

# The Washington Monthly

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## THE SHELL GAME

*How the Generals will try to fleece Clinton.  
And what he can do to stop them*

By David Segal



# The Shell Game

*Pentagon officials think they have already conned Clinton out of billions for a wish list of expensive, unnecessary equipment. Here's how Clinton can prove them wrong*

by David Segal

**T**he military is going to take Bill Clinton to the cleaners. It'll happen in hearing rooms and budget meetings around Washington, but the results won't differ much from those of a three-card monte game on a street in Manhattan: The president will have to fork over the money.

In the next five years, Clinton wants \$60 billion in military cuts above and beyond what Bush was planning. In context, it's a remarkably timid step. If you don't count the Reagan years, since 1950 we spent an average of \$263 billion a year on defense (in 1992 dollars), a sum which paid for one Cold War and two hot ones, Korea and Vietnam. Clinton's "downsized" five-year defense budget will spend, on average, slightly *more* than that—\$265 billion in 1992 dollars. Add in the \$3 trillion Reagan spent in the eighties, and Clinton's numbers are still a not-so-scaled-back 87% of what we averaged in spending between 1950 and 1989. The bad news is that even if Clinton gets his cuts, there will be no peace dividend. The worse news is that Clinton probably won't get his cuts.

Congress will soon begin deliberations on the Defense budget and debate the merits of a long list of equipment, most of which is phenomenally costly and totally unnecessary. With no other superpower on the horizon and the

Soviet Union three years in the grave, it's time to ask not only the annual what-do-we-need-and-can-we-afford-it questions, but why it is that we are ponying up for so much stuff that we clearly can't afford. Answering this larger question helps explain why Clinton's cuts are so timid and why it's so unlikely he'll get them. The president's hand was dealt several years ago; it's a lousy one, and it's going to get lousier very soon. But to understand Clinton's predicament, you first need to know how the Pentagon managed to outmaneuver him even before he got to town. The first step is understanding the way the Department of Defense (DoD) gets what it wants.

When DoD asks Congress to fund new hardware, it is engaging in an elaborate and ritualized con which begins with the cost of the item in question. The price is what you might call a wild guess, but a low-balled wild guess. Because it's hard to predict what a piece of extremely high-tech equipment will ultimately cost, DoD can show Congress a price that looks affordable and is hard to argue about. Only one thing can reasonably be predicted: The price will go up. When your local car dealer pulls this kind of stunt, it's called the "bait and switch." In the Pentagon, it's called the "buy in."

The buy in makes the annual Defense budget fiction, but the real whoppers are in the rest of

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the Pentagon's six-year plan and beyond, which is classified. (What Congress debates is the first year of a continually updated six-year plan.) Budgets for these outlying years are based on several breathtakingly silly assumptions. The first is that the Defense budget will grow at rates far greater than it actually will. (Even during the Reagan build-up, the Pentagon over-estimated what it would get.) It is also assumed that the investment budget, the part which funds new hardware, will grow faster than the rest of the budget (It doesn't). Finally, it's assumed that when a defense manufacturer builds something it will eventually get smarter at building it, and therefore be able to produce it for a lower per unit price as it makes more. (Almost without exception, "learning curves" are less steep than anticipated, and occasionally costs increase.)

Of course, Pentagon officials know these assumptions are absurd, but by using them they can pack the budget with all manner of gizmos and argue, straight-facedly, that the gizmos are affordable. In DoD this is known as "front-loading," though another term—lying—may better capture it.

## Patriot games

Here's how front-loading works. Let's say Defense officials want a new vehicle, the X-88, which takes off as a four seater helicopter and then becomes a Winnebego. First, Pentagon planners will cough up reams of scientific evidence that the X-88 will work. Then evidence is produced that the machine can be built for a reasonable sum and its per unit cost will diminish over time. (Data compiled through the Congressional Budget Office shows that in 1983 DoD was predicting that costs would decrease for 57 out of 69 weapons program sampled.) Finally, stirring words are spoken about the threats we face which make a flying Winnebego essential to our national security. The conclusion is clear: We can afford it and the country desperately needs it. Congress allocates a sum to get production underway, using numbers based on the Pentagon's low buy-in cost and its learning curve predictions. The X-88 has been front-loaded.

The pandemonium this decision will cause won't be evident for years. By then, if the X-88 is like most Defense equipment, serious design

flaws will have been discovered: the chopper stalls in its Winnebego phase, and its blades keep falling off. But at this point the makers of the X-88 have sprinkled jobs in Congressional districts far and wide. (The B-1 may be the record-holder here, seeding federal dollars in 400 out of a possible 435 districts.) "By designing overly complex weapons, then spreading subcontracts, jobs, and profits all over the country, the political engineers in the Defense Department deliberately magnify the power of these forces to punish Congress," writes Franklin Spinney, a 20-year veteran of the Air Force and Office of the Secretary of Defense, in his pamphlet, *Defense Power Games*.

The X-88 needs a major design overhaul and costs are running wild. Time to stop the program? Scale it back? Build a prototype?

Probably not. The two players who could possibly stop this looming debacle have excellent reasons not to intervene. The program manager at the Pentagon knows that in peace-time, he who procures the most wins, because promotions go to people who bring in money. Odds are, too, that the manufacturer's liaisons are former DoD employees, and they all used to barbecue together. Congressmen, for their part, are by now most worried about losing jobs, chiefly their own. Everyone's interest is perfectly lined up with that of the builder who, naturally, would want to make the X-88 even if it exploded when you looked at it.

But by this time, economic pressure is rising. The X-88 will be only one of several troubled programs. Budgets, of course, are less than what the Pentagon had anticipated in its six-year plan, and more stuff has been front-loaded in the interim. Congress asks Defense to scale back its procurement budget. Generals begin barking that Congress is meddling with the nation's security.

Meanwhile, the equipment that has been deployed already is breaking more often and costing more to fix than anticipated. That puts a squeeze on the Operations and Maintenance budget (O and M), which pays for everything that keeps the military ready to fight. So just as Congress puts a squeeze on the investment budget from one end, O and M needs more of the pie. There's a budget shortfall to the tune of many billions. Something has to give.

Instead of cutting hardware, the Pentagon deploys a brilliant stratagem: It “stretches out” procurement programs. Planners allocate less money to the X-88 each year by pushing production schedules into the future; the total number to be bought and the rate at which they’ll be made decrease. If you’re a Defense official and don’t mind spending unholy billions on equipment that is often unnecessary and doesn’t work, this approach is irresistible because it allows you to announce that you’re being fiscally prudent, or grappling with changed world threats, when you’re actually sowing the seeds of a financial disaster.

The obvious problem with stretch-outs is that when the hardware is really needed, it slows the military’s rate of modernization. The less obvious problem is that stretch-outs, coupled with ongoing front-loading, are a time bomb. By pushing production schedules into the future, as you add more unrealistically priced programs, you create what the Pentagon calls the “investment bow wave.” In the short term you look like you are spending less, but in the years beyond the five year plan—the “invisible years,” as they’re helpfully known—you’re committed to spending vast sums on all that delayed equipment.

Unfortunately for Clinton, a bow wave of proportions that can only be guessed at—\$300 billion, \$500 billion, more?—created by the stretch-outs and front-loading of the Reagan and Bush years is coming. And it will be arriving sometime during Clinton’s administration.

The nearest historical parallel to Clinton’s situation is the post-Vietnam War downsizing. Then, as now, the size of the force was cut, some short-term procurement programs were either scaled back or stopped, and we sold some weapons overseas (Nixon sold them to Iran; we now sell to Saudi Arabia). Meanwhile, the great hardware maw was front-loaded with a whole host of big ticket items, like the F-16, the F-18, the Patriot, and the M1.

What happened next is history, and it helped cost Carter his job. As the bill for all this hardware was coming due, the Pentagon under Presidents Nixon, Ford, and Carter tapped into the O and M budget, thus reducing training schedules and damaging readiness. The Hollow Military was born. We had warehouses of new equipment, but our troops and pilots were under-

trained, and we lacked the spare parts and mechanical support to wage war effectively.

Clinton will face the same military budget shortfalls which led to Carter’s fiasco as the new bow wave begins to arrive. But the end of the Cold War and the soaring national debt will make Reagan’s solution—increased military spending—politically untenable. Meanwhile, the impetus to keep up expenditures in both the investment and the O and M budgets will escalate. There’s pressure to keep expensive items alive (or stretched out) because Reagan’s build-up added 1.4 million jobs to the defense industry, giving Congress a huge stake in the ongoing hardware raree-show. Simultaneously, maintenance and spare parts costs will soar because high-tech equipment is costly to fix.

Clinton is cornered. The bills for all the front-loaded programs of the eighties—the C-17, the Osprey, the F-18E, the F-22, the Commanche helicopter, a raft of ballistic missile defense systems, a new carrier, and the list goes on—will come due or simply grow in the next few years. If he trims the O and M budget, a phalanx of generals will scream “Hollow Military!” and demand money. (In May, that’s exactly what happened.) There *have* been some troubling readiness problems reported from the field, but you can count on Pentagon officials exploiting the hollow military scare to keep the spigot open.

Multiply these problems by Clinton’s desire to be respected by the military (and the poor start he made by pushing to end the gay ban), and it’s no wonder that the Pentagon believes, as one Defense official put it, “We’re going to clean his clocks.”

## **Lawyers, guns, and money**

To slip this noose, Clinton will have to cut merchandise in the investment bow wave rolling at him and, even more importantly, revamp the system which produced it. The Pentagon is now like a drunkard in denial—it first needs to admit it has a problem. Then it can make more than just superficial changes. Rather than trying to predict costs 10 years down the line, Defense should start a “fly before you buy” system. Any item that fails to perform as advertised or doesn’t show an advantage over something already built should be scrapped. The Pentagon

hates this kind of prototyping—and fatuously claims it's expensive—because it opens the door for program cancellations. But the practice has been used effectively for years by Japanese auto makers to keep costs down, and it would help identify losers in DoD's pipeline before they are cemented with jobs and billions in sunk costs.

A budgeting system connected to reality would help, too. The Pentagon is wise enough to consider worst-case scenarios when it prepares for battle, but uses only best-case scenarios when it prepares a budget. Drafting several contingency budgets based on genuine economic possibilities would not only prevent the mayhem of shortfalls, but would also create pressure for the military to produce realistic cost predictions. Currently, DoD budgets are so over-estimated that builders have no reason to constrain themselves—generally, if they say they need more, they're promised more. Worse, without genuine cost estimates, figuring out the number of Xs we could buy instead of Ys—the sort of information any shopper at a supermarket uses—is impossible. Finally, real numbers might be more forthcoming with this simple measure: Swear in Defense officials when they show up to tempt Congress with that low, low buy-in cost, and require program managers to sign affidavits affirming the truthfulness of their budget and performance estimates. Front-loading would thus be punishable as perjury.

Secondly, Clinton will have to fight for deep, smart cuts from both the investment and the O and M budgets. Here, a ready-made, though novel, framework exists: Push for a military that is shaped by threats it could conceivably face with an eye toward a budget that it could conceivably be allocated, then carve away what isn't needed or was designed for a different fight. The DoD is conducting its own "bottom up review" of these issues and its findings are due in July. But like other internal reviews before it, this one will come to overly meek conclusions and, far worse, won't end the procurement scams which drive the problem. Look for force reductions, lots of stretching, and a few low-pain cancellations.

Bolder measures are needed. Our present procurement course sets us toward a military stocked with billions in unnecessary, staggering-

ly expensive equipment. As for the O and M account, it's stuffed with fat, and has been for years. But the military will protect it by playing the readiness card, and, inevitably, Congress will demand that costs be cut by relying more heavily on ground combat reserves in the new force structure mix. Unfortunately, reserves aren't capable of fighting on short notice. In sum, the military of the nineties is likely to be both extremely costly (chockablock with useless, expensive-to-maintain stuff) and not particularly good at what we need it to do (relying more on troops which can't be quickly deployed).

Real cuts will be critical. If the present bow wave is allowed to arrive, it will bring with it not just billions in hardware, but constant pressure to either raid or expand the readiness account, or to fire more active combat troops in favor of reserves.

Two over-arching ideas could help Congress decide where to find real savings. The first is

### *THE DATE: IT'S JULY, 1993*

Keep this in mind and much is possible, because the demise of the Soviet Union has yet to kill a lot of enormously complex machinery designed for World War III. Some examples illustrate the point.

The centerpiece of the Navy's future fleet of destroyers, the Arleigh Burke, is fitted with the AEGIS combat system, which is designed to deal with hordes of incoming Soviet land-based aircraft and anti-ship missiles. Today, and for the foreseeable future, the threat of aerial attacks on the Navy has significantly dwindled, and the worst missile assault we can imagine is a few Exocets from a third world country. But we're presently planning to build three Arleigh Burkes a year for the next six years at about \$850 million a piece (in 1993 dollars). Reduce the number some more—or cancel the program outright—and we can consolidate our two surface combatant manufacturers, a move which these purchases are needlessly forestalling.

The Air Force's F-22 scores a triple play typical of the boondoggles we're investing in these days: It's unnecessary, expensive, *and* won't perform as advertised. It was designed to be stationed in a place like England and serve as a

lightning-quick response to a Soviet invasion of Germany. Has the demise of the Warsaw Pact made the plane obsolete? Hardly. Now we need it because it's stealthy and, more remarkably, can fly long distances at supersonic speeds and the Air Force needs a plane like that because. . . well, just because, *o.k.*?

Even granting that, for whatever reason, we need a plane that can cruise at supersonic speeds, there's a major problem with the F-22: It can't cruise at supersonic speeds. "It's another military fantasy," says Jim Stevenson, an aviation historian and former editor of the Navy's classified *Top Gun Journal*. "This will be scandal in the tradition of the B-2, which was supposed to be stealthy and isn't." The leading minds in supersonic flight say that for a jet to fly supersonically for long periods it needs a fuel fraction of at least .35 (put simply, 35% of the plane's weight must be fuel). The Air Force has only recently admitted that the F-22 will have a fuel fraction of between .26 and .30, no better than fighters developed 40 years ago.

But let's allow that the F-22 can do everything its proponents say it can. Wouldn't you have a plane that every Air Force pilot worth his wings would want in combat? Wrong question, Senator. The buy-in cost of an F-22 in constant 1990 dollars is \$97 million per plane, a price which ludicrously assumes no cost growth. An F-16 in constant 1990 dollars costs \$17 million a copy, which means you could buy just about six F-16s for each F-22. Ask a pilot which side of a six-on-one dogfight he'd rather be on. Or ask a commander what would give him more bombing punch. The Air Force says we should build the F-22 because it would give our pilots a great technological edge. The problem with this reasoning is that *our pilots already have a great technological edge*. The F-16, F-15, F-14 and the F-18 equipped with modern weapons are better than any MiG ever made, and we have those planes in numbers large enough to swarm any conceivable enemy.

Some programs score a double play—they're simply expensive and unnecessary. Take the Commanche helicopter. Please. Back in 1983, it was conceived as a cheaper way to build an alternative to the Apache. Today the Commanche's per unit price has doubled to \$20 million (and will keep rising), making it more expensive than the Apache. For the added mon-

ey you get—see if you can guess—nothing. The Commanche won't be capable of any missions that the Apache can't already do, and that's assuming the Commanche works. The Army could instead procure an upgraded version of the AH-1W, a superb helicopter which the Marines are buying. Put the Commanche out of its misery and you've saved \$1.2 billion.

Arguably the most absurd vestige of Cold War thinking—and the strongest testimony to the power of front-loading—is the plan to build another aircraft carrier. We don't need it, and it wouldn't be very helpful if we did. As World War II showed, carriers are ideal for fighting other navies. Problem is, there are no other navies. What these floating cities are not good at is what they are now being touted to do: add aerial punch to a land war. A carrier has, at the high end, 58 jets on board that can be used for bombing: 48 F-18s which normally carry two tons of ordnance each and 10 A-6s which normally carry 4 tons each. That means the maximum collective wallop of one carrier throwing all it has at an enemy is, very roughly, 136 tons of ordnance. To get a sense of how tiny a contribution that is, in the Gulf War we dropped 85,000 tons on Iraq before the land invasion even got underway. (The Air Force's B-52s alone dropped more ordnance than all of the Navy's and the Marine's sorties combined.)

But rumor has it that the *Nimitz*, one of the Navy's most reliable carriers, will be tied up rather than given a new nuclear core, the better to justify construction of a new carrier of the very same class. And these plans could go ahead in spite of Clinton's stated intention to go from 14 to 10 carriers, which in itself hardly seems sufficient. The CBO estimates that Clinton's move would save \$6 billion in operating costs, and that doesn't account for the savings that would accumulate by mothballing (or, in some instances, not procuring) the 18 or so support ships each carrier requires.

Other built-for-the-Soviet programs scheduled to cost us small fortunes include the B-2 (20 more for \$1 billion each), which was designed to bomb the Soviets, and the Seawolf (one more for \$1.6 billion), which was designed to take on a class of Soviet nuclear submarines that might not even get built. And there's lots more. About the only argument left for any of this stuff is jobs. But how can Congress kill Clinton's \$16 billion

stimulus package on the grounds that it's wasteful, and then sign on for what is essentially a (far larger) stimulus package for the defense industry? There isn't a more wasteful, inefficient group of manufacturers in the country, and there is scarcely a more wasteful and inefficient use of government investment than billions in products that no one can use. M.I.T. economists Jerome Wiesner and Kosta Tsipis have published a heartening statistic which Congressmen should keep in mind: The same sum of money that creates one job in defense industries will create two jobs anywhere else.

Another idea to drum into the military is

### **STOP REPEATING YOURSELVES**

For decades the four branches of the military have fought for as much mission capability as possible, yielding expensive redundancy throughout. You might have thought that reconfiguring to fight a lesser enemy would mean the military could do some cutting, but the opposite is true. Each branch is now developing a reason why *it* should be the ascendant component in the new interventionary force—and therefore get all the stuff it requested. The Navy can do the job, but it needs a deep strike capability and therefore planes like the F-18E, thank you very much. The Air Force can do it, but it'll take the F-22. The Marines can do it, but give them the Osprey, for God's sake, so they can do it fast. The Army can do it, but they'll need the Comanche.

Forcing the four branches to complement, rather than duplicate, each other would save sums that can only be guessed at. It might, for instance, help to rein in the largest single item in the Defense budget, the Strategic Defense Initiative. Like every government program with staying power, Star Wars, with the help of Congress, Bush, and most recently Les Aspin, has adapted to the times. Its life was saved, as it were, by the SCUD. In the wake of the Gulf War, Congress passed the Missile Defense Act which called for the Pentagon to deploy a ground-based ballistic missile defense system by 1996.

The chum was in the water and the feeding frenzy began. Every branch of the military was demanding something and before long, DoD was funding an alphabet soup of eight overlap-

ping projects to develop theater missile defense—from Corp SAM to THAAD to ERINT and a few in between. So over the past three years, while the military is supposed to be bracing for an historic downsizing, funding for theater missile defense has climbed more than 1000%, from \$173 million in 1991 to \$1.8 billion in the 1994 budget, and the Pentagon projects that to fund all eight programs in fiscal year 1995 will take \$3 billion.

Of course, it makes some sense to figure out ways to stop ballistic missiles, but the redundancy here is staggering and as threats to the Republic go, this one has been oversold. Ballistic missiles, especially ones with chemicals and nuclear warheads, are extremely sophisticated weapons. What's far more likely is a country loading a bomb in a plane and dropping it, a sort of airborne variant of the World Trade Center approach. But even as the Pentagon adds further billions to the \$32 billion we've already spent on ballistic missile defense, it's scaling back the U.S. air defense system which provided air patrols to prevent just such improvised attacks.

DoD has long preferred what is expensive and might not work over what is cheap (or already built) and could be useful. Prestige is derived from high-cost programs, and front-loading makes high-cost programs a cinch to start and hard to stop. So we pour billions into the F-22, but still have yet to develop a medium-range drone—an unmanned plane—which could be used in lieu of live pilots for reconnaissance missions. A variety of deep strike jets are in the works, but the Air Force is retiring the far cheaper A-10s, the best close air support plane in the military, even though close air support is a far more likely mission. A slew of Arleigh Burkes is heading our way, but we had to call on our European allies to clear the mines Iraq left in the Persian Gulf after the war.

### **Unreserved**

There's also plenty to carve from the O and M account. There are, for instance, 140,000 military and civilian personnel working for DoD in Washington alone. A Pentagon official recently estimated that if you lined up all of these milicrats and marched them, four abreast, the parade would be 27 miles long and take eight hours to

walk past a given point. It's the same story outside the beltway. The military has yet to eliminate a single major headquarters, and personnel reviews tasked with downsizing consistently recommend far more staff than is necessary in thousands of nook and crannie operations around the globe.

But what's more likely is a cut in muscle rather than fat. Congress will insist on reducing O and M outlays by creating a force structure which relies more on the reserves than it has in the past. In the Air Guard, this makes perfect sense, and has for a while. Reserve squadrons, many of which are staffed with battle-tested Vietnam veterans, regularly outperform their active counterparts. Reserves in combat support roles—those moving equipment, manning communications, etc.—have performed ably as well.

But lean more on reserve combat troops? Unfortunately, in the military, as in life, you get what you pay for. National Guard combat units cost roughly 30 percent of their reserve counterparts, and it shows. During the Gulf War, by the time the "round-out brigades"—Guard divisions which are supposed to combine with two active divisions during war time—were ready to join the fray, Schwarzkopf was briefing the world on his Hail Mary end run.

Even though reserves are cheaper, they're actually a lousy value. They get the same per-day pay rate as actives, but for a reason that not even National Guard Association spokesman Vic Debima could explain, when a reservist toils for two days he gets paid for four days of work. Just for fun, see if you can work out a deal like that with *your* boss. Moreover, if future missions are more likely to resemble the operations in Somalia than the war in Iraq, it doesn't make sense to rely on combat Guard units. "Psychologically, peacekeeping missions are very stressful," says Eliot Cohen, director of strategic studies at Johns Hopkins School of Advanced International Studies. "It takes a lot of discipline and training to shoot, but it takes even more training and discipline not to shoot. It's like police work in the inner cities. Would we send police reservists to inner cities?"

But Congress loves the reserves. There are plenty of reservists, after all, in every district, and the National Guard caucus in the Senate is

the largest in the building; some 70 legislators have signed on. "These guys make the NRA look like amateurs," says Martin Binkin of the Brookings Institution. They get results. The reserves have already been downsized a lot less than the actives, and they're sure to take a fraction of the hit in the coming years.

A force structure not buffeted by Congressional cross-winds would emphasize the one thing reserves most lack: training. Back, for instance, when President Johnson halted the air campaign against North Vietnam in 1968, the Navy and the Air Force were killing just two and a half MiGs for each American jet shot down. During the lull, the Navy set up Top Gun, a grad school for pilots. Without any upgrades to their F-4 Phantom jets, the Navy pilots' kill ratio soared to 12 to 1 when the dog fights started again. The Air Force's remained at two and a half to one.

This parable has lessons for more than just force structure. Training, unlike the F-22 and the B-2, doesn't spend a lot of money and spread jobs in every direction. But the military needs training far more than either of those planes. We'll keep getting those planes, however, and a force that lacks requisite skills (or is smaller) until the Defense budget is rigged to produce what's needed, rather than what's expensive, and until all that front loaded hardware no longer puts pressure on the O and M budget. Clinton should take up the cudgels and swing until programs in the investment bow wave heading his way are dead. It will take time and political capital, but it can be done. But if he doesn't, at the same time, fight to change the system which landed this mess in his lap, the fight will be for naught. He'll have killed the F-22, but soon enough Pentagon officials will appear before Congress muttering that what they *really* need is . . . the X-88. They'll bear reams of paper proving a whole bunch can be bought for cheap. And so on.

The Defense con will have been driven briefly out of town, not put out of business. Real military reform would create a system of budgeting that is driven by threats in the world and a sane understanding of economic constraints. Just look at what is—and is not—coming in hardware and manpower and you'll realize that's not the system we have now. □