



Statement before the

Committee on Armed Services

Subcommittee on Oversight & Investigations

U.S. House of Representatives

on

“The U.S. Navy Shipbuilding Plan:

Assumptions and Associated Risks to National Security”

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The views expressed in this testimony are those of the author alone and do not necessarily represent those of the Hudson Institute.

Chairman Wittman, Ranking Member Cooper, Members of the Committee:

I am honored by your request to speak before this committee. The United States, like other great maritime nations in history, became a seapower because its geography coincided with the enterprising commercial spirit of our people. John Adams understood the link. He wrote that “the Great Questions of commerce and power between nations must be determined by sea...all reasonable encouragement should be given to a navy.”

Adams said “Great Questions.” Like the other founders, even those who doubted American seapower, Adams expected American to become a great nation. He was first among the founders in grasping the connection between American greatness and our seapower. So I am by no means the first to believe that the decisions about American naval power that rest importantly in your hands must shape our security, our commerce, and our destiny as a great power.

The continued shrinkage of the American combat fleet threatens our access to the world’s fastest growing markets. It risks our leadership of a more-than-six-decade old alliance on the western edge of the Eurasian continent. It challenges our country-to-country alliances with the great states that bracket the same continent to the east. It risks our ability to defend the U.S. at a distance from our homeland. And it threatens the international system that a century of American diplomacy and arms have labored to create and sustain.

Neither this nor any generation has enjoyed the ability to make decisions about its future in a vacuum. Resources, technology, and competing strategic demands of the moment cannot be brushed aside. There will always be tension between long-term goals and short-term needs. Balancing between them is the difficult task of true statesmanship. When the long-term is sacrificed for the short, there are always consequences.

In the 1970s political leaders and professionals in the field decided that electronic and overhead intelligence could largely replace human intelligence. On September 11th 2001 we learned to our dismay that this was an enormous mistake. The effort is still underway to compensate for that short-term decision of more than three decades ago.

In the years before economists changed their minds about the acceptability of a sizable national debt British leaders decided that they could not bear the imbalance in the nation’s accounts caused in large measure by the unexpectedly high cost of the Boer War. One measure they took was to reduce their naval expense. They decided that Japan could be depended on to maintain order in the Western Pacific—and that the U.S. could be trusted with the Western Atlantic. As things turned out, they were right about the Western Atlantic.

Today, one short-term view is that because our combat fleet is larger than the next 10 or 11 navies combined we can safely allow the U.S. fleet to go on shrinking. A misunderstanding of the relatively small historic size of current defense costs and their relation to the non-defense portion of the national budget (1:5) contributes to this short-term view.

Former Chairman of the Joint Chiefs Mullen said that the nation’s debt is the greatest threat to our security. I believe that the greater threat is the failure to keep a statesmanlike perspective of

our security needs in relation to our other important priorities. Dividing budget cuts equally between non-defense and defense expenses, as in last year's sequester, will neither resolve our finances nor assure our security. Assuming an equal division among the military services, however, sequestration would reduce Navy's annual budget from 2013 to 2021 by significantly more than the amount allotted to new ship construction.

American naval forces need to remain larger than the combined power of its as-yet smaller potential competitors because of their ambition, their prospects for increasing wealth, and the possibility that their asymmetric strategy will diminish our current advantage. The U.S. is also the only seapower with a trans-oceanic, global reach. This allows us to project power, deter war, and communicate with our allies around the world—all at the same time. Surrendering this ability lays open the world's strategic chokepoints to chaos or the will of states that possess an idea of international order that is wholly different from our own.

The Navy's 2013 30-year plan points the U.S. in this direction. As Admiral Greenert said recently, the Navy now aims for a fleet of "approximately 300 ships."¹ This lowers the projected size of the fleet by 13 ships from what the Navy has for the previous six years said it requires to carry out its assigned missions. Is a reduction of 13 ships sufficient by itself to cause alarm? No. Is the continued drift toward a smaller and smaller Navy troubling? Yes.

Twenty-five years ago the fleet reached its late and post-Cold War era high-water mark of slightly fewer than 600 ships. When a Navy request for a frigate was rejected then-Secretary of the Navy Jim Webb remarked that this was likely a modern-era turning point for the fleet. His prediction turned out to be correct. It has contracted since that day. Abandoning the goal of a 313-ship Navy should not be seen as an isolated event, but rather as part of a continuum which stretching into the future looks increasingly dismal.

From Fiscal Year 2012 to the FY 2013 plan the administration has reduced the number of ships it plans to purchase by 28 percent, from 57 to 41. The recently published 30-plan will hold the number of ships below 300 for half the entire period. Where the FY 2012 budget allocated \$14.6 billion dollars (constant 2012 dollars) for new construction alone, the FY 2013 budget cuts back this figure to \$10.9 billion dollars. The current FYDP calls for an average of \$11.9 billion dollars (again, all these figures are constant 2012 dollars) per year for new construction.

After the current FYDP is complete the Navy plans to increase its annual spending on new construction for the following FYDP to \$18.5 billion dollars. In the following decade, the same figure increases to a yearly average of \$19.5 billion dollars and then drops to \$15.9 billion per year for the last decade of the 30-year plan. The increases in new ship construction envisioned for the FY 2017 – FY 2022 period and for the second decade of the Navy's 30-year plan are 70 percent and 79 percent respectively. I would prefer to defer to this Committee's judgment about the likelihood that such plans will be carried out if the current administration is returned to office. If, however, the average of \$11.9 billion dollars per year that the administration plans to spend over the next five years were to be maintained over 30 years, the result would be a total expenditure on new ships of \$357 billion dollars. If the current average price of a single naval combatant, \$2 billion dollars, were to be maintained—and this is a large if—this would purchase

178 ships at the end of three decades. Under the best circumstances this would result in a fleet considerably smaller than the one that now exists, one that is much closer to 200 than 300 ships. However, even if the administration's 30-year plan is fully executed, the Navy will still face significant periods of time when it will be short of the attack submarines it needs; short of the large surface combatants it needs; and short of the amphibious warfare ships it needs.ⁱⁱ

I would like to be able to tell this Committee that questions about the fleet's future size can be answered by the increased combat capability that ships of today enjoy over their predecessors. There is some truth to this. There is also truth in the joke about the musician who when asked how to get to Carnegie Hall answers "practice." The musician is correct that practice is necessary. But practice is not a substitute for real talent. And capability is not a substitute for the presence that comes with a sufficient number of ships. The combat capability of U.S. naval vessels has increased importantly over recent years and such developments that lie on the horizon as the rail gun, solid state lasers, and unmanned vehicles in the air, on and below the surface will continue to improve our naval capability. But if we could construct a single future destroyer that is as powerful as two current ones, and if the fleet was diminished proportionately would we be better off? What good could an extremely powerful destroyer on patrol in the Persian Gulf do if a second is unavailable in the event of a crisis in East Asia's waters? The answer is 'no good at all.' Numbers matter.

I would also like to be able to tell the Committee that encouraging our allies to assume a greater share of responsibility for our collective maritime security could compensate for a reduced U.S. combat fleet. The partnerships with foreign navies envisioned by the Navy's maritime strategy published in 2007 aim in roughly this direction but most of these partners are small coastal forces that lack the sea-going and sea-keeping ability of the U.S. fleet. And while the older naval powers such as those in Western Europe maintain larger combat fleets they are a shadow of their former selves. There is no good reason to expect that they will take up the slack left by a shrinking U.S. Navy.

If the Navy's assumption is mistaken that current political leadership will agree to large future increases in shipbuilding we will be headed toward a kind of naval holiday. The equally optimistic expectation that average ship costs can be maintained at \$2 billion dollars per vessel prolongs the holiday. This will not be a pleasant holiday. China's economy has its problems but it continues to perform. Janes Defence Forecasts says that China will double its defense budget between now and 2015.ⁱⁱⁱ Russia plans a \$160 billion dollar naval expansion in the Pacific which is to include 36 new submarines and 40 surface ships.^{iv} If a couple postpones needed repairs on their home for a decade and then decides to fix all that has broken they will be very lucky to finish the job in a year. They will also be fortunate because other more prudent owners will have sustained the home repair industry. Our shipbuilding industry does not have the benefit of other purchasers who can sustain it if Navy budgets prove unequal to the task. For the industrial base that supports U.S. shipbuilding a budget-induced naval holiday would be a disaster that could take decades—if ever—from which to recover.

Knowledge of shipbuilding remains part of American manufacturing. But accelerating cost, an ageing workforce, reduced orders for warships, and an uncertain future risk the nation's ability to turn out sufficient numbers of vessels at affordable prices and profitably enough to keep

shipbuilding companies alive. The destabilization of the American shipbuilding industrial base is one reason that the cost of warships is outpacing the rate of inflation. The Navy's reduced procurement of ships over the past twenty years has caused the industry to contract, lay off workers, and in general to become less reliable. This has driven up the cost of labor and the cost of construction materials. The fewer ships the Navy buys, the less lucrative the industry is for skilled workers. As the cost of labor rises shipbuilders are increasingly pressed to attract and train qualified personnel.

The negative trends reinforce each other. As younger workers are dissuaded from seeking employment or remaining in the industry by the prospects of sporadic employment those who remain—the existing workers—age. The cycle is self-defeating. Paying older workers increases overhead costs and makes it increasingly expensive to invest in the training and education of a younger workforce. The destabilization of the industrial base also causes costs to rise since many of the materials and products that go into building Navy ships are not useful for other purposes. Since the Navy is buying far fewer ships now than it did in the 1980s, many shipyards rely on a single source for necessary materials. With a virtual monopoly on these products, the suppliers have in large part the ability to name their price. The inefficient manner in which the shipyards acquire these materials drives up labor and overhead costs. The solution lies in stabilizing the American shipbuilding industry. This means that the Navy must either increase its orders of ships and/or improve its business practices, for example disciplining the changes it requires of shipbuilders once orders have been placed and vessels are under construction. Buying and stockpiling spare parts for ships that are already in service and whose need for regular maintenance and repair is well known would also help provide stability for the American shipbuilding industry.

In a study conducted on the subject in 2006, the RAND Corporation concluded that the rising costs of building ships is the result of a combination of unsteady U.S. Government procurement rates and a “monopsony relationship” between the government and the shipbuilders. In a monopsony a single purchaser is faced with a host of sellers. Because there is so little American shipbuilding outside of what the Navy purchases, U.S. firms are at the commercial mercy of the 9 percent of the Navy budget devoted to buying ships. A 2005 Government Accountability Office report attributed cost increases in shipbuilding to instability in the entire industry, the difficulty in recruiting and training qualified personnel, high rates of skilled personnel turnover and the shipbuilders' dependence on a rapidly shrinking supplier base.

Finally there are the consequences if U.S. seapower continues to decrease and proves unable to meet even the reduced goals it has set for itself. History is a good guide. Nations in the middle like to side with the winner. During our Civil War British political leadership considered recognizing the Confederacy but was eventually dissuaded by Union military success. In World War II Sweden declared neutrality but grew increasingly amenable to Allied requests as Germany's military position worsened. Romania initially sided with Germany in the same war but changed sides following U.S. attacks on their oil fields and a coup that deposed the pro-German dictator, Antonescu. Bulgarians followed a similar path from siding with the Nazis to switching their allegiance to the Allies in 1944. Saudi Prince Bandar, acknowledging China's increasing international prominence and power visited Beijing last year and met with President Hu.

American weakness at sea, especially in the Indo-Pacific will change the current military, diplomatic, and commercial character of the region. Whether the U.S. fleet shrinks because of too little funding or because unreformed procurement practices have raised the price of ships or because ships have been called home to save on operational expense, the result is the same.

While we were once present in strength, we would be no more.

A nation burdened with massive debt whose ability to shape world events has been limited in tandem with its capacity to invest in research and technology will have more and more trouble finding markets. China's potential hegemony would not only force its neighbors' to reconsider whether the U.S. is a reliable ally. It would also become an increasingly powerful magnet for trade in the region—at the expense of U.S. commerce.

Unlike the U.S. whose seapower has protected global sea lanes that other states have used to their benefit China has a different set of values. It views with suspicion a liberal trading system notwithstanding the benefits received from it. China's friends include Iran and North Korea. Beijing is a poor candidate to support the international order that has been the keel of U.S. foreign and security policy for a century. Waning U.S. seapower is an invitation that China will regard as a complement to its rising military and navy in particular. It foreshadows a coercive resolution of territorial disputes in the South China Sea, the likelihood of an increased regional arms race, and the troubling international perception that the U.S. is—or has—abandoned its role as a great power.

American seapower is the strategic keel of our foreign and security policy. Reducing it would be an exercise of history-making shortsightedness. Restoring it would be an act of statesmanship from which Americans and all who cherish political liberty would benefit for the remainder of this century. Thank you.

ⁱ Reuters, 16 Mar. 2012

http://www.aviationweek.com/aw/jsp_includes/articlePrint.jsp?headLine=U.S.%20Navy%20Sees%20Fleet%20Target%20of%20About%20300%20Ships&storyID=news/awx/2012/03/19/awx_03_19_2012_p0-437523.xml

ⁱⁱ Annual Report to Congress on Long-Range Plan for Construction of Naval Vessels for FY 2013, p.12

<http://www.coltoncompany.com/newsandcomment/LRSP.pdf>

An Analysis of the Navy's Fiscal Year 2012 Shipbuilding Plan, Figure 3

<http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/122xx/doc12237/06-23-summaryforweb.pdf>

ⁱⁱⁱ *Financial Times*, 13 February '12 <http://www.ft.com/intl/cms/s/0/7b58ac0a-5592-11e1-9d95-00144feabdc0.html#axzz1s8qKjDPc>

^{iv} *Singapore Straits Times*, 12 April, '12 <http://web1.iseas.edu.sg/?p=7478>