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Implications of Long-Term Defense Budget Trends

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I want to thank Mr. Skelton, Mr. McKeon and the members of the committee for inviting me to testify. As an alumnus of the committee staff, it is a special pleasure to return to my old haunts. This committee continues to stand as a beacon of professionalism and collegiality among members dedicated first to doing the people's business – and their most important business: defending America.

I further appreciate the opportunity to talk to you at a critical time on a most critical subject. For those who believe that American strength is the best guarantee of international peace, global prosperity and the hopes of free people, the disparity between what we ask of those in uniform and the resources they have to fulfill their many missions is disturbing. The commitment of those in our armed services is not in doubt; indeed, if this hearing had been held on September 12, 2001, and we had known what the intervening years held in store for the U.S. military, we would have unanimously predicted that the force would break. That it has not broken – yet – is something of a miracle. But miracles are not a method. What is in doubt is whether our commitment to the mission begins to match theirs.

My testimony will be an attempt to answer three questions about long-term defense budget trends since the end of the Cold War: First, what are the trends within the defense budget? Is there a healthy and sustainable balance among the costs of personnel, operations and maintenance, research and development and procurement accounts? Second, how does overall defense spending compare to other budgetary, fiscal and economic trends? Is there a healthy and sustainable balance of defense spending relative to other government spending and consistent with continued economic growth? Finally, and most important, are military budgets and forces adequate to meet U.S. national security strategy goals? Is there a health and sustainable balance between our strategic ends and our military means?

Before analyzing what has happened internally to U.S. defense budgets, I want to establish the facts of the case, not just in regard to the post-Cold War period but the post-World War II era. This is the right way to frame the question, because what we really need to know is not just how much it cost to defeat the Soviet Union but how much it costs to maintain the U.S. guarantee and protection of the liberal, international order that has defined the world since World War II until today. And, as I will argue in the conclusion of this testimony, this remains the yardstick by which we should measure our defense requirements and budgets going forward.

Two additional program notes: in my testimony I will measure defense spending as a percentage of U.S. gross domestic product whenever possible. I regard this as the most reliable yardstick to compare budgets over time, in that it represents the "opportunity cost" of defense relative to the economy as a whole. In a dynamic and growing economy, even "constant dollars" do not adequately capture the political elements of defense budget decisions, or reflect the level of sacrifice that Americans are willing to make. Second, in dealing with budgets of the post-9/11 period, I will distinguish between the "baseline" budget – those figures that capture the costs of raising, training and initially equipping the force – and the wartime costs covered by supplemental appropriations. To the Treasury or the taxpayer, it is true that a dollar spent is a dollar spent, no matter how it is accounted for. On the other hand, if we are to measure our level of preparedness across time, then baseline budgets are the most appropriate numbers to compare. A footnote: my figures will be, for the most part, those published by the Office of Management and Budget.

To begin: at the height of World War II, from 1943 to 1943, military spending consumed slightly more than 37 percent of U.S. gross domestic product, but as the war came to an end, the traditional American post-conflict demobilization set in and spending quickly fell to 3.5 percent of GDP in Fiscal Year 1948 – less than one-tenth as much. With the beginning of the Cold War, the promulgation of the Truman Doctrine, the development of the strategy of containment and the guidance of NSC 68, the United States began to rearm, in 1951 devoting 7.4 percent of its wealth to defense. The outbreak of the Korean War drove defense spending as high as 14 percent of GDP.

President Eisenhower came to office promising to end the conflict in Korea and rein in the "military industrial complex." He embraced the Cold War commitment and the basic containment strategy, but looked for less-costly military means and found them in the form of nuclear weapons and the doctrine of "massive retaliation." But while the Eisenhower reductions represented almost a 30 percent reduction in defense spending, the overall level remained above 10 percent of GDP until the final year of his administration.

The Kennedy-Johnson years saw a continued dip in expenditures that only ended with the escalation of the Vietnam war. Still, defense spending represented 9.4 percent of GDP in 1961 and 9.4 percent of GDP in 1968, the height of the Vietnam buildup; the low point was 7.5 percent of GDP in 1965. After Vietnam, defense spending was gradually reduced to a further low of 4.6 percent of GDP in 1979 – the year of the Soviet invasion of Afghanistan, the year of the Iranian hostage crisis, the seizure of the Grand Mosque in Mecca and the year that Saddam Hussein came to power in Iraq.

The Reagan buildup peaked at 6.2 percent of GDP in 1986 and then slid to its Cold-War "close" in 1992 at 4.8 percent, also the year of Operation Desert Storm. President Clinton oversaw the post-Cold War drawdown, with U.S. armed forces essentially reduced by one-third and spending dropping to an even 3 percent of GDP. Through the Bush years and into the first year of the Obama Administration, FY 2010, "baseline" defense spending – that is, the core defense budget not including war-related costs – has risen to about 3.6 percent of GDP. War-time costs have averaged just about 1 percent of GDP, though with the Iraq surge and perhaps now with some kind of surge in Afghanistan, and with the slowed economic growth, war costs may rise to a level of about 1.2 percent of GDP.

In sum, the general pattern is this: the overall "baseline" cost of the U.S. military, carrying out its global mission, has become cheaper and cheaper: during the 1950s this baseline posture cost about 9 percent of GDP, during the 1960s it fell to about 7.5 percent, during the 1970s to about 5 percent, and during the 1990s to about 3.5 percent, where it remains. Only the Reagan years interrupt the general pattern of peacetime defense declines, and that increase was but 1 percent of GDP, for a period of five years.

Further, the cost of America's wars has likewise been reduced: Korea cost about 3 percent of GDP, Vietnam about 2 percent, and the "Long War" campaigns in Iraq and Afghanistan a little more than 1 percent; no other conflict, not even Desert Storm, makes any macroeconomic imprint.

Altogether, the costs of American primacy have been low and generally getting lower over time. That doesn't mean that it will ever be thus, but it does suggest that the preservation of American primacy is entirely affordable.

The Post-Cold War 'Cap' on Defense

This quick historical summary also makes plain that there has been a *de facto* "cap" on baseline defense spending for the past 15 years, instituted by the Clinton Administration, confirmed by the second Bush Administration and that is reflected in the Obama Administration's budget plans: Clinton reduced Pentagon spending to 3 percent of GDP; Bush bumped it to 3.5 percent, and Obama's plan to "freeze" the defense topline will see the level fall again to 3 percent at the mid-point of a projected second term in office.

Naturally, the fall in military spending from the end of the Reagan term through the 1990s had many effects: the size of the Cold-War force was cut by a quarter to, in the Army's case, about a third. But there were deeper cuts in weapons research and, most critically, procurement; the 1990s quickly became known as a "procurement holiday," and this was reflected in several rounds of defense industry consolidation. Both Democratic and Republican administrations strove mightily to preserve the all-volunteer force, which not only had proved itself a highly capable military instrument, but was essential to preserving domestic social harmony; no one wanted a return to the draft or a conscript force.

Within an essentially fixed budget top line, the increasing emphasis on people gradually began to have larger, unanticipated debilitating effects. As the Rand Corp. has written: “Besides good [basic] pay, careerists demanded quality-of-life benefits such as good housing, child care, health benefits, family advocacy programs and military stores.” An all-volunteer force had to be “family friendly,” and to offer people in uniform something that resembled the kind of life the rest of us came to take for granted; military servicemembers were to be included in the American Dream.

Over time – and paralleling civilian experience – personnel costs and benefits have consumed an increasing slice of a fixed defense pie. Stephen Daggett of the Congressional Research Service has calculated that the costs of military pay and benefits, even after adjusting for inflation, have risen from $55,000 per individual servicemember in 1998 to $80,000 in 2009. When health care costs are included, the figure rises to more than $100,000 per year. That’s before training or equipping anyone – these are just the costs of being present.

Again reflecting civilian trends, the most rapidly rising personnel-related costs are health-care expenses. At the end of the Cold War – when the force was much larger – health care accounted for about 4 percent of defense spending. During the Bush years, that doubled and current trends would take it to 12 percent by 2015. Most of this increase is due to a single benefit, “TRICARE for Life,” enacted in 2001. This extended the benefits of the military health insurance program to members, their families and survivors of their lifetimes; formerly, they were transferred to Medicare coverage upon reaching age 65. Thus, the GAO has found that TRICARE costs have been growing at an annual rate of 16 percent, doubling the cost to the defense budget from $17.4 billion in FY2000 to $35.4 billion in FY2005. Prescription drug costs are rising even more rapidly, tripling in the same period.

The expansion of benefits continues. The 2008 “Post-9/11 Veterans Educational Assistance Act,” a kind of new “GI Bill” extending educational benefits to those who have served since 9/11, will cost about $52 billion dollars through 2018, according to the Congressional Budget Office.

I am not arguing that these benefits are not deserved nor that they do not contribute to military effectiveness: the amazing resilience of the current force through the trials and multiple deployments of Iraq and Afghanistan is far more than personnel experts might have anticipated, and no doubt these benefits played some part in that. If nothing else, they are an expression of moral gratitude from the many who do not serve to the few who do. Nevertheless, these benefits consume an increasing slice of the Pentagon’s baseline budget. In 1985, at the height of the Reagan buildup (and with a much larger force), the Pentagon spent $1.42 in weapons procurement for every dollar it spent on personnel. By 1998, at the depth of the Clinton drawdown, the situation was more than reversed: for every procurement dollar, the Pentagon spent $1.55 on personnel. The 2001 defense budget, reflecting the initial adjustments of the Bush Administration but prior to the 9/11 attacks, had a procurement-to-personnel rate of 1:1.22. In sum, we take better care of our soldiers, sailors, airmen and Marines when they’re at home than when they’re at war, where a good weapon is the best form of health care.

The Rest of the Picture

But these shifts among accounts within the constrained defense budgets of the post-Cold War period are only a part of the story. Consider this snapshot of federal spending in 1992: total federal spending claimed about 22 percent of GDP. Defense spending was 4.8 percent, and "non-defense discretionary" programs – that is, domestic programs voted on by the Congress – to 3.7 percent. Social security accounted for 4.6 percent, while Medicaid, Medicare and other entitlements took a further 6.4 percent of GDP. Servicing the national debt added 3.2 percent, for a total of 14.2 percent in mandatory spending. In sum, not only was defense spending beginning to fall, but other forms of federal mandatory spending were on the rise, amounted to three times as much.

Now look at the situation in 2001. Federal revenues claimed 18.4 percent of American income. Defense spending had fallen to just 3 percent of GDP, now outpaced by non-defense discretionary spending at 3.4 percent. Luckily, economic growth had momentarily reduced the burdens of mandatory spending, with the cost of entitlements holding steady but interest payments down to just 2 percent of GDP. While the active defense establishment had remained small, the United States might have mobilized its wealth to expand its military power. Yet despite the attacks of September 11, the Bush Administration refused to systematically rebuild the armed services.

Fast-forward to 2016, using numbers released by the administration as it rolled out its budget plan this spring – and before even a guess at the final effects of any health care legislation could be taken into account. Thanks to the presumption of a rapid and sustained recovery, the White House predicted that federal spending will be held to 22.4 percent of GDP in 2016. Alas, the administration will have been borrowing a lot of money in the interim, and so the total debt will have grown from 40 percent to about 70 percent of GDP. Total mandatory spending in that year – social entitlements plus debt service – accounts for 22 percent of GDP, domestic discretionary programs about 4.2 percent of GDP, while baseline defense spending drops a shade below 3 percent.

At this point, the nation's ability to rebuild the armed forces could be in serious question. Entitlements and debt will claim all but a small portion of federal revenues. Almost all annual appropriations – not, of course, including any wartime or other "emergency" appropriations – would require further borrowing. While the relationship between finance and strategy is a complex one – at the height of the Napoleonic wars, Great Britain's debt was 250 percent of annual GDP – the accelerating growth of entitlements is unquestionably a threat to the ability to mobilize the American economy for military purposes. At the beginning of the Korean War, entitlement costs were 0.3 percent of GDP; in 1968, at the apogee of the Vietnam mobilization, entitlements were less than 5 percent; at the height of the Reagan buildup, they were about 9 percent of GDP. As these costs continue to grow and indeed are accelerated by the aging of the "Baby Boom" generation and the addition of further entitlements, the ability to regenerate military power will atrophy.

Implications for Strategy

These trends would be bad enough news if the effects were limited to the nation's finances and economy more broadly. Many Western European nations have found themselves in similar circumstances, but the geopolitical consequences of Europe's decline have been mild.

The consequences of American decline would not be the same. This is how the Australian government put it in their recent defense white paper: "Of particular concern would be any diminution in the willingness or capacity of the United States to act as a stabilizing force. In circumstances where a global transformation in economic power and commensurate redistribution of strategic power continued to the point where its cumulative effect required us to alter our assumptions about the weight and reach of U.S. strategic primacy," the Australians would have to fundamentally reassess their situation. Already, the white paper is intended as a "hedge" against uncertainty about U.S. power and purpose, not only in East Asia, but in the world.

When the Aussies start talking like that, we should take notice. The assumption of "U.S. strategic primacy," which our allies regard as a very good thing, rests upon a number of pillars: a proven nuclear deterrent, assured access to and the ability to achieve local supremacy across the "global commons" – that is, the ocean, the air, space and, increasingly, cyberspace – and a favorable balance of power in vital regions: continental Europe, East Asia, and what we have come to call "the greater Middle East."

There are new challenges to American primacy in all these areas. Europe's great-power peace, bought after a century of effort at great cost in blood and treasure, is durable, but Russia's inability to accommodate to its loss of empire remains a worry. In the 30 years since the creation of the Rapid Deployment Joint Task Force, the precursor to U.S. Central Command, the American military presence in the Middle East has mushroomed, and our posture is no longer one of "offshore balancing" but an "onshore," long-term stabilizing mission. And in East Asia, the engine room of future economic growth, the rise of China and the surge in Chinese military power is sparking new competitions, if not yet new conflicts. And the global nuclear balance is becoming more complex and less stable: the bipolar, Cold-War "balance of terror" is giving way to a multipolar, even more terrifying regime wherein all great powers but the United States are modernizing and expanding their arsenals and where proliferation is putting nuclear capabilities within reach of otherwise "derelict" states, to borrow a phrase form John Quincy Adams; it is their weakness that makes them most dangerous.

This is the most ominous long-term defense budget trend of all: that the level of investment will not match the level of threat or the level of our strategic need. The requirement far outpaces any reasonable hope of internal reform. If we are to preserve American primacy – and the remarkably peaceful, prosperous and free international system that we have created – we must not only spend smarter. We must try to restrain our appetite for social entitlements. But most of all and first of all, we must reverse the trend toward decline, and rebuild our armed forces. The longer we postpone these decisions, the more painful they become.