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Controlling Defense Costs

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The Bush administration has proposed spending $397 billion on national defense in fiscal year 2003, up $46 billion from an estimated $351 billion in FY2002 (see Figure 1). In addition, Congress is set to pass an FY2002 supplemental spending bill of about $30 billion, with most funds going toward national security.

1. National Defense Spending, FY1990-2003
(budget authority, $billions)

The recent rapid increase in military spending should not be an excuse to delay sorely needed reforms in the Department of Defense (DoD). For years, the General Accounting Office has criticized DoD for "pervasive weaknesses" in financial management, and has noted that the department is at high-risk for "waste, fraud, and abuse."[1] Secretary of Defense Donald Rumsfeld has promised reforms to cut waste and unneeded programs. Indeed, with the federal budget about $100 billion in deficit, tough choices must be made to ensure that defense spending is cost effective and properly channeled to respond to the new threat environment. The following are some areas of reform to pursue.[2]

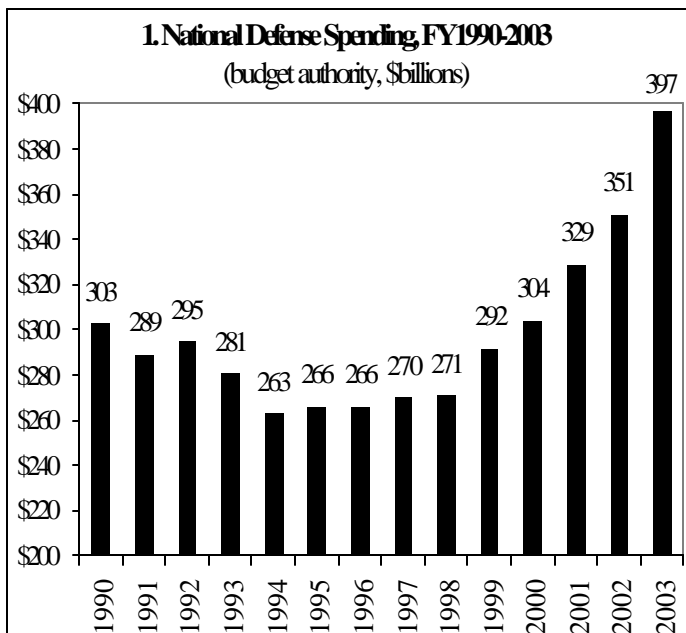### Control Cost Inflation in Weapons Systems
Cost increases and schedule overruns are chronic in DoD weapons procurement.[3] The FY2003 federal budget calls weapons systems cost control "ineffective" and provides the example of the LPD-17 program wherein estimated costs for 12 ships increased from $10.6 billion to $15.1 billion in just one year. Another example is the $45 billion C-17 aircraft program. In the FY1999 budget request, C-17 unit costs were estimated at $247 million. By FY2003, unit costs had risen 36 percent to $335 million.

The two-decade-old Nunn-McCurdy law requires a reassessment of defense programs that are more than 25 percent over budget. The Bush administration cited this law when it did something rare last year and cancelled the over-budget and unproven Navy Area Missile Defense program after 10 years and $2.4 billion in costs.[4] The law needs to be taken more seriously and invoked more often to lessen endless and escalating drains on taxpayer wallets.

Close Excess Bases and Facilities
As the number of active duty U.S. military personnel was reduced by one-third during the 1990s, four rounds of military base closings were completed, saving taxpayers about $5 billion every year. Secretary Rumsfeld wants another 20 to 25 percent of bases to be closed. Congress has agreed to start a new round of base closures in 2005, but the distance of that date raises doubts about whether Congress will follow through.

Aside from excess bases, the military operates large numbers of excess supply and maintenance depots, training facilities, medical facilities, research labs, and other installations that should be closed.[5] Recently, the DoD initiated programs to dispose of 80 million square feet of excess buildings.[6]

Reduce Congressional Earmarks

President Bush's FY2003 budget criticizes the practice of congressional earmarking––that is, tacking on to bills, often at the last minute, low priority spending items that are not requested by the administration. Last year, 963 defense earmarks cost taxpayers $5.4 billion. Clearly, the military cannot be transformed if members of Congress each try to grab cash for narrow regional interests at the expense of overall defense planning. In the total budget, earmarks have soared from fewer than 2,000 per year in the mid-1990s, to 7,800 last year.

The insertion in last year's defense appropriation bill of an instruction to lease 100 new tanker aircraft for 10 years exemplifies parochial pork in the defense budget. The unusual deal––criticized as corporate welfare––could cost taxpayers $40 billion, or about $15 billion more than a direct purchase would have cost.[7]

Cut Lower Priority Programs

The GAO says that DoD has "too many programs for the available dollars."[8] As such, experts have proposed that the following defense programs be cut.

Crusader Artillery. This 155mm howitzer is in development to replace the Paladin. Many experts think that the heavy Crusader is out of step with the country's need for a highly mobile army, and money could be better spent on precision-guided weapons. Secretary Rumsfeld is seeking to cancel the gun, but Congress has resisted. This project has a total cost of $11 billion, of which $2.8 billion has been funded to date.

V-22 Osprey. This aircraft takes off vertically like a helicopter, but flies like a propeller airplane. The program has been plagued by high costs and fatal crashes. The prior Bush administration tried to cancel the program in 1990, but it still survives. Military experts have criticized the Osprey's high cost, low reliability, and excessive maintenance needs. The Osprey's total program costs are $45 billion, of which about $12 billion has been spent to date. Cost inflation has plagued the program with estimated unit costs rising from $24 million in 1986 to at least $68 million today.

Foreign Military Financing. Many Americans may not realize that more than $4 billion of taxpayer money is given to foreign governments each year to purchase weapons. The security benefit of this program is doubtful, and the program seems contrary to weapons non-proliferation, which is a main U.S. foreign policy interest. Some countries that receive weapons may be friendly to the United States today, but may not be so in the future.

F-22 Fighter. The F-22 fighter is an example of Cold War–era weaponry for which there is now less need. The very costly F-22 is highly sophisticated and stealthy, but has reduced capabilities in other areas. The project has experienced repeated delays and high-cost escalation. The project's total cost is $69 billion, and about $26 billion has been spent so far. The number of F-22s slated for production should be cut from the current 339.

Comanche Helicopter. The Comanche has had a long and troubled development with unit costs more than doubling in constant dollars since 1985 (from $11.5 to $24.5 million).[9] The Comanche's reconnaissance function can be more safely and cheaply accomplished by unmanned drones such as the Predator. About $5 billion of the program's total cost of $48 billion has been spent.

Improve Shoddy Financial Management

The GAO reports that DoD has "serious financial management problems . . . that are pervasive, complex, long-standing, and deeply rooted in virtually all business operations throughout the department."[10] DoD loses track of assets, wastes billions of dollars on poor management of its excessive inventory, keeps unreliable budget and cost data, purposely low-balls out-year project costs, and makes billions of dollars in erroneous payments to contractors, according to the GAO.[11] The GAO attributes the problems to cultural resistance to change, military service parochialism, and other bureaucratic traps. After years of poor financial grades from the GAO, Congress and Secretary Rumsfeld must press ahead with long overdue reforms to overhaul DoD's wasteful ways.

[1] GAO, "Major Management Challenges and Program Risks-DoD," GAO-01-244, January 2001, pp. 10, 30.

[2] Discussion draws on analyses from various government and private sources. Ryan Nunn contributed to this report.

[3] GAO-01-244, p. 47.

[4] Bradley Graham, "Rise and Fall of a Navy Missile," *Washington Post*, March 28, 2002.

[5] Congressional Budget Office, "Budget Options," February 2001, pp. 157, 160, 177, 180, 181, 187.

[6] GAO, "Supporting Congressional Oversight," GAO-02-576, April 2002, p. 45.

[7] CBO letter to Senator John McCain, May 7, 2002. These are CBO's preliminary current dollar estimates.

[8] GAO-01-244, p. 20.

[9] CBO, p. 138.

[10] U.S. Treasury Department, "Financial Report of the U.S. Government 2001," March 29, 2002, GAO memo, p. 26.

[11] GAO-01-244. See also, GAO, "High-Risk Update," GAO-01-263, January 2001.