THE DEFENSE MONITOR

The Center for Defense Information supports a strong defense but opposes excessive expenditures for weapons and policies that increase the danger of nuclear war. It believes that strong social, economic and political structures contribute equally to national security and are essential to the strength and welfare of our country.

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TAKING STOCK: THE U.S. MILITARY BUILDUP

Defense Monitor In Brief

- This *Defense Monitor* evaluates the U.S. military buildup and projects future trends if current programs are continued.
- The military request for 1985 at about $300 Billion is the largest in the history of the nation. A level budget of $278 Billion is more than adequate for a strong defense.
- Military budgets for 1982-89 will provide $2.6 Trillion in eight years for the military. By comparison, in the preceding 35 years the U.S. spent $2.3 Trillion on the military.
- Rising military spending contributes significantly to the deficits.
- Costly new weapons are consuming more and more of the budget while the funds to operate them are not keeping pace.
- The military's share of the federal spending is rising while other programs' share is decreasing.
- Pentagon waste, fraud and abuse are not occasional aberrations, but are rooted in the very way the Department of Defense does business.
- For the first time in 15 years the U.S. and the Soviet Union are not engaged in arms control negotiations. The future could bring dismantling of present treaties and an unrestrained arms race.

Military Spending and The Economy

The military budget for 1985 at about $300 Billion is the largest in the history of the nation. This *Defense Monitor* examines a variety of issues which are at the center of the current debate between those who seek "Peace through Military Strength" and those who advocate measures to restrain the present global arms buildup.

For the first time the Pentagon has proposed military spending levels during peacetime greater than those at the height of the Korean or Vietnam Wars. The last three military budgets (1982-84) total $730 Billion and the Pentagon has proposed $1.9 Trillion more for the next five years. Thus, current budget plans for 1982-89 would provide $2.6 Trillion for the military. By comparison, the U.S. spent $2.3 Trillion from 1946-81, a period of 35 years which includes Korea and Vietnam. Actual expenditures could be even higher. The General Accounting Office (GAO) has found that the Pentagon's present five year plan is understated by at least $173 Billion and at most $324 Billion.

The military budget request for Fiscal Year (FY) 1985 is $313 Billion. This works out to $860 million a day, $36 million an hour, $596,000 a minute, almost $10,000 a second. This budget is 18% higher than last year's and represents a 72% rise since 1981.

One of the fastest growing portions of the budget is the Department of Energy (DOE) funding for the design, testing and production of nuclear weapons. Up over 16% from last year and 114% since 1981 (from $3.6 Billion to $7.8 Billon) these huge budgets, the Administration says, are required to fulfill plans to build 17,000 nuclear weapons in the coming decade. The next five years call for DOE to receive $44.7 Billion to design, test and produce nuclear weapons.

Exaggerating U.S. Weakness

The Secretary of Defense's *Annual Report to the Congress* is supposed to define overall military goals and strategies and show how they are being fulfilled, but the FY85 report continues the trend established by the previous two by supplying less and less information to Congress and the American people. Two central impressions are apparently meant to be left in the reader's mind. The first is that the new Administration arrived in office just in the nick of time. Our strength had been seriously weakened—we were in grave danger. Everything was wrong when they arrived: "readiness has seriously eroded;" "morale was dangerously low;" there was "a major shortfall in weapons and equipment;" "dangerous obsolescence threatened all three legs of our strategic triad."

The second intended impression is of the Soviet Union as the implacable enemy. This graphic yet simplistic picture is a constant staple of American politics. Certain political figures like to cast themselves as hard-nosed realists and their critics as naive and soft headed appeasers. They translate every complex political/social/

ESTIMATING THE DEFICIT

	FY84	FY85	FY86	FY87	FY88	FY89	TOTAL
Official projection	$184	180	177	180	152	123	997
CBO	$190	195	217	248	282	326	1458
Jt. Econ. Comm.	$183	209	231	267	282	306	1478

(in $ Billions) Chart prepared by CDI

These staggering deficits have major effects on the economy at large. The President came to office promising to balance the budget. Instead, more debt will accumulate now than was incurred from George Washington to Jimmy Carter. Under very optimistic official assumptions the combined deficit from 1984-89 alone will total $997 Billion. A study by Congress's Joint Economic Committee says that these projections are based on assumptions that have no "empirical or theoretical foundation" and that the methodology is "specious." They predict that if no serious action is taken the U.S. national debt will double to $2.85 Trillion by the end of the decade. The Congressional Budget Office (CBO) concurs in this estimate. Deficit estimates are compared above.

A Level Military Budget to Reduce Deficits

There is controversy over what causes the deficit but many believe—among them Martin Feldstein, the President's Economic Adviser—that the Pentagon budget plays a major part. Some officials repeatedly claim that skyrocketing Social Security and Medicare costs are a major reason, but beginning in 1985 these programs will pay for themselves and even produce surpluses totalling $125 Billion over the next five years. Far from contributing to deficits, the projected surpluses are used by the Administration to make the deficits look smaller than they really will be.

Whereas it was once believed that military spending had positive effects on the economy there is growing evidence that its influence is negative. Military spending, for instance, is not a very efficient generator of jobs. Per Billion dollars spent it generates about 25-28,000 jobs while the same amount spent for more useful social purposes, such as building highways, could create up to twice as many.

The government's three year $144 Billion "deficit-reduction package" proposed in March is too weak to stem the flood of red ink with all of its deleterious economic consequences.

A more effective strategy is to freeze military spending at its 1984 level, plus inflation. This would mean a budget of $277.8 Billion in 1985, saving $35.5 Billion. The chart below shows the savings that would result from a level budget strategy for the next five years.

SAVINGS FROM A LEVEL MILITARY BUDGET ($ in Billions)

Year	Defense Department Plan	Inflation Rate	Level Budget	Saving
1985	$ 313.3	4.7%	$ 277.8	$ 35.5
1986	$ 359.0	5.3%	$ 292.5	$ 66.5
1987	$ 389.1	5.0%	$ 307.1	$ 82.0
1988	$ 421.6	4.7%	$ 321.5	$100.1
1989	$ 456.4	4.4%	$ 335.6	$120.8
Total	$1939.4		$1534.5	$404.9

Chart prepared by CDI.

economic situation confronting the world into stark East-West equations.

Soviet Military Spending

Since the late 1970s the most widely cited rationale for the huge U.S. buildup was that it was in response to huge Soviet military budgets. Secretary of Defense Weinberger has repeated it without elaborating on how Soviet military spending is estimated.

The Central Intelligence Agency is responsible for estimating Soviet military spending. Their methodology is to compute what the Soviet military would cost if built and operated in the U.S. using U.S. prices and wages. For example, to compute personnel costs the CIA assumes a Soviet conscript's salary to be $575 a month, which is what the U.S. Army pays a private, whereas the Soviet conscript actually gets 4 or 5 rubles ($8.00) a month. The CIA asks a U.S. corporation to compute what it would cost it to build a T-72 tank, or new radar or aircraft, a figure which even the CIA points out has very little to do with how much the item actually costs the Soviet government.

In 1983 testimony before the Joint Economic Committee the CIA made a significant downward revision of its estimate of Soviet military spending for the period 1976-81 which went almost unreported in the press. The new estimate showed an increase of only 2% per year overall and no increase in the buying of weapons. During the same period average annual U.S. military expenditures had a real growth rate of approximately 4% and since then they have averaged 9%.

Like the bomber and missile "gaps" of the past that later proved illusory we now find, as Senator Proxmire said, "Moscow has not been expanding its effort at the rapid rate that was once believed. It slowed its defense expansion beginning about seven years ago, a fact that the Soviets neglected to communicate and that the West failed to detect."

Despite this newly gained knowledge, Secretary Weinberger continues to cite the "unrelenting" Soviet buildup as justification for their proposed 18% increase in 1985. It is certain the Soviets will respond with increases of their own.

The time honored technique used for more than three decades to deflect criticism and promote higher military budgets is to instill fear in the American public about the Soviet Union. As Richard Perle, Assistant Secretary of Defense, has said, "Democracies will not sacrifice to protect their security in the absence of a sense of danger. And every time we create the impression that we and the Soviets are cooperating and moderating the competition, we diminish that sense of apprehension."

Readiness

Readiness is one of the more popular buzz words in Washington these days. Like "deterrence" everyone is for it but no one is exactly sure what it means or how to measure it. In the most general sense, readiness is the armed forces' ability to respond to any military threat or contingency up to and including fighting con-

Twenty Big Ticket Programs

The Pentagon has hundreds of weapon systems in the pipeline. Eighty-seven of the larger programs are estimated to cost $750 Billion combined. Twenty which total $413 Billion are shown below.

Weapon System	No.	Estimated Cost	Cost per weapon
ARMY			
M-1 Tank	7,071	$20.0 Billion	$2.8 million
Patriot missile	6,339	$11.8 Billion	$1.8 million
Bradley vehicle	6,908	$11.3 Billion	$1.6 million
Apache helicopter	524	$7.3 Billion	$14 million
Stinger missile	46,417	$3.7 Billion	$80,000
NAVY			
F-18 aircraft	1,377	$40.0 Billion	$29 million
F-14A aircraft	899	$38.3 Billion	$43 million
Trident II missile	764	$37.4 Billion	$49 million
Trident submarine	16	$32.5 Billion	$2 Billion
SSN-688 submarine	64	$31.0 Billion	$500 million
CG-47 Cruiser	26	$28.6 Billion	$1.1 Billion
DDG-51 Destroyer	14	$14.9 Billion	$1.0 Billion
Cruise missile (sea)	4,068	$13.0 Billion	$3.2 million
AV-8B aircraft	334	$10.0 Billion	$30 million
AIR FORCE			
F-16 aircraft	2,659	$50 Billion	$18.8 million
F-15 aircraft	1,376	$38.0 Billion	$27.7 million
AMRAAM missile*	24,489	$10.8 Billion	$440,000
HARM missile*	17,528	$6.4 Billion	$36,500
Cruise missile (air)	1,787	$4.5 Billion	$2.5 million
Cruise missle (ground)	656	$3.7 Billion	$6.6 million

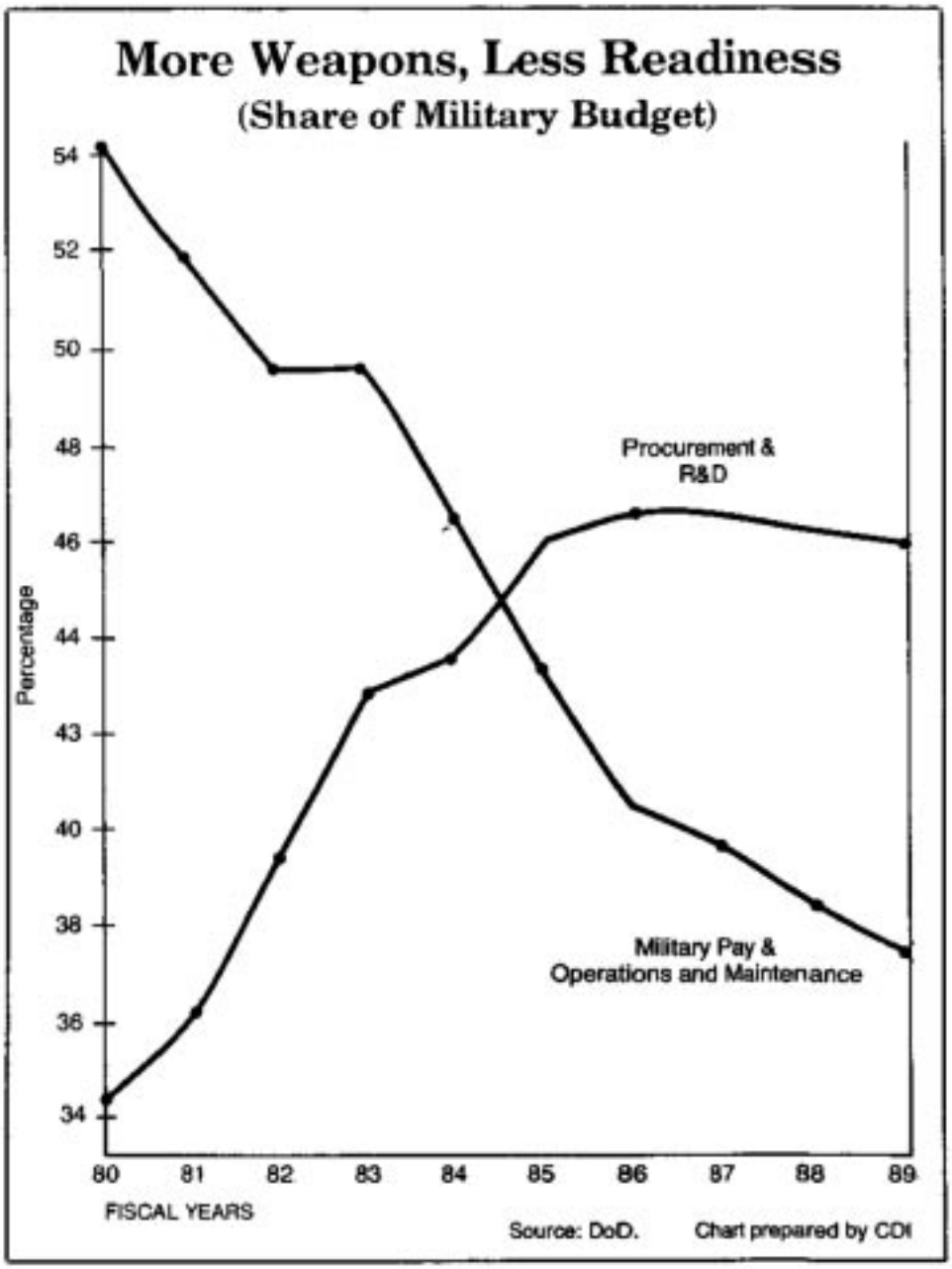
*Joint AF-Navy program

Source: DOD
Chart prepared by CDI

It is also important to note that these estimated costs are certain to rise even higher. The GAO recently analyzed 97 major weapons systems from 1963 to 1983 and found that they cost 32% more, on the average, than the Pentagon estimated. Some of the systems listed above have already doubled in unit cost. For example the F-18 aircraft was supposed to cost $16 million a piece and the M-1 tank $1.4 million each.

ventional and/or nuclear wars. Not only is it difficult to measure how capable we are to fight such wars, but setting ambitious goals to be everywhere and do everything produces unlimited requirements for hardware and personnel.

Readiness, though, has other meanings and uses. Periodically the Pentagon compiles readiness reports which measure whether units are properly trained and have the personnel, equipment and spare parts required in U.S. war plans. Recent Pentagon reports have shown that there are 25% fewer Army units certified as combat ready than there were in 1980 and a 15% decline in "fully or substantially" ready Air Force units over the same period. When asked about these reports General John Vessey, Chairman of the Joint Chiefs, played down their importance calling them "management tools." He went on to say that "it is not the system that ought to be used to describe the readiness of the force to the taxpayer." Evident here is the arbitrary nature of this entire exercise. When the Pentagon wants to extract more money from the American taxpayer they claim that readiness rates are low. When hundreds of Billions of dollars have been spent and their own rating system shows no improvement they discount the significance of readiness measurements.



Less Readiness

Another way the readiness issue is debated is to compare readiness funds to other parts of the budget. The problem is that there is no readiness category in the budget and no agreed way to determine which dollars go to readiness. Various analysts define it in different ways and have found readiness either to be overfunded or underfunded. The most frequently used rule is that operations and maintenance funds and military pay are readiness dollars while funds for research, development and procurement of weapons are investment dollars. Under this rule the current program is clearly slighting readiness in favor of development and procurement of very expensive new weapons.

As can be seen in the graph above the 1980s will see money to develop and buy new weapons rising from 34% to 46% of the budget while money to operate them drops from 54% to 37%. For the five year period ahead the military are requesting $680 Billion just to buy new weapons, a 111% increase over the past five years. The comparable increase for operating and maintaining the weapons is a 65% rise. These "distrubing trends," as the House Armed Services Committee call them, suggest continuing readiness problems with severe long term implications.

Clearly the Pentagon's projections for readiness funds in future years are unrealistically low. The GAO has found that during the 1970s the Pentagon underestimated operating and maintenance funds on the average of 28%. The sheer numbers of new weapons entering the arsenal will drive up the demand for readiness funds, and the increasing technological complexity of these systems will create even greater pressures. A re-

cent Congressional Budget Office study found that because of their "technological sophistication" the Pentagon's new hardware will cost substantially more to support and maintain than the equipment it replaces. The Army's controversial M-1 tank, says the report, will cost 35% to 41% more to operate than the M-60 tank it replaces. The CBO study blames the M-1's "sophisticated electronics system (including an onboard computer)" and its fuel efficiency (or lack of it at 4 gallons per mile) which is about half the gas mileage of its predecessor. Further, Defense Department testing data show that for every hour of operation, the M-1 requires an average of 2 hours 42 minutes of maintainance, compared to the M-60 which requires only 24 minutes.

As with many of the Administration's new weapon systems, much of the debate in Congress over the M-1 has centered on the system's skyhigh procurement costs. At approximately $2.8 million per copy (the Pentagon wants to buy over 7,000) the M-1 is nearly three times more expensive than the Army's current tank. Procurement minded lawmakers often ignore significant readiness expenses when deliberating over new weapons. Congress is very reluctant to cancel programs outright. Instead they cut readiness funds, an action which produces short term budget reductions but insures that the new equipment will not be properly maintained and operated in the future.

If the current weapon building program continues as planned, the end of the decade could find the readiness of U.S. armed forces at an all-time low, staggering under a burden of complex new military hardware they cannot man or maintain. It is questionable whether Congress will allow this to happen, however. A more likely prognosis for the late 1980s is substantially higher military outlays, above those now projected, as Congress is forced to increase funding to operate and maintain the massive new arsenal.

Military Versus Social Spending

One of the most significant trends during recent years has been that while the military budget has been rising at a precipitous rate, social programs have gone up very little or have decreased. According to the current plan the military's share of the budget will rise over 11% during this decade while other programs (excluding entitlements) will decrease 16%).

BUDGET PRIORITIES (% share of budget)

Function	FY1980	FY1984	FY1985	FY1989
National Defense	23.2	27.8	29.4	34.6
Other programs	41.3	31.4	30.0	25.0
Social Security/Medicare	26.4	28.1	28.1	29.7
Net Interest	9.1	12.7	12.5	10.7

Source: US Government — Chart prepared by CDI

BUDGET SHIFTS TO THE PENTAGON ($ in Billions, outlays)

The next chart shows more specific budget shifts over a five year period with the military dollars rising 70% and most other Federal spending declining or going up slower than the rate of inflation.

	FY1981	FY1985	% change
Military	$159.7	$272.0	+70
Hospital/medical care for vets	6.9	9.6	+38
Consumer and occupational health and safety	1.0	1.2	+12
Ground transport/highways/mass transit	17.1	18.6	+9
Higher education	6.8	7.2	+6
Food and nutritional assistance	16.2	17.0	+5
Elementary, secondary and vocational education	7.1	7.1	+1
Community development	5.0	4.8	-5
Recreational resources	1.6	1.5	-6
General revenue sharing	5.1	4.5	-11
Pollution control	5.2	4.2	-19
Veterans education, training and rehabilitation	2.3	1.3	-41
Energy conservation	.7	.4	-44
Training and employment	9.2	4.9	-47
Energy supply	5.2	1.6	-70
Conservation/land management	1.2	.3	-73

Source: U.S. Congress
Chart prepared by CDI

The Iron Triangle

One of the most significant indicators of the military's influence in American society is the degree to which preparations for war are integrated into our economy. The relationship between the corporations, the Pentagon and Congress (sometimes called the Iron Triangle) concentrates enormous power in these three institutions. Before World War II the armed services themselves built most of their weapons. Only after the war did private enterprise enter the very lucrative business of

preparing for war on a full time basis.

A number of major companies are now concentrating on military contracts and as a result fewer and fewer corporations are taking larger and larger shares of the military pie. Prime military contracts for FY83 totaled $128 Billion, up from $77 Billion three years ago. The top 100 corporations took 70%, while just the top ten took 34.3% ($44 Billion). Three years ago the top 100 took 66% of the total and the top ten 29.8%. The top ten are so well entrenched that while they occasionally trade places they rarely fall from their elite positions. On the basis of the B1-B bomber, Rockwell went from fourteenth to third in three years.

President Eisenhower stated in his farewell address in 1961 that "we annually spend on military security more than the net income of all United States corporations." The net income for the Fortune 500 for 1983 was $68.7 Billion while the military budget was $265.3 Billion.

THE TOP TEN MILITARY CONTRACTORS

	FY83	FY80	Fortune 500#	Weapons
1. General Dynamics	$6.8*	$3.5 (1)	46	F-16, Trident subs, SLCM, DIVAD, M-1, M-60 tanks
2. McDonnell Douglas	$6.1	$3.2 (2)	42	F-15, F-18, KC-10, AV-8B aircraft
3. Rockwell Int.	$4.5	$0.9 (14)	43	B-1B, MX, Hellfire missile, nuclear weapon components
4. General Electric	$4.5	$2.2 (5)	10	Ship nuclear reactors, jet engines, ICBM re-entry vehicles
5. Boeing Co.	$4.4	$2.4 (4)	27	C-135, B-52 upgrades, ALCM, AWACS, E-3A aircraft
6. Lockheed Corp.	$4.0	$2.0 (6)	50	C-5, P-3, C-130 aircraft, Trident missiles
7. United Technologies	$3.8	$3.1 (3)	18	Jet engines, UH-60 CH-53, SH-60 helicopters
8. Tenneco Inc.	$3.7	$1.5 (9)	19	Aircraft carriers, nuclear submarines
9. Hughes	$3.2	$1.8 (7)		AH-64 helicopter, Phoenix missile, electronics, radars
10. Raytheon Co.	$2.7	$1.7 (8)	59	Hawk, Sidewinder, Dragon, Sparrow missiles

*$ Billions

Source: DOD Chart prepared by CDI

Major contractors for Hughes AH-64 Apache Helicopter *Photo: Hughes*

Another way to audit the Pentagon's books is to divide the contract pie by state. Procurement contracts for FY83 totaled $118.7 Billion of which the top ten states took 68% ($80.4 Billion). Three years earlier the top ten took slightly less (67.4%) of a total of $68 Billion. There is great disparity in military spending by state. California's total equaled that of the bottom 37 states. Per capita spending ranged from a high of $1,633 in Connecticut to a low of $48.72 in Idaho.

Military research and development funding is also up. In FY 1980 military R&D took 47% of the total Federal R&D Budget. Since then there has been a 148% increase and now the military takes 70%, a share expected to rise to 73% by 1989. R&D funding for strategic nuclear weapons has gone up 300% over the past five years.

The Congressional Budget Office states funding for non-military R&D has decreased significantly since the early 1980s. In real terms, funding in

MILITARY PROCUREMENT BY STATE

State	FY83 (% of total)		FY80 (% of total)		Per Capita
1. California	$26.4*	(22.2)	$13.9*	(20.4)	$1,024
2. New York	$9.6	(8.1)	$5.7	(8.3)	$496
3. Texas	$8.3	(6.9)	$5.4	(8.0)	$444
4. Virginia	$7.1	(6.0)	$3.4	(5.0)	$1,271
5. Massachusetts	$6.3	(5.3)	$3.7	(5.5)	$1,046
6. Missouri	$5.6	(4.8)	$3.3	(4.8)	$1,126
7. Connecticut	$5.1	(4.3)	$3.9	(5.7)	$1,633
8. Florida	$4.6	(3.9)	$2.1	(3.0)	$433
9. Washington	$3.9	(3.4)	$2.3	(3.4)	$940
10. Maryland	$3.5	(3.0)	$1.8	(2.6)	$887

*$ Billions

Source: DOD
Chart prepared by CDI

the 1985 budget is 29 percent below the 1980 level. Among the programs that have suffered the sharpest decline are alternative energy projects and research on such environmental issues as air and water quality, acid rain and hazardous waste.

Military research and development take over two-thirds of the entire federal R&D budget and account for one-third of all research (public and private) done in the U.S.

Not surprisingly the same military contractors who take the lion's share of procurement money also receive the majority of the research and development money. For FY83 1,901 businesses, educational and non-profit institutions, government agencies and foreign contractors received $16.3 Billion. The top 500 took 98.2% of the total and the top ten almost 50%.

Waste, Fraud and Abuse

Much has been made, and rightly so, of the waste, fraud and abuse that seems endemic in the Pentagon. Tales of $450 hammers, $270 soldering irons, and 4 cent diodes which cost the taxpayer $110 shock the public and Congress. There is of course much to keep track of. Last year DOD awarded 241,442 contracts of $25,000 or more and 14,525,103 contracts for less than $25,000 (up one-and-a-half million from the previous year). This works out to over 56,000 contracts every working day.

The horror stories are often explained away by some Pentagon officials as aberrations, unique events in a generally sound system. This is not the conclusion of the Pentagon Inspector General who is charged with rooting out these practices. "I think these are not just the random mistakes that happened because some accounting system went haywire," he told Congress. "Overpricing is a series of problems of a systematic nature in the way we buy spare parts." He went on to try to pinpoint the problems. Among those he cited were that many people in the procurement business were not sufficiently "price conscious." In other words they didn't care what it cost. A GAO study criticized the Pentagon's practice of basing the job performance appraisals of procurement personnel on the number of contracts they award, with little attention to cost efficiency.

No Incentive to Save

Another problem is that the prime contractor for a weapon system is frequently the sole supplier for spare parts and maintenance material. There is little competitive bidding and virtually no incentive to keep prices low when contractors can charge whatever they want. At the same time the military imposes little control, judgment or even common sense about the intrinsic worth of such material. For example, in 1981 a plastic cap for a stool leg cost $1,086 and this year it was to cost $1,118. This did not seem an excessive increase to the clerk ordering it, but there was no judgment made that plastic stool caps should only cost about $1 to begin with.

Spare parts only account for a fraction of the DOD's annual budget, but unfortunately, the highly publicized horror stories are indicative of a much larger problem. Waste, fraud, and abuse in military spending are widespread and rooted deep in the Pentagon's system of doing business.

The Pentagon and the University

During and after the Vietnam war, military research at universities dropped but is again on an upswing. In three years the amount has gone from $652 million to $942 million. As with the other trends it is concentrated at a few universities, the top ten receiving 73.3%.

University	Rank in top 500	Amount FY83 (millions)	Amount FY80 (millions)
1. MIT	15	$248	$155
2. Johns Hopkins	17	$227	$163
3. Illinois Institute	51	$ 42	$ 26
4. Univ. of California	54	$ 40	$ 30
5. Stanford Univ.	67	$ 26	$ 18
6. Georgia Tech	70	$ 25	$ 15
7. Univ. of Texas	72	$ 23	$ 16
8. Penn State	77	$ 20	$ 12
9. Univ. of Rochester	78	$ 20	$ 15
10. Univ. of So. Calif.	81	$ 19	$ 10

Source: DOD
Chart Prepared by CDI

"The rip-off of taxpayers on the big items — weapons, engines, aircraft — is as bad as on spares," according to maverick Pentagon analyst A. Ernest Fitzgerald. Although President Reagan vowed to eliminate waste in the military budget, he has thus far failed to make a dent in the multi-Billion dollar problem. Indeed, many of his Administration's policies have exacerbated longstanding cost control problems at the Pentagon.

Procurement Problems

Waste, fraud, and abuse have grown most rapidly in the Pentagon's procurement budget, which has more than doubled since 1981 and now accounts for 80% of all federal government procurement. This precipitous rise in funding has put strains on a system already riddled with structural problems. While officials pay pay lip service to the goal of greater competition in military procurement, the number of contracts open to strict competitive bidding dropped to 6% last year.

As "reforms" have shortened the acquisition process and significantly reduced regulations and documentation requirements for contractors, the number of reported cases of suspected contract fraud has risen sharply. The chronic problem of shoddy workmanship by military contractors has worsened. The Deputy Secretary of Defense admitted in 1983 that the Pentagon routinely pays from 10% to 30% in added costs because of weapons and equipment which are defective or otherwise unsatisfactory. Rear Admiral Frank C. Collins, Jr., former Executive Director for Quality Assurance at the Defense Logistics Agency (the DOD's primary procurement arm), has recently called that figure "conservative." He said that many items cost 50% more than they would if they were made right the first time, and that 60% to 70% of the electronic equipment the Pentagon buys must be remade or thrown away.

The contractors blame the Pentagon for speeding up delivery deadlines and insisting on unrealistic design specifications. Under heavy pressure to produce as much as possible while fickle Congressional support for increased military budgets lasts, many contractors have cut corners and some have deliberately falsified data and knowingly delivered substandard equipment to the Pentagon. Not even the DOD's newly created Procurement Fraud Unit can keep up with the flood of new cases. The Deputy Inspector General complained recently that "two-thirds of all fraud cases which are reported to the Department of Justice for prosecution are never prosecuted." Less than a quarter of these cases result in conviction, and the average fine per case is about $2,000.

Glaring Deficiencies

The Administration addressed the problem of contractor overcharging by hiring 400 new Pentagon auditors to keep tabs on the rising number of sole-source contracts and to evaluate the prices these contractors charge the government. A recent report by the Pentagon's Inspector General, however, revealed glaring deficiencies in the DOD's contract auditing system, and concluded that until basic changes are made in the system, "there can be no assurance that DoD will negotiate fair and reasonable prices for major weapon systems contracts." The report found that auditors consider themselves "a part of the DOD procuring team" and are consequently reluctant to delay the acquisition process by conducting investigations of suspected contractor overcharges. In two-thirds of the cases examined, government auditors did not obtain (and often did not even request) information from military contractors explaining or justifying the prices charged by their subcontractors.

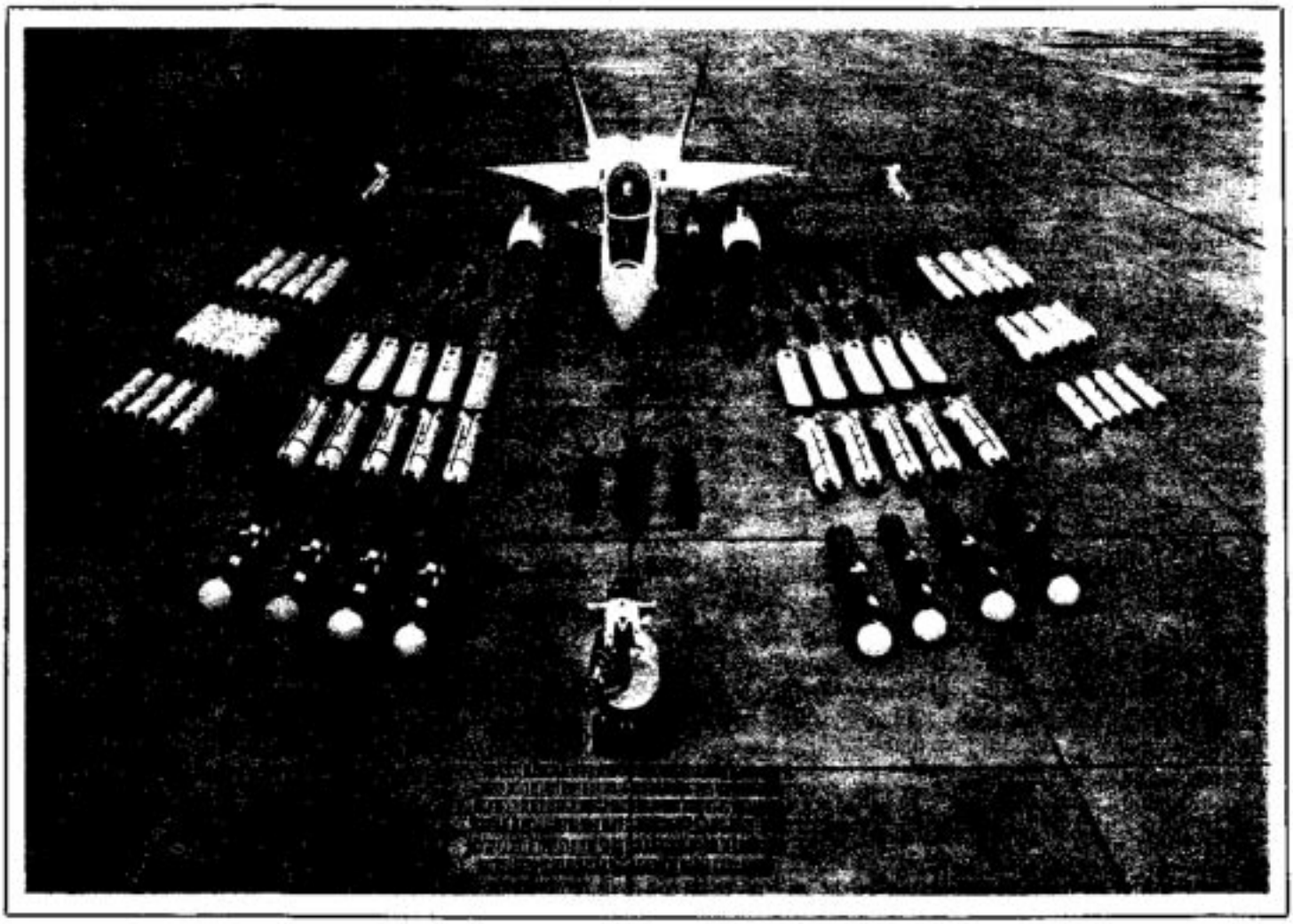
Despite the fact that subcontract costs make up nearly half the price of most weapons, the Inspector General found that "internal audit coverage of subcontracts was minimal or nonexistent." This lack of oversight contributes to the vicious cycle of contractor overcharging. Prime military contractors delegate work to other companies (often their own subsidiaries) then add the costs of these components, plus a hefty mark-up, to the total price charged to the Pentagon. These charges, in turn, go unquestioned by DOD auditors and are

DOING BUSINESS WITH THE PENTAGON

Below are some examples of what DOD paid for certain spare parts compared to what the standard price should be, based on comparable material in civilian systems.

ITEM	Standard price	Price paid (overcharges)
Circuit breaker	$11.10	$243.00 (22 times)
Push switch	$15.41	$241.00 (15 times)
Semi-conductor	$.04	$110.00 (2750 times)
Resistor	$.05	$100.00 (2000 times)
Transitor	$.24	$75.00 (312 times)
Tube	$12.00	$639.29 (53 times)
Case assembly	$6,445.65	$45,236.16 (7 times)
Oil plug	$117.05	$1,050.31 (9 times)
Connector	$13.03	$143.28 (11 times)
Soldering iron	$3.75	$272.16 (73 times)
Tape measure	$10.00	$427.00 (42 times)
Hammer	$18.40	$450.00 (24 times)

Source: DOD
Chart prepared by CDI



F/A-18 Hornet and Armament *Photo: Ford Aerospace*

routinely okayed by DOD contracting officers. There is absolutely no incentive to keep prices low; on the contrary, the higher the price charged by the subcontractor, the greater the mark-up by the prime contractor and the larger the profits all around. According to Thomas Amlie, a Pentagon procurement official and career naval officer, "Everyone is making a buck. To change the system might ruin the good thing the high rollers have going."

Congressional Reform

Lawmakers on Capitol Hill have recently stepped up legislative efforts to stem the tide of waste, fraud and abuse in military spending. Congress is currently considering a measure dubbed the "creeping capitalism" bill which would require the Pentagon to increase the amount of contracts it opens to full competitive bidding by 5% per year until 70% of DOD's contracts are awarded this way. Also under consideration is a measure which would authorize the DOD's Inspector General to suspend payments or otherwise reform contracts if he determines by audits that the government has been overcharged or defrauded. Pentagon officials have testified against both measures.

Despite vigorous objections from the Defense Department, the Congress last year succeeded in passing several measures aimed at cracking down on military waste. Responding to reports of widespread abuse in the Pentagon's in-house weapon testing program, lawmakers established an independent office of weapon testing. The existing testing office, buried within the Pentagon bureaucracy, has been plagued by charges that it relies too heavily on data provided by the weapon companies, and that its tests are often unrealistic and its evaluations lack objectivity.

A recent GAO study of the existing testing system found that evaluations of weapons performance were "too fragmented to provide a coherent and meaningful picture of a system's progress." The GAO also concluded that "because these evaluations do not adequately present the operational and technical risks of proceeding to the next phase without

Haig: "Absurd" Arms Control Proposal

"The fatal flaw in the Zero Option as a basis for negotiations was that it was not negotiable. It was absurd to expect the Soviets to dismantle an existing force of 1,100 warheads, which they had already put into the field at a cost of billions of rubles, in exchange for a promise from the United States not to deploy a missile force that we had not yet begun to build and that had aroused such violent controversy in Western Europe. . . . Proposal of the Zero Option would, as it was, generate the suspicion that the United States was only interested in a frivolous propaganda exercise or, worse, that it was disingenuously engaging in arms negotiations simply as a cover for a desire to build up its nuclear arsenal."

Alexander Haig
Former Secretary of State
Caveat 1984

correcting problems uncovered in testing, the decision makers are forced to rely principally on the judgment of the project managers [who] tend to understate the gravity of performance problems and to emphasize the risks of delay." The new independent testing office was to take charge on November 1, 1983, but to date, no director or permanent staff has been appointed. Even more significant is that the President requested no funds in the budget for the new testing office, an omission which would seem to constitute a direct challenge to Congressional authority.

Waiving Warranties

The Congress also enacted legislation last year requiring the Pentagon to obtain warranties from its weapons manufacturers covering the workmanship, materials, and performance of the systems they build. Among the most vocal supporters of the measure were members of the House and Senate who back the President's military buildup and fear that frequent reports of Billion-dollar lemons could endanger the "national consensus" for higher military spending. Congress passed into law provisions for comprehensive warranties, which provide the Secretary of Defense with very limited authority to waive the warranty requirement.

The Defense Department, which opposed the provisions from the outset, reluctantly published its guidelines for implementing the new law in March 1984. These regulations are intended to emasculate the law. They exempt large categories of military contracts from coverage under the warranty law and permit the Secretary of Defense to redelegate his waiver authority to subordinates who may issue blanket waivers of the law without consulting Congress. The guidelines also severely limit the liability of weapons firms.

In addition, buried deep within the Administration's fiscal 1985 budget request is language that would repeal the warranty law altogether. The Pentagon seems determined to resist any changes in its time-honored way of doing business. At some point Congress must enforce its legislative authority or abandon any pretense that the military is subject to Congressional control.

"Liberated" From Arms Control

The present practice of throwing huge amounts of money at the military has resulted in a record of waste and in buying weapons we don't need. The record is even weaker on pursuing limits to an unconstrained arms race.

For the first time in fifteen years the U.S. and the Soviet Union are not engaged in negotiations to control or limit nuclear weapons. The terminal event was the deployment of new U.S. missiles to Europe in December 1983. Some claimed that under pressure of impending deployment the Soviets would come around at the eleventh hour and cut a deal. It is difficult to tell whether anyone actually believed this flawed logic; certainly the Soviets didn't. In response to these threats the Soviets countered with several of their own, not least of which were breaking off the talks and counter deployments of new missiles. When we deployed our new missiles in December 1983 they did exactly what they had been saying for two years they would do.

The last three-and-one-half years have produced nothing tangible in the way of arms control or arms reductions. In fact, more than two thousand weapons have been added to the strategic arsenal. The box on page 11 reviews the record. If this negative record is not serious enough there are indications that a second term could put several past treaties, such as the SALT agreements and the Anti-Ballistic Missile treaty, in jeopardy. When Assistant Secretary of Defense Richard Perle was reminded that the ABM Treaty went on in perpetuity he responded that that was its major problem.

"The Soviets—they're up at full pitch. I doubt if they could expand their military production anyplace beyond where it is right now or the rate that it is . . . they know that they can't match us if there is [an arms] race."

President Reagan
May 22, 1984

Negotiations Status Report

Intermediate Nuclear Forces—Negotiations failed at the end of 1983 as the United States began to deploy Cruise and Pershing II missiles to Europe. Success of diplomatic efforts to resume these talks as a separate negotiation is now highly unlikely. Former Secretary of State Alexander Haig has characterized the U.S. "zero option" plan as "absurd" and "not negotiable."

Strategic Arms Reduction Talks—START is now at a standstill. The talks recessed at the end of round five on December 8, 1983 with no date set by the Soviet delegation for resumption. This Soviet attitude is partly a result of the breakdown of the INF talks but negotiations were making little demonstrable progress in any event. The original U.S. position called for a radical restructuring of Soviet forces, centered on deep cuts in their ICBM forces. Under the original proposal mutual vulnerability to a first strike against land-based missiles would have risen dramatically because of a great increase in the ratio of accurate warheads to targets. The Soviet counter offer was for both sides to reduce one-third below the SALT II limits in total launchers. This would have required a substantial reduction by the Soviet Union, down to 1800 launchers from their present level of approximately 2500. The U.S. would have to reduce less than 200 launchers.

Anti-Ballistic Missile (ABM) Treaty—On March 23, 1983 the Administration proposed a massive research program to develop a total defense against nuclear weapons. If deployment and testing go ahead this program could violate the 1972 ABM Treaty. It may also lead to an all-out offensive nuclear arms race to overwhelm defensive systems. The resulting competition between interacting offensive and defensive weapon systems and their countermeasures would result in a strategic and economic nightmare. The President's desire to build a system to render "nuclear weapons impotent and obsolete" is now a Pentagon program called the Strategic Defense Initiative (SDI). The Pentagon's Secretary for Research, Richard DeLaurer, told Congress that at least eight technology problems have to be solved and each one is "equivalent to or greater than the Manhattan project," and that Congress would be "staggered at the cost that they will involve." Some projections have put the total cost in the hundreds of Billions to Trillion dollar range.

Comprehensive Test Ban Treaty- In July 1982 the U.S. government decided not to resume trilateral negotiations (U.S., U.S.S.R., U.K.) to end all testing of nuclear explosives underground. This was in spite of very significant progress made toward a treaty by the previous Administration. Both the United Kingdom and the Soviet Union expressed regret over this action. An end to all testing remains largely a matter of political will. The 1963 Limited Test Ban Treaty, the 1967 Non-Proliferation Treaty, and the 1974 Threshold Test Ban Treaty all pledge the United States to actively engage in efforts to ban all nuclear explosions for all time.

Threshold Test Ban Treaty—On February 17, 1983 the U.S. government requested the Soviet Union to reopen talks on the unratified treaty to improve verification provisions. On March 28, the Soviets turned down the proposal, claiming that if the U.S. were to ratify the treaty, the improved verification measures provided in the treaty could then be instituted and verification concerns be more easily resolved. The Soviets also stated that if any problems remained, the ratified treaty could be amended. In June 1984 the U.S. Senate by an overwhelming majority urged the President to submit the treaty to the Senate for ratification.

Anti-satellite (ASAT) and Space Weapons Negotiations—The U.S. government has decided not to resume talks on an ASAT treaty. On April 2, 1984 the Administration submitted a report to Congress detailing opposition to negotiating for a treaty, stating that it could not be verified. Many scientific experts disagree. There has also been no official interest whatsoever in domestic calls for negotiations to prohibit space weapons. There has been no U.S. response to the 1983 Soviet draft treaty which proposes a comprehensive ban on space weapons.

The End of Arms Control?

The recent allegations about Soviet violations of arms agreements could be interpreted as a justification for the U.S. to abrogate treaties and blame it on the Soviets. As Perle recently told Congress the Administration is discussing whether it should "now feel liberated from our obligations" under the pacts. If it is considered politically impossible to abrogate them outright, a better strategy is to claim Soviet violations and then say we are no longer bound.

A fundamental problem with current policies is that it has never been adequately defined how, or perhaps even whether, arms control can contribute to national security. Some officials believe that arms control has largely been a trick the Soviets used to catch up and that it is at odds with the only true measure of security — more arms and military might. If we dismiss the rhetoric about arms control that issues from some officials and concentrate on what is more indicative — their actions and budgets — we see that the Republican Platform pledge of 1980 is being fulfilled. That statement said, "Before arms control negotiations may be undertaken, the security of the United States must be assured by the funding and deployment of strong military forces sufficient to deter conflict at any level or to prevail in battle should aggression occur. . ." As Representative Tom Downey has said, the Administration "knows in its bones that *real* men don't control arms, they build them." The last several years have produced an accelerated arms race and future prospect for a more dangerous and intense competition with no rules or controls whatsoever.

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