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Defense Budget for FY2002: An Overview of Bush Administration Plans and Key Issues For Congress

May 22, 2001

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Summary

Details of Bush Administration plans for the defense budget have been on hold for several months as senior officials have undertaken a reassessment of defense policy known as the “National Defense Review.” The initial Bush budget outline, *A Blueprint for New Beginnings*, released on February 28, and the Administration’s official FY2002 budget request, released on April 9, include \$325 billion in new budget authority for national defense in FY2002, but that total remains subject to change as the defense review proceeds. Moreover, official Administration defense budget projections beyond FY2002 simply reflect projected growth with inflation in overall annual funding for national defense from FY2003 through FY2006 rather than the results of any policy assessment.

Currently, the Administration plans to begin discussing the major conclusions of its defense review late in May, and to provide additional budget details, at least on its FY2002 defense plans, some time in June. Even then, however, Secretary of Defense Rumsfeld has said that the reassessment process will constitute a “rolling review,” and that further adjustments to the defense plan will be announced as they are decided. It also remains unclear when plans for FY2003 and beyond will be determined and what information about those plans will be provided publicly.

Though Congress has expressed some frustration with this process, it has also accommodated the uncertainty by providing room for an unspecified increase in defense spending in the FY2002 budget and in defense totals through FY2011. The conference agreement on the FY2002 congressional budget resolution (H.Con.Res. 83), establishes a “strategic reserve” in the House that may include extra funds for defense, and a specific defense “reserve fund” in the Senate. These reserve funds permit the chairman of the budget committee in each chamber to increase allocations of funds to the defense authorization and appropriations committees to accommodate a higher defense request and to increased funding to the extent provided in annual defense authorization and appropriations bills.

Meanwhile, virtually since the beginning of the year, there has been a debate in Congress about the need for supplemental appropriations for defense for FY2001. For its part, the White House initially set no timetable for submitting a FY2001 defense supplemental request and has provided little indication of the likely size of any request. The conference agreement on the FY2002 congressional budget resolution (H.Con.Res. 83) specifically sets aside \$6.5 billion for FY2001 defense supplemental appropriations, but additional funding may be provided as emergency appropriations.

Early congressional debate about the FY2002 defense budget – and future budget trends – has focused heavily on two ongoing issues – the extent of “shortfalls” in planned funding for major weapons programs and the meaning of a “transformation” of U.S. defense capabilities.

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Defense Budget Issues for FY2002: An Overview of Bush Administration Plans and Key Issues for Congress

Introduction

The Status of Bush Administration Defense Plans

Details of Bush Administration plans for the defense budget – for FY2002 and particularly beyond – have been on hold for several months as senior officials have undertaken a reassessment of defense policy known as the “National Defense Review” or, less formally, as the “Top to Bottom Review.” The initial Bush budget outline, *A Blueprint for New Beginnings*, released on February 28, and the Administration’s official FY2002 budget request, released on April 9, include an amount for defense in FY2002 – the April 9 budget requests \$325 billion in new budget authority for the national defense budget function. But that total remains subject to change as the defense review proceeds.

Moreover, official Bush Administration defense budget projections beyond FY2002 simply reflect projected growth with inflation in overall annual funding for national defense from FY2003 through FY2006 rather than the results of any policy assessment. So what we have to date is essentially a “placeholder” defense budget for FY2002, and somewhat less than that for later years, to be filled in as the Administration makes decisions and conveys more detailed program requests to Congress.

Currently, the Administration plans to begin discussing the major conclusions of its defense review late in May, and to provide additional details, at least on its FY2002 defense plans, some time in June. Even then, however, Secretary of Defense Rumsfeld has said that the reassessment process will constitute a “rolling review,” and that further adjustments to the defense plan will be announced as they are decided. So one prospect appears to be for the June plan to be followed by an as yet unknown number of adjustments, presented to Congress either informally or as formal budget amendments. It also remains unclear when plans for FY2003 and beyond will be determined and what information will be provided publicly.

Though Congress has expressed some frustration with this process, it has also accommodated the uncertainty by providing room for an unspecified increase in defense spending in the FY2002 budget and in defense totals through FY2011. The conference agreement on the FY2002 congressional budget resolution (H.Con.Res. 83), establishes a “strategic reserve” in the House that may include extra funds for defense, and a specific defense “reserve fund” in the Senate. These reserve funds permit the chairman of the budget committee in each chamber to increase allocations

of funds to the defense authorization and appropriations committees to accommodate a higher defense request and increased funding to the extent provided in annual defense authorization and appropriations bills.

Meanwhile, virtually since the beginning of the year, there has been a debate in Congress about the need for supplemental appropriations for defense for FY2001. In the past few weeks, in particular, several leading defense advocates in Congress have argued that a fairly substantial supplemental amount is needed urgently. For its part, the White House initially set no timetable for submitting a FY2001 defense supplemental request and has provided little indication of the likely size of any request. The conference agreement on the FY2002 congressional budget resolution (HconRes 83) specifically sets aside \$6.5 billion for FY2001 defense supplemental appropriations, but also may accommodate additional funding.

Most recently, the top-to-bottom review process itself has come under some scrutiny in Congress. While Congress initially gave the Bush Administration considerable leeway to undertake its review of defense strategy and programs, within about the past month or so, key members of the congressional defense committees have begun to raise some fairly far-reaching questions about the review process. Both the House and the Senate Armed Services Committees have held hearings on issues being considered in the review. And more and more critical questions have been raised – including who is carrying out key aspects of the review; whether the military services and Joint Staff are being adequately involved in the process; who will make final decisions; what the timetable will be; what substantive proposals are emerging; and, certainly not least, what Congress's role will be in reviewing key decisions as they are made.

Finally, as time for congressional action on annual defense funding bills approaches, a number of particular issues are emerging with more urgency. Military pay raises and personnel benefits have become matters of extensive discussion. Decisions on some of these matters may have very large long-term budget implications, so uncertainty about long-term defense budget trends has some legislators concerned. More and more discussion is emerging, as well, about major defense policy issues, including missile defense, defense space policy, shipbuilding, the status of major acquisition programs in general, and policy toward China.

This report is organized into four sections.

- ! The first discusses what has been decided to date about Bush Administration defense budget plans for FY2002 and beyond. For comparison, it includes some discussion of the final Clinton Administration defense plan. It also provides basic information on congressional action on defense spending to date.
- ! The second discusses the ongoing debate about long-term defense budget needs – which generally has been framed as a discussion of long-term defense budget “shortfalls.” It briefly cites what the Joint Chiefs and other key defense leaders have said over time about defense shortfalls. It also very briefly cites key studies by the Center for Strategic and International Studies and the Congressional Budget Office.

- ! The third discusses supplemental appropriations for FY2001.
- ! The final section briefly reviews the status of debate about defense transformation, which appears to be the key theme shaping Bush Administration defense policy. This section reviews what then-Governor Bush said about transformation in key defense policy speeches during the presidential campaign – particularly in a major speech at the Citadel in October 1999. The Citadel speech appears pretty close to the blueprint that the Administration has followed in addressing defense policy issues now that it is in office. How to define transformation, and how to implement it, remains uncertain, however.

Bush Administration Defense Budget Projections and Trends

Defense Budget Proposals to Date

The White House FY2002 budget request, released on April 9, includes \$325.1 billion in new budget authority for the national defense budget function. The Administration has also projected totals for the Department of Defense and for the National Defense Budget Function through FY2006, but the figures beyond FY2002 simply reflect amounts if national defense budget authority were to grow at the rate of inflation from FY2002 on. **Table 1** shows the Administration figures broken down in two ways – first by major titles in annual defense appropriations and authorization bills, and, second, particularly for purposes of comparison with other data, with “discretionary” and “mandatory” DOD accounts broken out.

A few key points may be of interest in assessing these budget projections.

- ! First, the FY2002 request shows an increase of about a \$14 billion in new budget authority compared to the projected FY2001 level (either for the Department or Defense alone or for the overall national defense budget function). By recent standards, this in itself constitutes a significant increase in defense spending from one year to the next, although a substantial supplemental appropriation for FY2001 would obviously raise the base and reduce the apparent increase.
- ! That being said, almost all of the apparent increase in the FY2002 “top line” defense budget was already decided upon by the outgoing Clinton Administration. Indeed, outgoing Secretary of Defense William Cohen released information on the Clinton Administration’s revised long-term defense budget plans in mid-January, in a section of the Department of Defense *Annual Report to Congress*. One table in the *Annual Report* provides an estimate of the amounts the Defense Department calculated the Clinton Administration had agreed to add to the defense budget in the period between the time the FY1999 budget request was initially submitted to Congress and the end of the new Pentagon planning period in FY2007. By Secretary Cohen’s calculation, the Clinton Administration had agreed to add \$227 billion in “top-line” changes

to ongoing defense budget plans – an increase of almost 9% – over a nine-year period. **Table 2**, shows Secretary Cohen’s figures. Please note that the amounts are for Department of Defense “discretionary” funding only – the comparable Bush Administration figures are shown in an addendum in **Table 1**. Secretary Cohen’s argument was at least in part a response to the defense policy debate in the presidential election campaign. Though the Bush campaign alleged severe shortcomings in military readiness, it also promised what appeared to be only fairly modest increases in defense spending. In effect, Cohen was arguing that the Clinton Administration had long since been doing more to increase defense capabilities than it was getting credit for. The argument over that issue appears unlikely to abate in the future.

Table 1: Bush Administration National Defense Budget Projections

(budget authority in billions of current year dollars)

	Est. 2000	Est. 2001	Req. 2002	Proj. 2003	Proj. 2004	Proj. 2005	Proj. 2006
Military Personnel	73.8	75.4	80.3	NA	NA	NA	NA
Operation & Maintenance	108.8	108.2	115.7	NA	NA	NA	NA
Procurement	55.0	62.1	59.5	NA	NA	NA	NA
RDT&E	38.7	40.8	44.4	NA	NA	NA	NA
Military Construction	5.1	5.3	5.5	NA	NA	NA	NA
Family Housing	3.5	3.6	4.1	NA	NA	NA	NA
Revolving & Management Funds	5.6	-0.4	-0.1	NA	NA	NA	NA
Total, Department of Defense	290.5	295.1	309.4	318.0	326.9	336.0	345.5
Atomic Energy Defense Activities	12.4	14.1	14.2	14.4	14.4	14.7	14.9
Other Defense-Related Activities	1.2	1.5	1.5	1.5	1.5	1.5	1.5
Total, National Defense	304.1	310.6	325.1	333.9	342.8	352.2	361.9
Addendum:							
Dept. of Defense Discretionary	287.3	296.3	310.5	319.0	327.9	337.1	346.6
Dept. of Defense Mandatory	3.2	-1.3	-1.1	-1.0	-1.1	-1.1	-1.1

Sources: Office of Management and Budget, *Historical Tables, Budget of the United States Government for Fiscal Year 2002*, April 9, 2001; Office of Management and Budget, *Budget of the United States Government for Fiscal Year 2002*, April 9, 2001.

Note: Totals for FY2003 and beyond are projected based on the assumption that budget authority for national defense grows from the FY2002 level at the rate of inflation. Mandatory amounts in DOD generally reflect small amounts of offsetting receipts for sales of material from DOD revolving funds to the public. Mandatory funds may also include, as in FY2000, a use of contract authority, which, under standing law, may be made available to support revolving funds.

- ! Most of the amounts the Clinton Administration decided to add to the FY2002 total – and to budget totals in later years – reflect “fact of life” changes in costs or “must pay” items added by Congress in the FY2001 defense funding bills. **Table 3** is an accounting of these additions. Such changes in costs are quite typical in defense budgets from one year to the next, and may often limit the ability Administrations have to meet long-term budget targets. The Clinton Administration had been trying for some time, for example, to increase weapons procurement funding to \$60 billion and more. Last year, the Administration projected that procurement in FY2002 would grow to \$63.0 billion. The Bush Administration FY2002 procurement request, however,

totals \$59.5 billion, an amount that would have drawn considerable criticism from Congress had the Clinton Administration formally requested it.

Table 2: Clinton Administration Adjustments in Department of Defense “Top-Line” Budget Authority (Discretionary Funding Only)

(billions of dollars)

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Total
FY1999 Clinton Projection	258	264	272	276	285	292	299	307	314	2,568
<i>Supplemental Requests</i>	+9	+2	–	–	–	--	--	--	--	+11
<i>Admin. Top Line Increases</i>	–	+4	+20	+35	+25	+25	+25	+27	+28	+188
<i>Congressional Additions</i>	+7	+17	+4	–	–	–	--	--	--	+28
Total FY1999-2007 Increases	+16	+23	+24	+35	+25	+25	+25	+27	+28	+227
FY2002 Clinton Request	275	287	296	310	310	317	324	333	342	2,795

Source: William S. Cohen, Secretary of Defense, *Annual Report to the President and the Congress*, Jan. 2001, p. 244.

Note: Amounts reflect Department of Defense discretionary funding only – these do not include small, negative “mandatory” amounts and defense-related activities of other agencies, such as the Department of Energy.

Table 3: FY2002-FY2007 Clinton Administration Additions to Department of Defense Top Line Budget Authority

(billions of dollars)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Total 02-07
Contingencies	2.1	–	–	–	–	–	2.1
Over 65 Health Care	3.9	0.9	0.9	1.0	1.0	1.1	8.8
Defense Health Program	0.6	–	–	–	–	–	0.6
Congressional Health Increases	0.2	0.2	0.3	0.3	0.3	0.3	1.6
Personnel Authorization Changes	0.7	0.7	0.7	0.8	0.8	0.9	4.6
Fuel	1.6	0.3	0.3	0.3	0.3	0.3	3.1
Inflation	1.1	1.2	1.4	1.7	1.9	2.1	9.4
Personnel	0.6	0.5	–	–	–	–	1.1
Intelligence & Classified	0.6	–	–	–	–	–	0.6
Science & Technology	0.1	–	–	–	–	–	0.1
Vaccines	–	–	0.4	–	–	–	0.4
Service Needs	3.1	4.0	3.6	3.1	3.3	3.1	20.2
Clinton Administration Adds	14.5	7.9	7.7	7.1	7.6	7.8	52.7

Source: Department of Defense.

Note: Totals may not add due to rounding.

! The Bush Administration adopted the increased Clinton defense number for FY2002, i.e., about \$310 in DOD discretionary budget authority, but,

significantly, did not initially decide to add even more to it. In response to questions about the decision not to add more money, Secretary Rumsfeld has said simply that the task is to “engage the brain” before “opening the taxpayer wallet.” For its part, Congress has initially been supportive of delaying budget decisions while the strategy review proceeds. But as the budget year has progressed, and as questions about programs of particular congressional interest continue to be unanswered, some Members of Congress are becoming more anxious to know the results and to know how much defense money the Administration may request.

Key Bush Defense Policy Initiatives

Although not initially adding significant amounts of new money to the outgoing Clinton Administration FY2002 defense plan, Bush Administration officials have emphasized some major defense policy initiatives.

- ! Military pay and benefits increases:** In a speech to troops at Fort Stewart Georgia on February 12, President Bush announced that “our proposed 2002 budget will include ... \$1.4 billion for military pay raises. Pay raises on top of the increases the Congress passed the last couple of budget cycles, \$400 million to improve military housing, and \$3.9 billion to improve military health benefits.” The key element of this package appears to be \$1.4 billion for pay raises, of which, officials later explained, about \$400 million would be for an across-the-board raise of 4.6% beginning in January 2002, as opposed to a 3.7 percent raise planned in the Clinton budget. An additional \$1 billion is promised in FY2002 for unspecified bonuses and special pays, presumably targeted to enhance retention of key personnel. The other elements of the pay and benefits package, including \$400 million for military housing and \$3.9 billion for health benefits, are not new initiatives. Last year the Clinton Administration proposed and Congress approved an ongoing program to reduce differentials between amounts provided to military personnel for on-base and off-base housing – in FY2002, the initiative will cost about \$400 million. The other \$3.9 billion is currently estimated as the cost within the Department of Defense budget of implementing guaranteed health care benefits to over-65 military retirees that Congress provided last year. After FY2002, the cost of those benefits will shift to a separate “mandatory” account financed through a military retiree medical benefits trust fund – but in FY2002, the Defense Department must absorb the costs within its regular the FY2002 “discretionary” accounts.
- ! Plans to reshape military forces inherited from the Cold War, ranging from forces for strategic nuclear deterrence to forces for regional defense:** In several policy statements since taking office, particularly in *A Blueprint for New Beginnings* that the White House issued on February 28, in remarks to troops at Norfolk Naval Air Station on February 13, and, most recently, in a speech at the National Defense University on missile defense policy and the ABM Treaty, the President echoed statements made in several major speeches during the presidential election campaign that appear to portend sweeping changes in the fundamentals of U.S. strategy. In the *Blueprint*, for example, the President said, “The Cold War is over, but to a too great extent the

structure and strategies appropriate to that era of bi-polar, super power stand-off continue to govern our Armed Forces.... Indeed, the last revision to military strategy occurred in the Gulf War period with the introduction of a Regional Defense Strategy as a means to transition to the post-Cold War imperatives. That interim strategy has remained transitional and largely unaltered since its introduction a decade ago.”

- ! **Invest more in R&D and focus on “leap ahead” weaponry:** The *Blueprint* also prescribes a large investment in defense R&D – \$2.6 billion more for R&D in FY2002 and \$20 billion more between FY2002 and FY2006 – and a focus on programs that will “propel America’s Armed Forces generations ahead in military technology.” “In both R&D and acquisitions, [the President] will emphasize programs that offer our Armed Forces information superiority, safety through stealth, and victory achieved less through massed power than superior striking speed, agility and mobility.” Reportedly, up to \$1 billion of the \$2.6 billion for FY2002, is for missile defense programs. And there may be some debate about the size of the R&D increases – it appears that the baseline for measuring the increases is somewhat below the level approved by Congress for FY2001 or the Clinton Administration plan.
- ! **Improve defense efficiency:** The *Blueprint* promises continued efforts to gain efficiencies through competitive sourcing and privatization; greater reliance on commercial products, and additional base realignment and closure. Some commentators have seen the Administration’s decision to select business leaders as secretaries of each of the armed services as evidence that defense efficiency measures will receive particular emphasis in coming years.

Congressional Action on Defense in the Budget Resolution

Congress completed action on the annual congressional budget resolution (HconRes 83) in early May – the House approved a conference agreement on the resolution on May 9, and the Senate approved its version on May 10 – without having full information about Administration defense spending plans. As a result, defense was a matter of considerable debate. The key issue was how to cope with the lack of a specific budget request – for FY2002 and beyond – but still accommodate an increase in defense spending given a widespread willingness in Congress to support additions. See **Table 4** for a complete list of alternative proposals for national defense in budget resolution proposals made on the floor in each House.

House Action on Defense in the Budget Resolution. In its version of the budget resolution, approved on March 28, the House incorporated the Administration’s “placeholder” funding levels for FY2002 through FY2006 and projected them ahead with continued growth for inflation through FY2011. It also approved an increase of \$5.6 billion in its allocation of funds for FY2001 – i.e., the current fiscal year, not the budget year – to the appropriations committee to accommodate supplemental defense appropriations (technically this was implemented by revising allocations under Section 302(a) of the Congressional Budget Act). In addition, the House version allowed the Chairman of the Budget Committee to further increase FY2001 allocations to provide additional emergency supplemental

appropriations for defense, agriculture and other purposes, subject to a limitation that the on-budget Federal surplus for FY2001 must not be reduced below \$29 billion. Finally, for FY2002 through FY2011, the House resolution established a number of “reserve funds” to accommodate increases in spending in for particular programs, including Medicare and agriculture. One of the reserve funds, referred to as a “Strategic Reserve,” allows the Chairman of the Budget Committee to increase the allocation of funds for defense programs, following an amended Administration budget request and reflecting legislation reported before July 11, 2001 – i.e., defense authorization and appropriations measures must be prepared before that date. The House-passed measure also included some defense policy statements concerning personnel issues – see below for a further discussion.

Table 4: Congressional Budget Resolution – National Defense Budget Function Alternatives
(billions of current year dollars)

	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	Total 02-06	Total 02-11
House Progressive Caucus													
Budget Authority	–	258.5	266.0	273.4	280.7	288.2	296.1	304.2	312.6	321.1	330.1	1,366.8	2,930.8
Outlays	–	272.6	267.4	275.3	279.5	282.9	287.9	299.1	307.6	316.1	325.0	1,377.8	2,913.4
House "Blue Dog"													
Budget Authority	317.5	329.1	334.2	345.7	357.2	367.9	--	--	--	--	--	1,734.1	NA
Outlays	301.9	323.5	329.6	338.5	335.4	359.3	--	--	--	--	--	1,686.3	NA
House Republican Study Com.													
Budget Authority	310.3	349.6	362.8	369.8	379.4	390.1	401.0	412.3	423.9	435.8	435.8	1,851.7	3,960.5
Outlays	300.6	344.0	354.4	360.6	374.0	381.9	389.9	404.7	416.4	428.4	428.4	1,814.9	3,882.7
House Democratic Alternative													
Budget Authority	–	327.2	334.3	345.1	356.9	368.7	379.6	390.4	400.0	409.8	420.1	1,732.2	3,732.1
Outlays	–	320.5	325.1	334.6	349.2	358.1	366.4	380.4	391.4	402.0	412.5	1,687.5	3,640.2
Senate Domenici Original													
Budget Authority	310.3	324.7	333.4	342.7	352.3	362.2	372.3	382.8	393.6	404.5	416.3	1,715.3	3,684.7
Outlays	300.6	319.3	325.7	334.2	347.3	354.6	362.0	375.7	386.5	397.6	409.3	1,681.2	3,612.2
House-Passed													
Budget Authority	310.3	324.6	333.3	342.6	352.2	362.1	372.2	382.7	393.5	404.5	416.3	1,714.7	3,684.0
Outlays	300.6	319.3	325.5	334.0	347.2	354.6	361.9	375.6	386.5	397.6	409.2	1,680.6	3,611.5
Senate-Passed													
Budget Authority	310.3	334.5	333.4	342.7	352.3	362.2	372.3	382.8	393.6	404.5	416.3	1,725.1	3,694.6
Outlays	300.6	326.8	325.7	334.2	347.3	354.6	362.0	375.7	386.5	397.6	409.3	1,688.6	3,619.7
Conference Agreement													
Budget Authority	316.9	324.8	333.6	342.3	350.9	359.8	369.0	378.5	388.3	398.3	408.8	1,711.5	3,654.5
Outlays	302.4	319.1	326.6	335.2	347.1	353.5	359.8	372.4	382.2	392.2	402.6	1,681.5	3,590.8

Sources: House alternatives from H.Rept. 107-30; Domenici original from *Congressional Record*, April 2, 2001, pp. S3281-3286; House-passed, Senate-passed, and conference agreement from H.Rept. 107-60.

Senate Action on Defense in the Budget Resolution. On April 6, the Senate approved its version of the annual budget resolution, after several days of debate. On April 3, the Senate debated two amendments to add to the national defense budget function – one by Senators Landrieu and Carnahan to add a total of \$100 billion over the FY2002-2011 period for national defense, to be offset by an equivalent reduction in tax cuts, and a substitute by Senator Warner to add \$8.5 billion to the FY2002 total for specified defense purposes, including defense health shortfalls, Department of Energy defense programs, and defense readiness. The underlying issue concerned how to balance defense increases with tax cuts, deficit

reduction, and goals for spending on other programs over the long term. Democrats generally objected to the budget resolution's lack of specific targets for spending, saying that unrealistic constraints – on defense and other programs – inevitably will be imposed by tax cuts and other measures. In the end, the Senate rejected the Landrieu/Carnahan amendment by a vote of 47-53, and approved the Warner substitute by a vote of 84-16. Later, on April 5, the Senate approved an amendment by Senator Domenici to add \$1 billion to the FY2002 defense function for Department of Energy defense-related environmental programs. The Senate resolution also established two reserve funds for defense personnel related programs – one, offered as an amendment by Senator Reid, to permit concurrent payment of disability benefits and retired pay to disabled military retirees (i.e., to allow recipients of disability pay also to receive retired pay), adding \$2.9 billion in mandatory spending in FY2002 and \$40 billion through FY2011, and a second, offered by Senator Collins, to increase GI bill monthly benefits, costing \$743 billion in FY2002 and \$9.9 billion through FY2011 in mandatory spending.

Conference Agreement on Defense in the Budget Resolution. For FY2001 (i.e., this year's budget, not the FY2002 budget on which Congress is mainly acting), the conference agreement provides a \$6.5 billion increase in the national defense budget function, which presumably would be available to increase the 302(a) allocation to the appropriations committees for supplemental appropriations. This would not rule out additional defense funds provided as emergency appropriations, as well, so total defense supplemental funding for FY2001 could well be substantially higher.

For FY2002, the agreement provides \$324.8 billion in new budget authority for national defense – the requested level as reestimated by the Congressional Budget Office, and not including the Senate additions. To allow for further increases in defense, the resolution uses the mechanism of reserve funds, separately administered in the House and the Senate, to accommodate increased spending in FY2002 and over the whole FY2002-2011 period. Section 217 of the conference agreement establishes a reserve fund in the Senate, which allows the Chairman of the Senate Budget Committee to increase 302(a) allocations to the appropriations committee and to the Armed Services Committee provided, (1) the President submits a budget amendment requesting additional funding for FY2002 in response to the “National Defense Review” and (2) the appropriations committee reports a measure which provides funding for such an amendment. The only limitation directly imposed on the amount of any defense increase is that a point of order will apply against a measure if its cost, taken together with all previously enacted legislation, would reduce the surplus below the surplus in the Medicare Hospital Insurance Trust Fund. This became boilerplate language in provisions regarding each of the reserve funds, though all of the other reserve funds also include specified limits on the amount of additional funding that may be provided.

Section 218 of the conference agreement establishes a more general “Strategic Reserve Fund” in the House, specifying that additional funds may be provided (1) for defense “following the President’s National Defense Review,” (2) for a prescription drug benefit, or (3) “for other appropriate legislation.” The Chairman of the Budget Committee may adjust committee allocations to accommodate specific legislation that exceeds allocations otherwise provided to the committees. In effect, this is an

agreement to increase defense by an unspecified amount when the Rumsfeld review is completed.

Notably, the budget resolution does not include the Senate reserve funds on concurrent receipt of disability and retired pay or increased GI bill benefits (discussed above under Senate action), though it does include a House-approved measure that would require the Secretary of Defense to report within 180 days on the concurrent payments issue and for GAO and CBO to review the costs.

Long-Term Defense Funding: The “Defense Shortfalls” Debate

In recent years, much of the debate about the defense budget has been over the extent of presumed “shortfalls” in long-term funding, particularly for procurement of major weapons. To put the issue in context, in 1990 following the end of the Cold War, the first Bush Administration agreed to long-term reductions in the size of the force, from about 2.1 million active duty troops to about 1.6 million over five years, selective reductions in major weapons purchases, and an attendant reduction of about 25 percent, after adjusting for inflation, in defense spending over the next five years. The budget cuts were reflected in projections for defense spending that were agreed to in the 1990 budget agreement, which covered the years FY1991 through FY1995.

When the Clinton Administration came into office, it adopted a revised defense strategy, articulated in the 1993 Bottom-Up Review, that called for further cuts in the force, to about 1.4 million active duty personnel, some additional weapons cuts (the largest in missile defense), and a reduction in defense spending that initially was projected to total about \$120 billion over the four years from FY1994-97 compared to Bush Administration plans. In fact, over time, virtually all of these initial budget cuts were restored – the Administration first added money back for military pay and benefits increases, then, as inflation projections declined, permitted the Defense Department to preserve the added purchasing power, and repeatedly added more funds for military readiness.¹ Later, the 104th Congress added some money for defense early in its term, and, after surpluses began to appear in the later years of the decade, both the Administration and the Congress agreed to quite substantial increases in defense, despite caps on discretionary spending agreed to in the revised 1997 budget agreement.

Even so, debate about defense shortfalls grew more and more intense over time. The following is a very brief survey of key statements about defense shortfalls in recent years:

- ! As early as February 1995, in congressional testimony on the FY1996 budget, then Secretary of Defense William Perry justified projected defense funding

¹Though, notably, during the Clinton years, substantially more was allocated to operation and maintenance and related readiness accounts and less to weapons procurement than the outgoing Bush Administration had projected.

levels as sufficient to preserve adequate levels of military readiness, but he warned that short-term readiness was being protected at the expense of a decline in long-term investments in new weapons. For the present, he said, this was acceptable, (1) because new weapons ordered in the 1980s were still entering the force in large numbers, and (2) because as the size of the force declined, older weapons were retired earlier, so the average age of equipment in the field was declining even without new acquisition. But Perry described the situation as a “procurement holiday” which would have to end soon, though he put no numbers or time frame on the needed level of funding for new weapons.

- ! Later, in the autumn of 1995, as part of a formal review of long-term DOD budget plans, Chairman of the Joint Chiefs John Shalikashvili also emphasized the need to increase procurement funding. Shalikashvili did provide a number, saying that funding should grow from about \$45 billion for procurement at the time to \$60 billion per year for procurement by about FY1998.
- ! Following the 1997 budget agreement, the 1997 Quadrennial Defense Review assumed that overall defense funding would be frozen for the foreseeable future. The QDR nonetheless argued that more money should be allocated to procurement, largely by reallocating savings from force reductions and from improvements in efficiency. The QDR reaffirmed the \$60 billion procurement target, saying it should be reached in the FY2000 budget.
- ! In September 1998, after some months of growing debate about military readiness, the Joint Chiefs of Staff collectively identified substantial shortfalls in funding in testimony before the Senate Armed Services Committee. The Chiefs expressed particular concern about declines in recruitment and retention of skilled personnel, and all endorsed higher pay raises and the repeal of military retirement rules in effect for personnel who joined the force after 1986. Each of the services also estimated long-term funding shortfalls, mainly for weapons procurement, ranging from about \$1 billion per year over the next several years in the Marine Corps to \$4-6 billion per year in each of the other services.
- ! In February 1999, the Pentagon released a revised FY2000-2005 defense plan that included, officials said, an increase of \$112 billion over six years in total defense purchasing power (including an \$84 billion increase in the defense to-line, and the remainder in retained inflation savings). The Chairman of the Joint Chiefs affirmed that this met the most critical unfunded priorities that the services had identified in the preceding months, which were estimated at about \$150 billion. Later, the military services submitted “unfunded priorities lists” to the congressional defense committees that totaled about \$43 billion over six years. In action on the FY2000 defense bills, Congress agreed to a substantial package of increased pay and personnel benefits.
- ! Most recently, just before leaving office, the Clinton Administration announced that it had again agreed to a long-term increase in defense spending compared to earlier plans. Officials said that increases amounted to about \$53 billion between FY2002 and FY2007 – **Table 3**, above, provides details.

Although Congress has focused very intensely on military pay and benefits in recent years – and has provided some substantial increases – most of the debate about defense shortfalls concerns the pace of weapons procurement. Among defense advocates the debate has focused, not on whether \$60 billion a year for procurement is adequate, but on how much more than \$60 billion a year is needed, and in what years, to “recapitalize” and “modernize” the force. At one extreme is a study released in December 1999 by the Center for Strategic and International Studies (CSIS), entitled *Averting the Defense Train Wreck in the Next Millennium*,² which calculated that procurement budgets would have to average from \$111 to \$164 billion per year (in FY2000 prices) over the next decade to replace the weapons in the current inventory with more advanced versions as systems reach the ends of their planned service lives.

At the other end of the debate, Clinton Administration officials acknowledged that procurement budgets should grow further over time, but, they said, not to nearly the level CSIS postulated. Secretary Cohen and other senior DOD officials argued that their long-term budget plans would raise procurement spending gradually – \$75 billion was planned by FY2005 – and that continued modest increases would suffice in the future. In their view, the key issue was how to deal with a “bow wave” of procurement costs in the later years of the decade – i.e., a significant surge in total procurement costs as a number of weapons now in R&D begin to enter production along with systems already being produced. This “bow wave” will come once new weapons programs, such as the F-22 and Joint Strike Fighter aircraft, the Comanche helicopter, and the DD-21 destroyer, come into full rate production at the same time. Cohen’s judgment was that this could be accommodated by reallocating funds to procurement without large increases in overall defense spending.

Later last year, the Congressional Budget Office released a study that reflects something of a middle ground.³ Much like the CSIS study, CBO’s analysis is based on what it calls a “steady-state” analysis of the defense budget – i.e., the amount needed over the long term to maintain a force of the current size and composition. For procurement, a “steady state” level of funding would be roughly sufficient to replace the existing stock of weapons as they reach the ends of their normal service lives. CBO estimated that a “steady state” budget over the next 15 years would have to average about \$340 billion a year, in FY2000 prices (i.e., about \$50 billion above the FY2000 level then anticipated), of which, about \$90 billion a year would be for procurement. This is considerably less than CSIS estimates.

The large gap between CSIS and CBO point out how dramatically minor differences in assumptions can lead to vastly different estimates when projected over a long term. Both studies are based on a similar analysis of procurement requirements

²Daniel Goure and Jeffrey M. Ranney, *Averting the Defense Train Wreck in the New Millennium* (Washington: CSIS, 1999). The CSIS study was the subject of a hearing before the House Armed Services Committee on February 8, 2000, and prepared remarks are available at the Committee website: [<http://www.house.gov/hasc/schedules/2000.html>].

³Congressional Budget Office, *Budgeting for Defense: Maintaining Today’s Forces*, September 2000. Available electronically at [<http://www.cbo.gov/showdoc.cfm?index=2398&sequence=0&from=7>].

– each assumes that current generation weapons will be replaced on a one-for-one basis as they reach a certain age. This, in turn, implies an average annual rate of production of new weapons to maintain the given size of the force. For Navy ships, for example, if one assumes an average service life of 35 years, to maintain a fleet of 300 ships would require 8.7 new ships a year. CBO did not assume that nuclear weapons and some other systems would all be replaced, however, was somewhat more sanguine about weapons cost growth than CSIS, and relaxed its assumptions somewhat to acknowledge that weapons are now commonly being kept in service longer than initially planned. For its part, CSIS acknowledged that \$111 billion per year for procurement would suffice, according to its calculations, rather than \$164 billion per year, if strategic nuclear weapons programs were taken out of the equation.

Now the Bush Administration has inherited this unresolved debate. For their part, many Members of Congress who serve on the defense committees hope to see enough of an increase in defense spending to accommodate production of weapons programs pretty much as the services have planned.⁴ This would imply substantial and sustained increases in the defense budget over the next several years. For its part, however, the Bush Administration continues to study the issue, with several Pentagon panels reviewing major weapons issues, but with no significant public discussion of conclusions.

FY2001 Supplemental Appropriations

In recent years, supplemental appropriations for defense programs have commonly been used not only to meet unplanned requirements, such as the costs of military operations in Yugoslavia in FY1999 and 2000, but also as a means of adding money to the defense budget, particularly for military readiness, without technically violating caps on spending established by the 1997 budget agreement. The FY1999 supplemental appropriations bill for Kosovo, for example, (P.L. 106-31, H.R. 1141), provided over \$5.8 billion of unrequested funds (out of \$12 billion for defense in all), including \$1.8 billion for military pay and benefits increases beginning in FY2000.

Early this year, some defense supporters in Congress clearly expected that the incoming Bush Administration would propose supplemental appropriations for FY2001 as an immediate means of bolstering defense. Expectations rose further when each of the military services began to report significant shortfalls in the FY2001 budget, ranging from growing unfunded medical costs in all the services, to spare parts shortages in the Army and Air Force, to unexpected growth in shipbuilding costs in the Navy. In January, the services provided briefings and extensive backup material to Congress supporting supplemental appropriations of almost \$8 billion, not including military personnel and health care costs. Bush Administration officials, however, pointedly decided not to request an early supplemental appropriations bill, saying that funding requirements for FY2001, along with later budgets needs, would be addressed following the planned review of military strategy.

⁴This view was reflected, for example, in a hearing on “Defense Transformation” held by the Subcommittee on Military Procurement of the House Armed Services Committee on March 28, 2001.

The Administration's reluctance to support an early supplemental prompted considerable debate in Congress. In February, Senate Armed Services Committee Chairman Warner, wrote a letter to the White House supporting the decision to pursue a strategy review before asking for a large increase in defense spending, but he also urged an immediate supplemental request, amounting to about \$3.9 billion, for specific, short-term needs. Subsequently, several leading pro-defense Democrats, including Rep. Dicks and Rep. Skelton, strongly urged immediate action on a larger supplemental and submitted a measure providing \$6.7 billion, including funds for a pay raise in FY2001. Finally, during debate on the congressional budget resolution, Sen. Warner and others again urged action on a defense supplemental. The conference agreement on the budget resolution specifically sets aside about \$6.5 billion in available FY2001 funds for defense supplemental appropriations, though more may be provided if it is approved as emergency appropriations.

Within Congress, this year's debate about whether and when to bring up a defense supplemental appropriations bill is, to a degree at least, embroiled in a much broader debate about controls over spending. In this case, the White House appears to be taking the side of Members of Congress who want to enforce strict limits on spending, including limits of some kind on emergency appropriations bills even for defense. On the other side are legislators, particularly many appropriators, and more particularly many pro-defense appropriators, who do not think restrictions on emergency appropriations in general, and on defense emergency appropriations in particular, are advisable. This is not a new issue. On the contrary, the use of emergency supplemental appropriations was repeatedly an issue in the 104th and 105th Congresses. Many legislators argued that emergency appropriations should be limited because they added to the deficit or, more recently, "spent" part of the surplus generated by Social Security. Annual debates about supplemental appropriations bills raise a number of Issues – whether to find sufficient rescissions to offset supplemental funding for all supplemental funding or only for some, whether non-defense rescissions should be used to offset supplemental defense funding, and whether defense should be exempt from offsets while other emergency spending should not.⁵ In the end, as Federal budget surpluses grew, pressures to limit supplemental funding eased. Now, with a Republican Congress and a Republican President, these questions appear to be back on the agenda.

Defense Transformation

Defense policy was a major issue in last year's presidential election, and, in retrospect, the Bush campaign laid out how a Bush Administration would approach defense issues in some detail very early in the campaign. It was, nonetheless, something of a surprise to many observers when the Administration announced plans for a sweeping review of military strategy before making any significant decisions on the defense budget. Moreover, as the scope of the review became apparent, analysts

⁵For a full review of the debate over supplemental appropriations for defense from FY1995 through FY1999, see Stephen Daggett, "Emergency Appropriations for the Department of Defense: Congressional General Distribution Memo", August 18 1998, 28 p. Available to congressional offices by request from the author.

began to look much more closely at precisely what Governor Bush had said about defense policy during the campaign. As it turns out, Bush Administration procedures and policy proposals have so far followed very closely the outlines of a major speech on defense policy made at the Citadel on September 23, 1999 – and it remains a matter of intense interest to see how closely future policy decisions made in the review will adhere to some fairly dramatic statements in that and other campaign speeches.

Some excerpts from the Citadel speech illustrate why the defense review has roiled the waters. Key passages from the speech include –

Recently, after years of neglect, a significant pay raise was finally passed. My first budget will go further – adding a billion dollars in salary increases. We also will provide targeted bonuses for those with special skills. Two-thirds of military family housing units are now substandard, and they must be renovated. And we must improve the quality of training at our bases and national training centers.

At the earliest possible date, my administration will deploy anti-ballistic missile systems, both theater and national, to guard against attack and blackmail. To make this possible, we will offer Russia the necessary amendments to the anti-ballistic missile treaty – an artifact of Cold War confrontation.... If Russia refuses the changes we propose, we will give prompt notice, under the provisions of the treaty, that we can no longer be a party to it.

As president, I will begin an immediate, comprehensive review of our military... We will modernize some existing weapons and equipment, necessary for current tasks. But our relative peace allows us to do this selectively. The real goal is to move beyond marginal improvements – to replace existing programs with new technologies and strategies. To use this window of opportunity to skip a generation of technology. This will require spending more – and spending more wisely.

When our comprehensive review is complete, I will expect the military's budget priorities to match our strategic vision – not the particular visions of the services, but a joint vision for change. I will earmark at least 20 percent of the procurement budget for acquisition programs that propel America generations ahead in military technology. And I will direct the Secretary of Defense to allocate these funds to the services that prove most effective in developing new programs that do so. I intend to force new thinking and hard choices.

The transformation of our military will require a new and greater emphasis on research and development. So I will also commit an additional \$20 billion to defense R&D between the time I take office and 2006.

To date, the Administration has (1) undertaken the strategic review promised in the Citadel speech, (2) formally announced a larger pay raise as mentioned in the speech, (3) announced its decision to proceed with a national missile defense system and to restructure or renounce the ABM Treaty, and (4) emphasized in its budget presentations that additional funding is, as promised, being allocated to R&D.

Some obvious questions follow:

- ! How selective will the Defense Department be in choosing which weapons to modernize?
- ! Which, if any, weapons programs now being planned represent only “marginal improvements” in existing systems and which represent “programs that propel America generations ahead”?
- ! What does it mean to “skip a generation of technology”?
- ! How are current visions of any of the military services at odds with a joint vision for change?
- ! When will 20 percent of the procurement budget be allocated to leap ahead technology?
- ! Will the budget shares of the military services change substantially in years ahead, and if so, who will gain and who will lose?

Whether the defense review will answer all these difficult questions definitively remains to be seen – but even posing the questions has understandably left many interested parties in Congress and in defense industry nervous about the outcome.

In practice, it may be some time before major weapons issues – which have been the focus of the most intense speculation – are decided. In the meantime, the Administration is now beginning the process of reporting on the results of the defense review. On May 25, President Bush is scheduled to deliver the commencement address at the U.S. Naval Academy. This address is billed as a major statement of Administration policy, in which the President will describe, in at least broad terms, the outcome of the review of defense strategy that Secretary Rumsfeld has been overseeing since January.

What, exactly, the President will say about defense strategy has been a matter of extensive speculation. Over the past few weeks, it has been widely reported

- ! that the review will call for a shift in the focus of U.S. strategy toward the Pacific;
- ! that the review is looking closely at “forward presence” requirements, particularly for the Navy, and might reduce estimates of the number of aircraft carriers and perhaps other ships needed for presence missions;
- ! that large deck aircraft carriers in particular are likely to be reduced because of concerns about their vulnerability in the future;
- ! that the Navy’s argument about the survivability and value of large deck aircraft carriers now appears to have carried the day, and the number of carriers will not be reduced;
- ! most recently, that the defense review will formally abandon the two major theater war (2MTW) requirement that has been a key factor in determining the size and composition of the force since the early 1990s; and
- ! that the shift toward Asia and the demise of the 2MTW requirement may lead to reductions in the size of the Army.

The Administration has held very tight reins over the strategy review, however, and no senior officials have openly hinted at the decisions being made on these and other far-reaching issues.

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