



AUSA BACKGROUND BRIEF



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THE FISCAL YEAR 1990 AMENDED BUDGET

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The Defense Budget process for Fiscal Year 1990 was a stair-step affair that began with the budget Reagan sent to Congress in January. It asked for \$315.2 billion and provided two percent real growth over FY 1989. The Bush announcement in February dropped the overall request to \$309.0 billion, or zero growth. The next step down came with the White House/Congressional agreement, reached in April, which reduced the request to \$305.5 billion. The total request for national defense in the amended budget included \$9.6 billion for that portion going to the Department of Energy for nuclear weaponry and some miscellaneous defense-related programs of other agencies. The Department of Defense portion of the Reagan budget was \$305.6 billion which was reduced to \$295.6 billion by the April agreement -- a \$10 billion difference. The Army budget is a discrete part of the DoD budget which is now being considered by Congress. It was initially defended by Secretary of Defense Cheney in his statement of April 25, 1989.

The Reagan budget constituted the formal submission required by law. All subsequent adjustments were submitted as amendments to that base, which was prepared for a two-year span - FY 1990 and FY 1991. The amended budget also addresses both years, but there is little chance that Congressional Committees will deal with anything more than FY 1990.

In this paper we will discuss national considerations which have a bearing on defense spending, some highlights of the DoD amended budget and our analysis of the FY 1990 Army budget.

NATIONAL CONSIDERATIONS AND THE BUDGET

Again this year, there are very strong pressures on the Defense Budget. This pressure is a result of changing public attitudes and economic concerns, and is related to uncertainties over our national security policy and strategic goals.

Economic Problems

Economic considerations are the most urgent. The large federal deficit looms as the number-one public concern. Defense expenditures are a target simply by virtue of their magnitude and the fact that they fall into the discretionary budget category, (as contrasted to entitlements which are guaranteed by law). This virtually assures no growth defense funding, or even less, in the near term.

The reader should understand that when we address the deficit we are talking about outlays or funds actually expended during any particular year. While money appropriated by Congress is expressed in terms of budget authority, outlays come from obligations made not only during the budget year but from prior year appropriations as well -- they are not synonymous with the budget reviewed and appropriated by Congress.

During FY 1990, any deficit which is estimated to exceed \$110 billion will trigger the feared Gramm-Rudman-Hollings sequestration axe of across-the-board cuts, of which 50 percent of the outlays, by statute, are levied against Defense. While the White House/Congressional April agreement was

meant to bring FY 1990 federal spending within that target, less favorable economic assumptions than those used by the administration would negate this. By mid-August, when the formal budget deficit is estimated, additional cuts may have to be taken to avoid sequestration.

International Considerations

In addition to changing world dynamics and adjustments to the strategic equation, today we are faced with major modifications to the overall nature of the threat as we have known it in the past. Some factors having a major impact on the United States strategic outlook and future security needs are:

- o East-West Relations, including progress in arms reduction talks and credible indications of Soviet good faith in reducing offensive capabilities and by not supporting or shoring up Third World trouble spots.
- o The resolution of NATO issues, including an understanding on short-range nuclear weapons, and confirmation of future NATO objectives.
- o Emerging regional threats throughout the world.
- o The importance of the Pacific Rim to the United States.

Formulation or confirmation of strategic policies and priorities are a must for the proper long-term allocation of defense resources. The National Security Review, directed by the President, is underway -- NSR number 12 will focus on defense. But this is still in process and the FY 1990 Defense Budget is proceeding without its benefit. It could, however, have a profound impact on defense budgets from FY 1991 forward.

THE DOD AMENDED BUDGET

FY 1990 will be the fifth consecutive year in which the Defense budget was less in real terms (adjusted for inflation) than the year before. The total decrease from its high point of FY 1985 to the amended FY 1990 budget (adjusted for inflation) comes to 12 percent.

The sequence of what happened to the budget numbers from January to April 1989 is shown in the following chart:

WHAT HAS HAPPENED TO THE DEFENSE BUDGET SINCE JANUARY 1989 (\$ in billions)

Reagan Budget (Jan '89)	\$ 305.6 (+2% real growth)
Bush Budget (Feb '89)	\$299.3 (zero growth)
White House/ Congress Agreement (April '89)	\$295.6 (-1.1%)

The Reagan budget at two percent real growth was calculated to be the absolute minimum needed to support modernization actions already underway at the minimum sustaining level. Anything less would mean program change or degradation of support in some way. This is what is now happening. The Bush pronouncement of a no-growth budget was a total dollar decision aimed at establishing a negotiable range with Congress. The subsequent White House/Congress agreement reduced DoD \$10 billion below the January budget. This also was a dollar compromise without firm programmatic decisions. It was left to the new Secretary of Defense to determine the reductions necessary to fit the revised total.

The amended budget totals were presented to Congress on April 24. As of this writing, both houses of Congress have progressed to the point of concurrent resolutions confirming Defense top-line numbers. The various committees must now come to grips with the details.

The DoD budget is projected to be about 5.3 percent of the GNP for FY 1990, compared with 5.7 percent for FY 1989 and down from 6.6 percent in FY 1986.

How the DoD FY 1990 Budget is Allocated

The FY 1990 DoD budget of \$295.6 billion is allocated by appropriation titles as follows:

	<u>Percent</u>	<u>Amount (\$ Billions)</u>
Military Personnel	26.8	79.2
Operations and Maintenance	30.5	90.2
Procurement	26.6	78.8
Research Development Test and Evaluation	13.4	39.5
Military Construction	1.6	4.8
Family Housing	1.1	3.2
Other		<u>-0.2</u>
Total		295.6

(Figures may not add due to rounding)

In the January to April process, procurement took another "hit" of 5.4 billion and continues its downward trend. It is now two percent less of the total budget than in FY 1988 and over seven percent less than in FY 1985. Military personnel and operations and maintenance have somewhat increased in percentage of the total budget over the past few years, after holding their own in real terms in a decreasing budget environment. RDTE has held a pretty steady share of the budget over time, supported by heavy R&D commitments to SDI. Construction took a drubbing (-18 percent in FY 1990 from FY 1989).

Highlights of the DoD Amended Budget

Even if Congress provides the full \$295.6 billion for DoD in FY 1990, it is still a year in which structure will be reduced and programs canceled or curtailed. This started with last year's FY 1989 budget decisions and is even more apparent for FY 1990. Budget highlights, therefore, are essentially the story of what is to be cut, reduced or delayed.

Secretary of Defense Cheney has stated a number of positive priorities which are reflected in his recent budget decisions. At the top of the list were quality people, training and readiness, items which were largely protected in this budget. He continued strong support for modernization of the strategic forces and declined to consider the withdrawal of forward deployed forces at this time. Reductions were largely in the nature of force structure adjustments, with their related personnel cuts, and in acquisition program changes involving terminations, reductions and deferrals.

Some specific program highlights include:

Personnel

- o Changes from the Reagan FY 1990 budget include the reduction of 16,700 active military spaces (-7,900 Army, -5,600 Navy, and -32,000 Air Force). Only modest changes were made in Reserve or civilian personnel authorizations. Still in progress is a Defense Management Review which plans to make reductions of \$286 million for FY 1990 and \$434 million for FY 1991 based on assumed personnel savings. These funds have already been removed from the budget.
- o The FY 1990 budget provides for a 3.6 percent military pay raise effective January 1, 1990, and a 2 percent civilian pay raise.

Structure Changes

- o The Army will inactivate a mechanized brigade in the 4th Mechanized Division, cancel the planned activation of certain other selected units, and restructure some Army attack helicopter units.
- o The Navy will retire an aircraft carrier, the USS Coral Sea, accelerate the retirement of destroyers, deactivate 73 P-3A/B aircraft, and transfer 10 frigates from the active force to the reserves.
- o The Air Force will deactivate WC-130 Hurricane reconnaissance aircraft and restructure the TR-1 program.

Program Termination

- o The Army will terminate the AH64 Attack Helicopter (after FY 1991), the AHIP Scout Helicopter, and the M88 Tank Recovery Vehicle.
- o The Navy will terminate the V-22 Osprey Aircraft (primarily for Marine Corps use), new F-14D Aircraft procurement, the Phoenix Missile, and one SSN-688 Submarine.
- o The Air Force will terminate the F-15 Aircraft (after FY 1991) and the related LANTIRN Pod.

Programs Rescheduled (Deferred, Reduced or Rescheduled)

- o Army: ADATS Missile, ATACMS Missile, and the UH60 Helicopter (-11 per year).
- o Navy: SF-60F Helicopter, T-45TS Aircraft, F/A-18 Aircraft, and two coastal minehunters.
- o Air Force: B-2 Bomber (slippage), TACIT RAINBOW Missile, and National Aerospace Plane.
- o Defense Agencies: SDI reduction.

NOTE: The big money savers in the above are the B-2 Bomber with cuts of \$855 million in 1990 and \$3.2 billion in FY 1991, and SDI, cut by \$991 million in FY 1990 and \$1.3 billion in FY 1991.

Programs Continued at Originally Planned Rates

- o Army: M-1 Abrams Tank, Bradley Fighting Vehicle, and Patriot Missiles.
- o Navy: Trident submarine and missiles and AV-8B attack aircraft (for the Marine Corps).
- o Air Force: F-16 fighter aircraft and C-17 airlift aircraft.

Strategic Programs

- o Proposes to convert 50 MX Peacekeeper Missiles from silos to a rail mobile mode; also, to resume development of the small mobile missile (Midgetman). This is controversial and a Congressional high-interest item.
- o Supports a new Trident submarine in FY 1990 as well as 63 Trident II missiles.
- o Continues with the B-2 bomber program, but at a reduced rate with reductions as already noted for FY 1990 and FY 1991.
- o Continues with a restructured Strategic Defense Initiative pursuing both space- and ground-based defenses, but with reduced funding for both FY 1990 and FY 1991. It focuses on a new approach which would employ thousands of small independently-controlled space-based interceptors (Brilliant Pebbles) orbiting the earth which could attack enemy ICBM after launch.

Readiness and Support

- o The budget provides training readiness by continuing the present operating tempo (OPTEMPO) of forces. The Army continues with 800 miles-per-year for tracked vehicles and 15 aviation flying-hours-per-month for combat crews. Ship steaming days for the Navy remain at 50.5 days-per-quarter for deployed fleets and 29 days-per-quarter for non-deployed. The Air Force program supports 19.5 flight-hours-per-month for tactical pilots.

- o Several aspects of support will be degraded by the amended budget. Planned improvements in logistical support programs were deferred and an increase in the backlog of depot and real property maintenance will occur. Base operating support services will generally be reduced across the board.

Congressional Issues With Respect to the DoD Budget

Outlay Estimates: While the amended budget cuts complied with the April agreement in terms of budget authority, there are challenges from both the House and Senate that the estimated outlays in the DoD budget are too low by some \$3.8 billion based on Congressional Budget Office calculations. If so, Defense may be required to give up even more programs to meet outlay targets. This will be an on-going issue.

MX and Midgetman: Defense wants to go ahead with rail-basing of the 50 MX missiles now in silos and would terminate the Midgetman. Because of strong Congressional support, the Midgetman has been kept alive by minimum development funding (\$100 million in FY 1990 and \$200 million in FY 1991). Fielding both systems is not affordable at current and projected funding levels. Big money is involved.

V-22 (Osprey) Tilt Rotor Aircraft: The V-22 was terminated in the budget solely on the basis of affordability. It had been the Marines highest priority aircraft for ship-to-shore movement of troops. There will be a lot of effort during Congressional hearings to find ways to restore this program.

Strategic Defense Initiative: SDI as an established R&D program is no longer in jeopardy, but its overall scope and level of funding continues to be challenged. Despite the reduction of almost \$1.5 billion in the amended budget, the remaining \$4.6 billion will be viewed by some in Congress as a good source for additional cuts to cover other favored programs, perhaps the Minuteman or the V-22 Osprey.

B-2 Stealth Bomber: The B-2 was deferred to save funding in both FY 1990 and FY 1991, but continues to be a strongly supported program. At \$500 million or more a copy and a total fleet cost probably in excess of \$65 billion, it looms as a very expensive system. Its affordability is at issue. On this basis alone, it has already drawn fire and will continue to be challenged during Congressional review.

THE ARMY BUDGET

The Army portion of the DoD amended budget totals \$78.8 billion in budget authority for FY 1990 and \$81.8 billion for FY 1991. Outlay estimates for these years are \$78.0 billion and \$80.2 billion respectively. The Army portion of the directed cut from the January budget to the April amended submission was -\$1.7 billion for FY 1990 and -\$2.3 billion for FY 1991.

The Army will be facing its fifth consecutive year of budget declines in real terms. FY 1990 will be an estimated 1.9 percent in budget authority below FY 1989. This has forced hard decisions with respect to both structure and programs.

FY 1990 AMENDED BUDGET
BUDGET AUTHORITY BY TITLE
(CURRENT \$ BILLIONS)

	Jan. Budget	Adjustment	Revised Request
Military Personnel	30.5	-0.3	30.2
O & M	27.0	-0.6	26.4
Procurement	14.9	-0.7	14.2
RDT & E	5.6	0.1	5.7
Military Construction	1.1	-0.2	0.9
Family Housing	1.5	-0.1	1.4
Stock Fund	0.1	0.0	0.1
Offsetting Receipts	-0.2	0.0	0.2
Total	80.5	-1.7	78.8

(Figures may not add due to rounding)

The story of the FY 1990 Army budget is essentially one of describing and assessing the reductions which had to be made. Throughout the process, however, the Army held firm on its stated priorities of quality personnel and a ready, well-trained force. In order to protect these priorities, the Army had to compromise on a somewhat smaller force structure, degradation of support capabilities and by reducing the acquisition of important systems.

Budget Highlights

Force Structure: The Army's active end-strength will be reduced by 7,929 personnel in FY 1990 and 8300 in FY 1991.

The force structure changes associated with this include the proposed inactivation of one brigade in the 4th Mechanized Division at Fort Carson, the inactivation of the Pershing Missile units under INF, the restructuring of attack helicopter units, and the cancellation of certain planned activations.

Personnel: With the above changes, total projected Army personnel end strengths will be:

	<u>FY 1990</u>	<u>FY 1991</u>
Active Component	764,400	764,100
Army National Guard	458,000	458,000
Army Reserve	321,700	323,100
Civilian Personnel	404,225	403,985

The amended budget provides for military pay raises of 3.6 and 3.2 percent and civilian pay raises of 2 and 3 percent respectively for the two years.

Funding should permit promotions to continue at about the current rate. Enlistment and re-enlistment incentives will be retained and weight restrictions on shipment of household goods to Europe will be eased.

Training Readiness: Training readiness was supported in the budget as a top priority.

Ground Operating Tempo (OPTEMPO) remained funded for 800 miles per tracked vehicle each year and aviation flying time at 15 hours per combat crew per month. Reserve component OPTEMPO was funded at comparable levels.

The budget also provided for 28 heavy and 5 light battalion rotations to the National Training Center each year, as well as increases in the Battle Command Training Program.

Sustainment and Base Operations: Reductions will have an adverse impact on the supply operations and depot maintenance. Real property maintenance was funded at only 80 and 83 percent respectively of the annual recurring requirements in FY 1990 and FY 1991. The backlog of maintenance and repair (BMAR) is expected to increase about 60 percent in only two years.

Base operating support in general will decrease.

Military Construction and Family Housing: The proposed budget includes a broad deferral of military construction projects. The adjusted FY 1990 level showed a reduction of 37 percent below FY 1989 in real terms. That improved somewhat to 18 percent below FY 1989 for FY 1991. These cuts further reduced an already inadequate facilities revitalization program.

Family housing construction was also down with the FY 1990 level 33.4 percent below FY 1989 and the FY 1991 level 22.3 percent below FY 1989. This decline reflects increased reliance on leasing over new construction.

Modernization: This represents a mixed bag. While some major systems remained in the program--as laid out in the President's budget--others were curtailed, delayed or eliminated. A summary of the key systems in each category and a table showing force modernization revisions follow:

Production and funding is sustained for:

- The Bradley Fighting Vehicle (600 each year)
- The Abrams Tank (603 in FY 90 and 516 in FY 91)
- The 120mm Mortar
- The M119 105mm Howitzer
- Howitzer Improvement Program
- MLRS Rockets

Program delayed or quantities reduced with corresponding funding cuts for:

- The Maneuver Control System
- The All-Source Analysis System
- SINGARS radios
- The ground-based sensor for the Forward Area Air Defense Command & Control System
- The UH-60A Black Hawk
- Air Defense Anti-tank System (ADATS)
- Army Tactical Missile System (ATACMS)
- Advanced Field Artillery Tactical Data System
- Logistics Over-the-Shore
- Stinger missiles
- AH-64 Apache procurement reduced from 72 to 66 for FY 1990 and FY 1991 (see termination)
- Mobile Subscriber Equipment (MSE) reduced by two division sets

Termination

- Army Helicopter Improvement Program (AHIP) Scout Helicopter
- M88A2 Recovery Vehicle
- AH64 Apache Attack Helicopter after FY 1991

FORCE MODERNIZATION REVISIONS (CURRENT \$ MILLIONS)

	FY 1990		FY 1991	
	<u>QUANTITY</u>	<u>DOLLARS</u>	<u>QUANTITY</u>	<u>DOLLARS</u>
PROGRAMS CURTAILED				
AH-64 HELICOPTER(AFTER 1991)	-6	-38	-6	+17
AHIP	-36	-299	-36	-331
RECOVERY VEHICLE	-	-	-78	-86
PROGRAMS RESCHEDULED				
ADATS MISSILE	-234	149	-406	-114
ATACMS MISSILE	-124	-46	-	-
UH-60 HELICOPTER	-11	-32	-11	-32
M 1 MODS	-	0	-	-90
MOBILE SUSCRIBER EQUIP	-	-	-2 DIV SETS	-227
SINCGARS	-	-25	-	-50
STINGER	-2379	-70	-	-

Research and Development:

- o The amended budget provides funds to continue development of the LHX Helicopter, key to the Army Aviation Modernization Plan.
- o RDTE funding was increased to accelerate TOW-2 and for testing the Air Defense Anti-Tank System (ADATS) in FY 90.
- o Funds for Kinetic Energy Anti-Satellite (ASAT) program were transferred from the Navy to the Army.

Budget Adequacy

The revised Army budget is not adequate to meet Army mission requirements. It was dollar-driven from the top. In the process, very hard decisions were demanded, resulting in the reduction of structure, support, and the pace of modernization. This, in turn, means increased risk and erosion of the Army's ability to respond to major contingencies or combat situations.

Positive aspects of the budget include:

- o Continued emphasis and funding support for people and a quality force.
- o Funding for continued training readiness to include support of desired ground and air OPTEMPO and an increase in the Battle Command Training Program.
- o Modest military and civilian pay raises.
- o Funding support for critical priorities of the CINCs of the Unified and Specified Commands.
- o Continued funding for the production of major weapons for the ongoing modernization of the heavy forces as listed earlier.
- o Continued funding for the development of the LHX, the centerpiece of the Army's Aviation Modernization Plan.

There are significant shortfalls and reductions, however, which hinder the achievement of Army goals. Some of these are:

- o Structure cuts and the decrease of active strength to 764,100 by FY 1991.
- o The slowdown in modernization with the reductions, deferments, and terminations of important systems as listed previously.
- o Reduction in depot maintenance funding and the resultant buildup in the depot maintenance backlog. Also a decrease in supply support.
- o Reduction in real property maintenance with a significant increase of the backlog over planned management levels.
- o A major shortfall in construction funding needed to cope with the long-term revitalization plan.

Considering the unique constraints under which the amended Army budget was crafted, it emerges as about as well balanced as could be expected from a reduced budget. It does retain quality and provides a trained and ready force, albeit with increased risk and some decreased warfighting capability.

SUMMARY

With the cuts projected for FY 1990 and FY 1991, the Army will be at its lowest funding level, in real terms, since FY 1985 and its lowest active strength level since FY 1950.

The current outlook is not optimistic. FY 1990 must be viewed as a containment year in which the Army maintains its current quality and readiness and, although smaller, remains sufficiently flexible to respond to future events and decisions.

The dollar levels now before Congress for FY 1990 will probably hold without major additional cuts, since they were reached by agreement between the Administration and Congress. That is, unless a serious problem develops in meeting the deficit target. There will, of course, be the usual internal adjusting by Congressional committees. It is anticipated that Congress and the White House will find a way to avoid a Gramm-Rudman-Hollings sequestration for FY 1990, probably by the narrowest of margins. FY 1991 is a completely different story with the statutory requirement to reduce the federal deficit by another \$36 billion--to reach a target level of \$64 billion. This will be a tough challenge and the defense budget will continue to remain under siege. It is anticipated that the Army budget will remain at depressed levels (at or close to zero growth) for the next few years unless the world situation becomes significantly more threatening.

The dynamics of world events make future predictions murky at best. Soviet policies and actions, East/West relations, NATO relationships, arms control talks, stirrings in China, the situation in Central America, potential chaos in the Middle East, and the increasing military capabilities of a number of Third World nations -- each of these has a direct bearing on our own national security. The United States has and will continue to have global interests which must be protected. Unexpected events can and likely will occur.

The nation needs a ready Army, one that is able to respond to every contingency, including unexpected emergencies. The Army is a high card in a potentially "high stakes" game. The Nation must provide adequate resourcing and cannot afford to let it be eroded further.