economy in the world, South Korea's rapidly growing economy is about five times as large as that of North Korea, and China is no longer considered an adversary.

Our national security commitments and military forces, however, have not reflected those dramatic changes. NATO defense strategy, for example, is still based on the credibility of an increasingly suicidal U.S. strategic response to a Soviet invasion.(18) As a share of GNP, U.S. defense spending is about twice as high as that of our NATO allies and about six times as high as that of Japan.(19) In effect, our substantial expenditure to defend Europe and other regions is one of our major exports, but it is one for which we are not compensated. A major review of our national security commitments is clearly past due.

But Lehman was only half-right. There are still substantial opportunities for the United States to increase military capability or reduce costs by redesigning forces to make them more efficient for specific missions. The vulnerability of land-based strategic missiles, for example, could probably be reduced most efficiently by a mobile basing mode. There is a good case for a force of large attack carriers for use in low-intensity conflicts in regions where the United States does not have established land bases; it is much less clear that such a force (the investment cost of which is now about $18 billion per carrier task force) should also be designed to operate within range of Soviet land-based air forces. There is no reason to regard a review of U.S. military and security commitments and the redesign of U.S. forces as mutually exclusive means of achieving a better match between defense plans and approved budgets. Both are important.

A third lesson of the buildup is that a major reorganization of the Department of Defense may be in order. DoD is now the third-largest command economy in the world. No command economy works very well, and Americans are not especially efficient at managing a command economy. One approach that should be considered is to improve the buyer-seller system within DoD. Most of the defense budget, for example, could be allocated directly to the unified and specified commands, which would maintain their own organizations for testing and evaluation. The four services would then compete to provide forces, weapons, and supplies to the commands.

Two changes would be needed to make such a system effective. The "Key West agreement," in effect a cartel to divide missions among the services, should be terminated. Doing so would permit the Army to provide strategic missiles and fixed- wing tactical aircraft, the Marine Corps to provide forces to the major regional commands, and the Air Force to compete for the sea-control mission. The promotion system for higher- grade officers should also be changed in order to reward superior performance among officers in the joint commands and to protect them when the priorities of those commands conflict with the interests of their respective services. The Department of Defense Reorganization Act of 1986 was a step in that direction, but its immediate effects are likely to be quite limited.(20)

A major reorganization of DoD along the lines suggested deserves a careful review, but such a review should not be delayed. The current system of planning and organizing U.S. military forces does not serve us very well.

In February 1986 the first report of the President's Blue Ribbon Commission on Defense Management, chaired by David Packard, concluded,

Today, there is no rational system whereby the Executive Branch and Congress reach coherent and enduring agreement on national security strategy, the forces to carry it out, and the funding that should be provided--in light of the overall economy and competing claims on national resources. The absence of such a system contributes substantially to the instability and uncertainty that plague our defense program. These cause imbalances in our military forces and capabilities, and increase the costs of procuring military equipment.(21)

Unfortunately, that is still the case.

According to the Constitution, the single most important role of the federal government is to "provide for the common defense." The large increase in real defense spending that began in 1979 did not contribute much toward the achievement of that goal. We now need to identify the commitments that are essential to our common defense and to develop sufficiently effective and efficient forces to meet those commitments.

FOOTNOTES

(1) Estimates of the change in real spending over a long period are dependent on the general price index used to deflate the nominal spending series. For example, on the basis of the GNP implicit price deflator, in 1987 real defense spending was 66.6 percent higher than in 1978 and 19.7 percent higher than in 1968. In contrast, on the basis of the GNP fixed- weight deflator, real defense spending was 64.1 percent higher than in 1978 and 36.9 percent higher than in 1968. Thus, those two deflators provide roughly similar estimates of the change in real defense spending since 1978 but quite different estimates of the change since 1968.

(2) Budget of the United States Government, FY 1989 (Washington: GPO, 1988).

(3) The real outlays displayed in Figure 1 are adjusted by the GNP fixed-weight deflator.

(4) Budget authority is the amount appropriated by Congress for each fiscal year. Defense outlays, funded in part through prior budget authority, increased more rapidly than defense budget authority. The distribution of defense spending by mission is published on a budget-authority basis only.

(5) Estimates of the changes in the real unit prices of selected weapons are from Congressional Budget Office, "Defense Spending: What Has Been Accomplished?" staff working paper, April 1985.

(6) Estimates of the comparative weapons expenditures of the United States and the Soviet Union are from the Secretary of Defense's Annual Report to Congress, FY 1989.

(7) "A Tank in Shining Armor," Newsweek, April 11, 1988.

(8) Changes in personnel quality are from Annual Report and "Defense Spending."

(9) "Defense Spending."

(10) Ibid.

(11) Total defense expenditures by NATO, however, are estimated to have been larger than the defense expenditures by the Warsaw Pact in most years, and the spending gap has increased since 1980. See Statistical Abstract of the United States (Washington: GPO, 1988), p. 318.

(12) Budget, FY 1989.

(13) David C. Morrison, "And Now, the Guillotine," National Journal, February 27, 1988.

(14) Ibid.

(15) Ibid.

(16) Ibid.

(17) David C. Morrison, "Cut the Other Guy," National Journal, March 12, 1988.

(18) For an evaluation of the current U.S. options for the defense of Europe, see Christopher Layne, "After the INF Treaty: A New Direction for America's European Policy," Cato Institute Policy Analysis no. 103, April 21, 1988.

(19) Robert Hale, Congressional Budget Office, statement to the Senate Budget Committee, March 1, 1988.

(20) David Isenberg, "Missing the Point: Why the Reforms of the Joint Chiefs of Staff Won't Improve U.S. Defense Policy," Cato Institute Policy Analysis no. 100, February 29, 1988.

(21) President's Blue Ribbon Commission on Defense Management, An Interim Report to the President, February 28, 1986.