

CRS Report for Congress

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Defense Budget: Alternative Measures of Costs of Military Commitments Abroad

(name redacted)

Foreign Affairs and National Defense Division

Summary

As of Sept. 30, 1994, about 286,594 U.S. active duty military personnel were stationed overseas, including about 128,000 in European NATO countries, over 45,000 in Japan, and almost 37,000 in Korea.¹ Under current plans, the number of U.S. troops stationed ashore in Europe will decline to 100,000 by the end of FY1996, but other overseas deployments will remain stable. The Department of Defense projects that it will spend \$16 billion in FY1996 to pay and operate forces permanently stationed ashore in foreign countries.²

This \$16 billion figure, however, reflects only one way of measuring the costs borne by the United States for military activities abroad. Other definitions of costs are applied frequently. In the 103rd Congress, where Members of Congress addressed defense burdensharing issues on the floor of the House or Senate more than forty times, figures cited for the costs of "defending our allies" ranged from \$1 billion a year to \$180 billion.³ The main source of this wide divergence is the very different definitions of overseas costs being used. Commonly cited measures of overseas costs range from very narrow to very broad, including (1) incremental costs of deploying forces abroad rather than in the continental United States; (2) direct pay and operating costs of U.S. forces deployed overseas; (3) total costs, including prorated shares of weapons acquisition, overhead, and indirect support, of U.S. forces deployed abroad; and (4) total costs of U.S. forces assigned to fulfill regional commitments. This report explains these measures and analyzes some of the strengths and weaknesses of each.

¹ Department of Defense, Washington Headquarters Service, Directorate for Information Operations and Reports, *Worldwide Manpower Distribution by Geographical Area*, September 30, 1994.

² Department of Defense, *Defense Overseas Funding, FY1996/FY1997*, February 1995.

³ See: *Congressional Record*, September 9, 1993, p. H6550 and *Congressional Record*, May 18, 1994, p. H3539.

Incremental Costs of Forces Deployed Overseas

The narrowest way to measure the costs of U.S. overseas commitments is to determine how much more (or less) it costs to operate U.S. forces abroad than it would to operate the same forces in the continental United States (CONUS). These are referred to as the "incremental" costs of overseas stationing. The elements of incremental cost can be divided into three broad categories: (1) personnel pay and benefits, including stationing allowances and moving expenses; (2) operation and maintenance related to the operational tempo of forces; and (3) unit support costs, including community and family support services and base operations.

While most costs are the same regardless of where military units are deployed, some expenses vary with locale. The cost of acquiring weapons, for example, is equal for a unit at home or abroad, but housing and cost of living allowances, permanent change of station payments for moving personnel and dependents, transportation costs, and fuel and utility costs are often higher for forces stationed outside the continental United States (OCONUS). To the extent that host nations cover expenses such as salaries for foreign nationals employed at U.S. facilities, utilities, and facility construction and maintenance, some of these higher costs may be offset.⁴

If one assumes that U.S. military end strength would not shrink if forces were withdrawn from overseas -- that the United States would retain in CONUS those units presently stationed abroad rather than demobilize them -- then incremental cost is the most appropriate measure of the additional burden borne by the United States to maintain forces abroad. Determining incremental cost is difficult, however, requiring substantial manipulation of budget accounts. DOD estimates that the costs of deploying U.S. forces in Europe are between 10% and 20% higher than the direct costs of stationing the same forces in CONUS. CRS analysis of budget data suggests that this is not an unreasonable estimate. Using this as a basis for calculation, the incremental costs of U.S. forces in Europe in FY1996 will be between \$1 and \$2 billion.⁵

Direct Costs of Overseas Operations

Estimates of direct costs of forces deployed overseas represent a somewhat broader measure of the burden of commitments abroad. Direct costs include pay and benefits of military personnel, operation and maintenance of units (including civilian pay), construction of facilities, and construction and operation of military family housing. The value of this measure of overseas funding is that it is a relatively straightforward calculation with a clear meaning. Three shortcomings of the direct cost measure are worth noting, however.

⁴ Defense officials sometimes claim that it is cheaper to deploy forces in Japan than in CONUS because of Japan's large host nation support contributions. A CRS analysis, however, found that this is not the case. See, (name redacted), *Defense Burdensharing: Is Japan's Host Nation Support a Model for Other Allies?* CRS Report 94-515 F, June 20, 1994.

⁵ The incremental cost of OCONUS forces also appears to vary by service. For FY1992, a preliminary CRS analysis showed that personnel costs (a major element of total incremental costs) of forces stationed overseas were higher than those in CONUS by 8 percent in the Marine Corps, 13 percent in the Navy, 14 percent in the Army, and about 25 percent in the Air Force.

One shortcoming is that cost figures cover only forces permanently deployed ashore overseas and not the costs of forces deployed overseas afloat. This omission would be difficult to correct, since naval forces at sea are not directly associated with any particular allied country, and the costs of such forces can vary substantially from month to month. The exclusion of naval forces afloat becomes problematic in trying to assess costs of activities in different regions. Since U.S. forward deployed forces in the Pacific are comprised mainly of naval forces at sea, while forces in Europe are comprised mainly of Army and Air Force units based on land, direct costs for the two regions are not comparable.

Second, DOD's method for allocating operation and maintenance costs to units abroad is not fully consistent with its method for allocating costs to units in CONUS. Specifically, some transportation costs are treated differently, and, more importantly, the price of major depot maintenance of weapons is generally not charged to units abroad. As a result, DOD's direct cost figures fail to provide a valid basis for comparison between forces abroad and forces in CONUS.

Finally, the issue of host nation support contributions by allies complicates the interpretation of the direct cost measure. Allies that host U.S. forces provide differing amounts and kinds of host nation support. All major allies provide land free of charge to the United States, most waive some taxes and fees, and some, such as Japan and Korea, also provide relatively large amounts of more direct support, including pay of foreign nationals working at U.S. bases, utilities, and construction of some buildings. In determining what share of operating costs allies provide for U.S. forces deployed abroad, DOD simply compares U.S. direct costs to the total value of allied host nation support. Means of measuring the value of land and other indirect support vary from country to country, however, and some allied direct contributions offset U.S. operating costs while others do not. (Japan, for example, spends a large amount on noise barriers and other environmental projects at U.S. facilities, but such contributions do not reduce U.S. expenditures.) The direct cost measure, therefore, indicates how much the United States is actually expending on forces in particular countries, but it does not clarify the extent to which allied contributions may offset U.S. costs.

Despite these shortcomings, direct costs are the most commonly cited measure of overseas basing costs. Since 1989, Congress has required the Defense Department to report annually on the direct costs of forces deployed abroad. DOD's most recent report, entitled *Defense Overseas Funding, FY1996/FY1997*, projects total U.S. funding for defense operations overseas of about \$16 billion in FY1996, including \$10.0 billion for troops in European NATO countries, \$2.7 billion for troops in Japan, and \$2.5 billion for forces in Korea. **Table 1** summarizes the direct cost data provided by DOD. **Figure 1** illustrates the decline of direct overseas funding since FY1990.

**Table Table 1. Defense Overseas Funding (Direct Costs),
FY1990-FY1997**
(current year dollars in millions)

	1990	1991	1992	1993	1994	1995	1996	1997
Germany								

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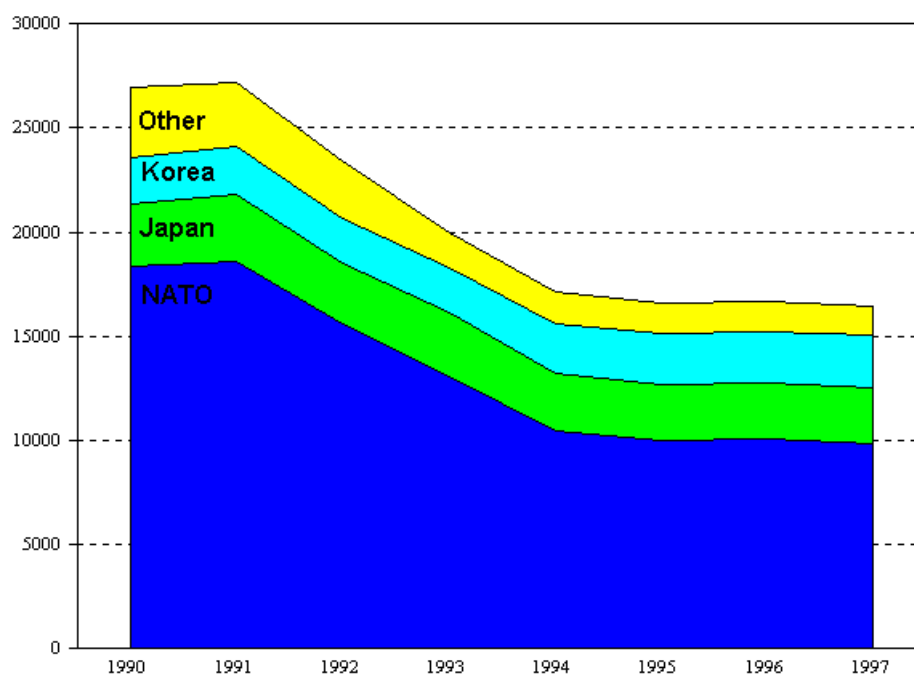
Personnel	7,738	7,254	5,647	4,138	3,612	3,209	3,190	3,170
Other	5,064	6,102	5,316	4,589	3,468	3,537	3,684	3,494
TOTAL	12,801	13,357	10,963	8,728	7,080	6,746	6,874	6,664
Italy								
Personnel	503	500	512	386	454	451	459	460
Other	954	542	637	567	485	529	557	518
TOTAL	1,457	1,041	1,149	954	939	980	1,016	978
United Kingdom								
Personnel	1,066	893	905	986	559	503	502	505
Other	710	937	629	595	528	510	469	472
TOTAL	1,776	1,830	1,534	1,581	1,087	1,013	971	977
Other NATO								
Personnel	957	855	747	675	507	487	476	478
Other	1,330	1,519	1,206	1,065	824	746	712	716
TOTAL	2,287	2,373	1,953	1,741	1,331	1,233	1,188	1,193
Total NATO Europe								
Personnel	10,264	9,501	7,810	6,186	5,132	4,650	4,627	4,612
Other	8,058	9,100	7,788	6,817	5,305	5,322	5,422	5,199
TOTAL	18,322	18,601	15,598	13,003	10,437	9,972	10,050	9,812
Japan								
Personnel	1,746	1,596	1,636	1,718	1,449	1,399	1,397	1,397
Other	1,273	1,600	1,277	1,393	1,317	1,276	1,262	1,293
TOTAL	3,019	3,196	2,913	3,111	2,766	2,674	2,659	2,690
Korea								
Personnel	1,281	1,417	1,389	1,285	1,486	1,462	1,488	1,495
Other	934	849	784	844	868	1,018	1,014	1,022
TOTAL	2,215	2,265	2,173	2,130	2,353	2,479	2,502	2,517
Other								
Personnel	1,258	1,154	856	752	698	656	579	557

Other	2,155	1,956	1,856	921	847	781	831	852
TOTAL	3,413	3,110	2,713	1,674	1,545	1,436	1,410	1,409
Total Overseas								
Personnel	14,549	13,668	11,691	9,942	8,765	8,166	8,091	8,061
Other	12,419	13,504	11,706	9,975	8,336	8,396	8,530	8,366
TOTAL	26,968	27,173	23,397	19,917	17,101	16,562	16,621	16,427

Source: Department of Defense, *Defense Overseas Funding, FY 1996/FY 1997*, February 1995 and prior years.

Note: The "other" category includes funding for operation and maintenance, military construction, and family housing.

Figure 1: Defense Overseas Funding (Direct Costs) by Region
(current year dollars in millions)



Total Costs of Forces Deployed Abroad

Total costs of forces deployed abroad include direct personnel and operating costs (as defined above) plus (1) indirect operating costs, (2) an allocated share of overhead expenses, and (3) an allocated share of investment expenditures. Indirect costs include

activities not charged to the overseas command, such as some equipment repairs, some transportation costs, and some supply operations. Overhead expenses include headquarters staffs, personnel recruitment and training, most medical care, and global communications. Investment costs are comprised mainly of weapons development and procurement funding.

In estimating total costs, indirect, overhead, and investment expenses must be allocated to particular units based on a formula that is inherently somewhat arbitrary. Analytically, the allocation process presents a problem because different formulas may lead to very different estimates of total costs. Politically, the Defense Department has been concerned that release of such figures may create a misleading impression that the withdrawal of units from Europe or elsewhere would entail budget savings equal to the estimated total costs of those units.⁶ As a result, DOD undertook such estimates only when required to do so by Congress. The figures that DOD did prepare were normally classified as secret. Occasionally, however, the Defense Department released unclassified estimates of total costs of forces deployed in certain regions. A December 1991 DOD paper reported estimated total costs of forces in Europe in FY1992 of about \$50 billion, more than double the then-current direct cost estimate of about \$20 billion. Currently, Congress does not require DOD to prepare data on the total costs of forces deployed abroad, and no official figures are available. Costs are likely lower today because of troop withdrawals from Europe and the decline of weapons procurement funding.

Total Costs of Regional Commitments

The broadest measure of costs of overseas commitments is the total costs of forces assigned to particular regions. The distinction between the total costs of "deployed forces" and the costs of "regional commitments" is that the latter includes costs of all forces *available* to fulfill U.S. military commitments abroad, including those stationed in CONUS as well as those stationed abroad. In this broadest measure of overseas costs, both CONUS-based and overseas-based forces are allocated to particular regional commitments (for example, defense of Europe), and the total costs, including direct, indirect, overhead, and investment costs, of the assigned forces are calculated.

For fiscal years 1983 to 1992, Congress required DOD to report annually on the total costs of forces available for the defense of Europe in the event of a war with the Soviet Union and its allies. In this report, DOD also estimated the total costs of forces assigned primarily to the Pacific and of contingency forces not assigned either to Europe or the Pacific. DOD complied with the reporting requirement reluctantly, and it always included an introductory essay explaining why the congressionally mandated structure of the report was, in DOD's view, misleading. DOD argued that the report was flawed because (1) forces assigned to Europe in the event of a global war were defending the United States and not just European allies, (2) such forces were available for other missions as well as defense of Europe, and (3) a reduction in forces assigned to Europe would not necessarily entail budget savings as great as the estimated total costs. Data in each annual report were classified as secret. Occasionally, however, DOD did mention data from the reports publicly, and this was the source of frequently cited estimates that the U.S. commitment

⁶ See, for example, Caspar W. Weinberger, *Annual Report to the Congress by the Secretary of Defense, Fiscal Year 1984*, Feb. 1, 1983, pp. 186-190.

to Europe's defense typically amounted to 50% to 60% of the overall U.S. defense budget -- i.e., \$150 billion a year or more.

In the post-Cold War era, the Department of Defense has shifted away from a strategy focused on a U.S.-Soviet conflict in Europe to one focused on two major regional contingencies (MRCs). Given that all U.S. military forces are dedicated to fighting and winning first one and then, if necessary, two MRCs, any measure of the total costs of regional commitments simply would reflect DOD's top line -- a requested \$257.8 billion in budget authority in FY1996. Thus, setting aside the issue of flaws in the methodology, in the post-Cold War era a calculation of total costs of regional commitments would provide no additional useful input to the burdensharing debate.

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