

Armaments Budget

The pretexts for cuts in military outlays

by Peter Rush

Mammoth cost-overruns, misestimations of inflation, and a growing clamor to subject the defense budget to the same fiscal ax hitting every other federal program, are being employed to blow apart the defense buildup originally projected by the Reagan administration. Unless legislative leaders take some extraordinary steps they presently show no sign of envisaging, there will in fact be no defense buildup, congressional euphoria over the prospect of finally reversing the Carter era military decline notwithstanding.

The Defense Authorization Bill (H.R. 3519) presently before the House of Representatives is laced with fantasy assumptions about both future inflation and future costs of programs mandated in 1982. Passage of the bill in its current form would ensure that within a year the administration will either have to request very large supplemental appropriations or accept deep defense cutbacks. Under the former course, President Reagan will have to

either compensate for the spending increments by further gouging programs like Social Security, or scrap his timetable for balancing the budget. The second course will render chimerical his minimal program to redress the nation's military decline.

David Stockman's OMB, having imposed fraudulent inflation estimates in the first place, admits that Stockman will oppose any net increases in the defense appropriation, forcing deep cuts in the actual weapons and materiel to be acquired. Moreover, since pay increases and operations and maintenance increases cannot be slashed, the brunt of the cuts will fall on weapons procurement. In the current FY 1982 budget request, procurement is slated for a \$17 billion increase—most of which could disappear based on the factors cited above!

The overrun question

A July 12 *Washington Post* article opened the field for a general assault on the defense budget. The *Post* leaked a secret Pentagon memo circulated only to the Office of Management and Budget (and apparently not ever seen by the White House), which asserted that the weapons systems ordered in fiscal 1982 will require that at least \$6 billion more be spent in 1983 than currently outlined in DOD projections to Congress. Deputy Defense Secretary Frank Carlucci confirmed that the overrun could run up to \$10 billion.

Looking beyond 1983, the Pentagon memo stated that the planned 7 percent real increase in defense spending for each year between 1983 and 1987 might

Figure 1

Inflation in defense procurement costs

	Change from previous year 1979	Change from previous year 1980	Change from previous quarter 1st quarter 1981	Change from previous FY FY81	Change from previous FY FY82
GNP Deflator¹	8.5%	9.0%	9.8%		
Coopers & Lybrand²					
Adjusted aircraft	10.0%	14.9%			
Unadjusted aircraft ³	11.9%	17.6%			
All systems ⁴	7.8%	15.0%			
Materials	9.9%	19.2%			
Bureau of Economic Analysis					
All defense, less personnel compensation		14.0%	10.0%		
Above, less petroleum		9.9%	12.0%		
Office of Management & Budget					
Projections				9.7%	8.7%

1. GNP Deflator is deflator used for government purchases of goods and services, excludes housing and some other consumer-only indices that push the Consumer Price Index way above this measure.

2. Coopers & Lybrand study, done for the Defense Department in fall 1980, compared cost increases for five selected aircraft systems, and

some other systems; not a comprehensive study.

3. Unadjusted, raw figures are adjusted to factor out increased costs due to improved technology and factors other than pure inflation.

4. Includes five aircraft and some other systems.

have to be upped to 9 percent to accommodate the costs of the programs envisioned. The *Post* declined to spell out the budgetary implications beyond 1983, but by 1986, a 9 percent annual real increase in defense spending would cost an additional \$40-\$50 billion—all of it to come from further cuts in other programs, or be added to the deficit.

The *Post* article also revealed the next step of the anti-defense budget campaign: it reported that “other administration executives” are “zeroing in” on the defense budget, calling for the DOD immunity from cuts to be lifted.

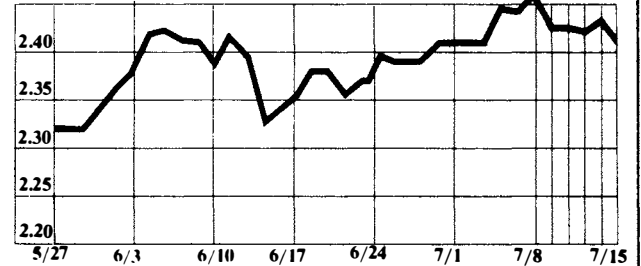
The second element of the picture is the Office of Management and Budget’s sabotage of the Pentagon’s—and the Congress’s—ability to estimate inflation costs in their budget. Despite prolonged criticism of the Carter OMB’s perennial acute underestimation of actual inflation costs for defense programs, David Stockman’s group has taken the last inflation estimate of the previous administration, an absurdly low 9.7 percent (actual inflation ran between 12 and 15 percent), and *dropped* it a point, to 8.7 percent, for fiscal year 1983, and to 5.3 percent by 1986. The Department of Defense is obliged to use the OMB figure, despite the universal recognition that it bears no relation to actual costs. For every point inflation moves above the OMB’s estimate, the defense budget will rise by over \$2 billion. In 1980, according to the report of the House Armed Services Committee, citing Congressional Budget Office figures, defense inflation was 14.9 percent, compared to 9.7 percent OMB allowance. Exclusive of salaries and petroleum, military expenditures rose from 9.7 percent in fiscal 1980 to 12 percent in the first quarter of 1981. Thus, by the most conservative estimates, inflation looks to be 3 to 4 points above OMB’s, or \$8 to \$9 billion dollars in fiscal 1983, beyond the \$6 to \$10 billion admitted by Carlucci and the Pentagon.

Moreover, the historical costs as above have risen further for purchases being ordered now. In January 1981, a panel of defense industry specialists reported to the Defense Science Board on the astounding rates of inflation for selected components of some leading weapons systems, with increases ranging from 50 percent to 150 percent for most items. While subsequent studies showed these rates to be unrepresentative of the industry as a whole, the accuracy was not questioned; and they demonstrate the volatility of many items in the defense procurement pipeline. A more detailed study issued the same month by Coopers & Lybrand, a large accounting firm, showed increases in aircraft procurement costs of 14.9 percent in 1980, compared to 10.0 percent in 1979, and costs of materials leaping from 9.9 percent to 19.2 percent in one year. These cost increases will only demonstrate their full effect at the end of fiscal 1981, and in 1982.

Currency Rates

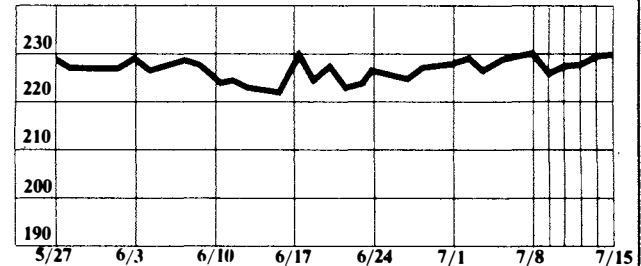
The dollar in deutschemarks

New York late afternoon fixing



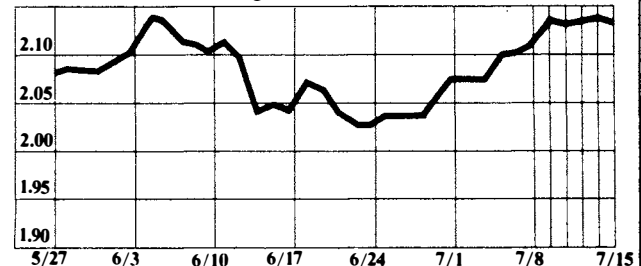
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing

