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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

March 24, 1995

MEMORANDUM FOR LEON PANETTA
TONY LAKE
MIKE MCCURRY
GEORGE STEPHANOPOULOS ✓
MARK GEARAN
JANE WALES

FROM: Alice M. Rivlin *AMR*
SUBJECT: The Defense Message

I am increasingly concerned about the way we, as an Administration, are defining and justifying the President's defense budget. The problem is one of providing the right message to the Congress on our defense posture and program. That message should be more than just a defense of our level of readiness and readiness-related spending. It should be a positive message, which definitively and aggressively addresses the President's defense accomplishments as well as his commitment to retaining a capable force which is well-funded.

I fear that by appearing defensive, we are not only undercutting our very real accomplishments, but are also playing into the hands of those who argue we have been poor stewards of the nation's defense.

Attached is a paper prepared by OMB staff entitled "Taking the Offense on Defense" which focuses on this issue. It provides a variety of talking points related to the Administration's record on the defense program and budget. Topics include force readiness, adequacy of Bottom-Up Review funding and investment programs, and management of the defense build-down. It also responds to recent assertions by the Congress and the public that the defense budget needs to be increased to avoid deterioration of U.S. military forces and capabilities.

We need to think about the facts concerning the Administration's defense program (as provided in the paper), and our strategy in getting the good news out. I would like to meet with you soon to discuss this further.

Attachment

March 17, 1995

TAKING THE OFFENSE ON DEFENSE

1. We have fulfilled our campaign promise and the commitment we made repeatedly over the first two years of the Administration: we have maintained the most capable, most ready, best funded, most flexible military in the world. Our armed forces are an essential ingredient of our national security strategy, providing the muscle behind our diplomatic leadership. No other country maintains a military force even remotely comparable; the United States is the only country with a truly global military capability.

- No nation invests as much in its people in uniform as America does -- to train its soldiers, sailors, airmen and marines across a wide range of military skills;
- No nation equips its forces with systems and weapons as technologically advanced and as well-maintained as America does -- across a wide range of military missions;
- No nation even comes close to providing its forces the foundation capabilities of logistical, mobility and intelligence support that America does;
- Even in terms of sheer force size, the U.S. maintains the third largest active-duty military in the world -- after China and Russia.

As a result of these combat and support capabilities, America is the only truly global military power in the world today. We can project our power at great distances -- with high levels of confidence in accomplishing the missions we undertake. These capabilities will save American lives when our forces are committed to combat.

Our fiscal support for this force is equally unparalleled. To put our defense budget in perspective, U.S. defense spending of about \$260 billion per year is roughly twenty-five times the combined annual defense expenditures of Iran, Iraq and North Korea. At roughly \$260 billion per year, our defense budget is more than three times larger than Russia's and nearly nine times larger than China's.

2. **Our armed forces are more ready than ever, thanks to our commitment to readiness as a defense priority. That readiness has been amply demonstrated over the past two years in our successful deployments in Haiti, Rwanda, the Gulf and the Adriatic. In contrast to prevalent rhetoric on the Hill, this is not a military on the verge of being "hollow"; there is no systemic readiness problem.**

According to JCS data, overall readiness levels in 1994 were higher than they were in 1985, at the height of the Reagan defense build-up.

None of the many recent readiness panels and studies, has identified a significant readiness problem in the Armed Forces. In fact, as reported in Aviation Week, a member of General Meyer's Readiness Task Force said that "What we call an acceptable level of readiness today would in the 1970's have been regarded as unattainably pie-in-the-sky." Other readiness panels, including the Senior Readiness Oversight Council co-chaired by the Deputy Secretary and the Vice Chairman of the Joint Chiefs, continue to find readiness levels acceptable. To date, studies on readiness remain positive, including a 1994 CBO study, based on DoD data, which notes that "readiness of deployable units is high now relative to historical levels" and that "mission capable rates for Army tanks and Air Force aircraft were higher than they had been over the past ten years. Navy and Marine Corps aircraft were also near their decade highs." According to Army data, in the 1980s Army divisions (including two of the three divisions receiving low readiness ratings in the fall of 1994) received low ratings for a variety of reasons -- including training and equipment problems. There are no longer any major equipment problems. The training problems which were the cause of low readiness ratings for the three Army divisions in September 1994 were transitory. Two of these divisions are to be deactivated, and, according to the Army Chief of Staff, the third is to be returned to a high level of readiness in April 1995.

We have funded readiness as a priority. Readiness is most closely associated with funding for operations and maintenance (O&M) accounts within DOD's budget. On that score, as reflected in the President's recent \$25 billion readiness-related Defense Funding Initiative as well as budgeted levels for O&M accounts, this Administration has continued to provide priority funding for readiness-related activities. In fact, the Administration has protected O&M funding during the post-Cold War drawdown. Between 1989-1995, active duty personnel will have declined about 30 percent, while O&M funding will have decreased less than 10 percent in real, inflation-adjusted terms. O&M funding per active and reserve duty troop is higher in 1995 than it was in 1985.

Fundamentally, readiness means the ability of the Armed Forces to deploy quickly and perform their missions. Against this measure, our Armed Forces have excelled. In Rwanda, Haiti, and the recent deployments to the Gulf and Bosnia, U.S. active and reserve forces have performed magnificently. No country in history has been able to project such force, over such great distances in so little time. These accomplishments prove the high level of readiness of today's force. In contrast, the uneven performance of our military forces during the 1983 invasion of Grenada, nearly three years into the Reagan defense build-up, showed that funding is not the sole determinant of readiness.

3. Our defense budgets provide sufficient funding to support our national military strategy, as defined in the Bottom-Up Review.

The FY 1996-2001 Future Year's Defense Program (FYDP) fully supports the strategy, force structure, and other essentials needed to secure America's world-wide interests. The President's budget fully funds the FYDP. The FY 1996 defense budget and FYDP reflect the Department's thorough, year-long assessment and revalidation of defense strategy, force structure, priorities and programs. This Administration's defense budget meets U.S. national security needs by supporting a strong military capability at high levels of readiness. It contains the military forces and resources required to meet the challenges of the Post-Cold War era as well as adequate funding for necessary modernization and development programs.

The Clinton defense plan provides for an overwhelming military capability against regional powers such as Iran, Iraq and North Korea. Together these three countries spend about \$10 to \$11 billion per year on military capabilities. To be able to mount successful military operations anywhere on the globe, the U.S. spends about \$260 billion for defense, a level that dwarfs those of our potential adversaries. As insurance, the Administration's defense program provides the capability to prevail in conflict with two such regional powers nearly simultaneously. In addition, allies of the United States also have major military forces that are likely to augment U.S. forces in regional crises.

There have been allegations that the BUR is not adequately funded. In 1994 the General Accounting Office suggested there might be a \$150 billion shortfall in our defense budgets over the next five years; later that year, the Congressional Budget Office suggested a shortfall of \$65 billion. Both of these reports are misleading, incorrect and out-of-date. Careful estimates of inflation and pay render much of their assertions moot. A careful examination of hardware modernization, base closure and environmental cleanup costs, which both reports suggest were

underestimated, indicates they are incorrect. The Administration's own estimates in FY 1994 indicated that there might be a budget gap over the five-year plan in the range of \$26-40 billion because of higher-than-requested pay raises and higher-than-budgeted inflation. The Administration has closed this gap entirely as a result of: our recently announced \$25 billion defense funding increase; savings of \$12 billion in weapons program adjustments and other reductions made during the DOD budget review; and favorable economic conditions that have lowered the costs of future inflation by \$12 billion.

4. **This Administration has responded quickly, and fully, to new defense requirements, as they have been identified. While we are accused of cutting defense, we have actually increased our initial defense budget plan three times in the past two years. In addition, we have requested four, and have received three, defense budget supplementals specifically targeted at readiness and contingency operations costs.**

The Administration laid out a defense plan in the Spring of 1993 which continued the defense build-down begun under the Bush Administration. Our review of defense needs projected a force slightly smaller than that laid out in the Bush years, and our budget plan fully funded that force, providing only 9 percent fewer dollars over five years than the budgets projected by the Bush budgets.

Since submission of the 1994 President's budget in March 1993, we have increased the DOD budget three times, in response to clear needs, in order to ensure our armed forces have the funds they need to carry out their missions.

The first increase of \$13 billion, was made in 1993 to cover management reform funding shortfalls in the 1993-1998 budget inherited from the prior Administration; the second, \$11.4 billion, was made to cover the costs of the unplanned 1994 pay raise passed by the Congress.

The third increase was reflected in the President's Defense Funding Initiative announced on December 1, 1994. This initiative provides an additional increase of \$25 billion to the defense program over the next six years.

These increases will ensure that the defense budget provides the resources necessary to protect the near and long-term readiness of U.S. military forces. These funds will ensure that the readiness of our armed forces remains high, the full military pay raise authorized under current law is supported, the quality of life of military personnel is improved, the forces specified in the Bottom-Up Review are maintained, and that the forces are provided with modern equipment.

In addition, a proposed supplemental appropriation of \$2.6 billion for 1995 has been requested to pay for the important and successful contingency operations our military forces have conducted during the past year. The supplemental is being requested to protect readiness.

Three other supplemental requests were made by the Administration in the past two years:

- \$1.3 billion on July 2, 1993 mainly for Operation Restore Hope in Somalia and enforcement of the Iraqi no fly zone.
- \$1.2 billion in February 1994, primarily for operations in Somalia, Bosnia and Southwest Asia; and
- \$270 million on September 30, 1994 for humanitarian efforts in Rwanda and processing refugees from Cuba.

5. **When Dick Cheney was Secretary of Defense, he urged that the defense build-down be done "smart", in contrast to previous build-downs (post-Korea, post-Vietnam). We have fulfilled that requirement, carrying out the most successful defense build-down in American history. Responsive to post-Cold War requirements, forces and civilian personnel have shrunk, but with a minimum of turbulence and the maintenance of a high quality force. As our deployments show, we have a "lean and mean" capability today, as promised.**

The current Defense drawdown is the most gradual, least disruptive and most effective drawdown in recent history. To put the current drawdown in perspective:

- During 1994, DoD reduced its active military and civilian personnel by 108,000 from 2.6 million to 2.5 million -- about 9,000 per month. (The peak in the drawdown occurred during 1992 -- averaging 20,000 per month.)
- After Vietnam, DoD removed 527,000 active military and civilian personnel from its rolls during 1971, averaging 44,000 per month.
- After Korea DoD reduced its active military and civilian personnel by 480,000 during 1954, or about 40,000 per month.

The success of the current defense reductions can be attributed directly to the commitment by this Administration to continue and dramatically expand upon the drawdown initiatives begun in the late 1980s. According to DoD data, between 1992 and 1996, the Department will have spent over \$13 billion in

separation incentives and transition assistance to downsize both its civilian and military force.

The use of these force management tools has allowed DoD to almost completely avoid involuntary separations, while at the same time improving the quality of the force. For example, since the drawdown began in the last part of the 1980s:

- Enlisted personnel with high school diplomas who scored in the upper Mental Categories rose from 56 to 64 percent,
- Those in the lowest Mental Category (IV) dropped from 11 to 6 percent, and
- FY 1994 was the third most successful recruiting year in history. Around 96 percent of recruits had high school diplomas and 72 scored in the upper mental categories.

Excellent management of this drawdown has also improved skill levels of the force, as measured by experience levels. This is a large part of the reason that today's Armed Forces are the best trained and most effective force in history.

6. We have underway the hardware modernization programs which will ensure that our forces retain the high technology edge they have today well into the next century. No potential adversary matches our technology; none will, thanks to our continuing technology investment.

The extensive modernization of the 1980s has completed procurement of a whole generation of systems. The next generation is now completing development. Until such systems as the F/A-18E/F, the F-22 and the V-22 are ready for procurement, procurement funding will be less than the levels of the Reagan build-up. We do not want to buy old-design systems that will become obsolete before the end of their service lives.

Our R&D plan is well-funded. At \$35 billion, our R&D investment is higher than anyone's around the globe and more than most potential adversaries' entire defense budgets combined. In comparison with 1983, the mid year of the Reagan defense build-up, R&D is up about 6% in real terms -- reflecting development of the next generation of weapon systems that will enter procurement near the end of the decade.

We, for example, are the only nation to field stealth technology, and we are fielding the second generation of stealth aircraft in the B-2 bomber. Another stealthy aircraft, the F-22, is completing development.

Perhaps most important, our ability to gather, process and act on large volumes of information from the battlefield is unmatched. With procurement of the Joint STARS surveillance aircraft and other sensors, we will expand our lead in capabilities to dominate the information war on the battlefield.

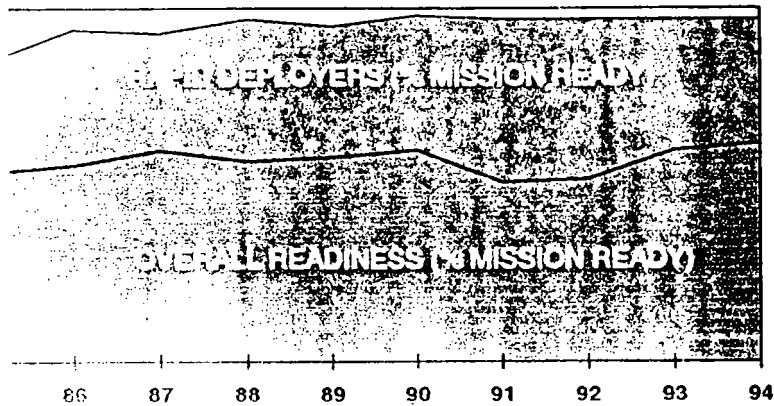
In addition to these capabilities, we have the world's most extensive foreign intelligence program to focus U.S. military power. Such intelligence provides early warning of crises that could involve U.S. forces, points out weaknesses of foreign forces and equipment and gives our precision weapons high accuracy through mapping and geodesy.

7. We continue a strong commitment to Ballistic Missile Defense, focused especially on the near-term threat we and our allies face from tactical ballistic missiles.

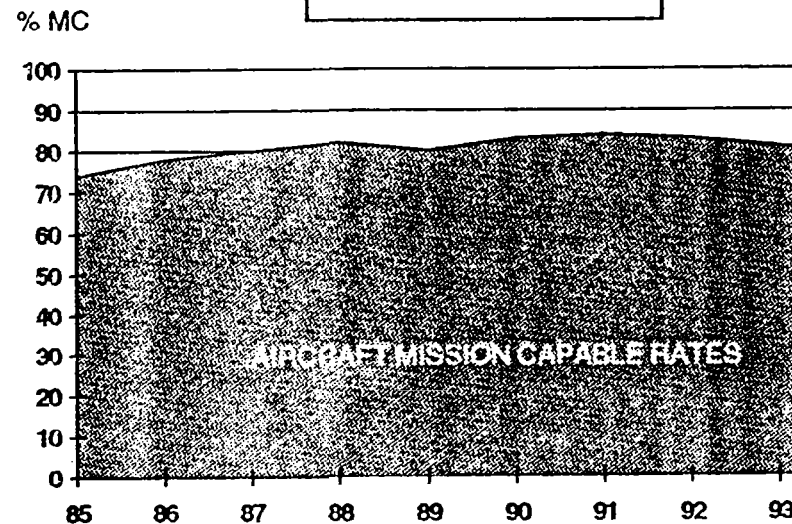
The Administration's program for ballistic-missile defense puts first things first. The most pressing threat comes from tactical ballistic missiles that are the focus of the defensive systems in development and nearing deployment. In fact, three different defensive systems -- that provide multiple layers of defense -- are to be fielded between 1998 and 2002. Funding for ballistic-missile defense also supports a national missile defense readiness program. This program provides the foundation to deploy a national missile defense for protection of the continental U.S., should an unexpected threat emerge. Defenses could be deployed in three to five years from a decision to do so. This program is a significant effort. For FY 1995, it is funded at nearly \$400 million.

Readiness Trends

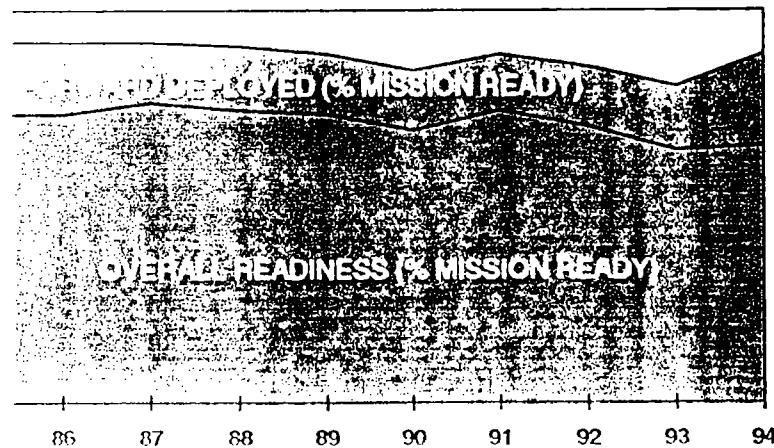
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