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The Changing Economics of Defense Spending

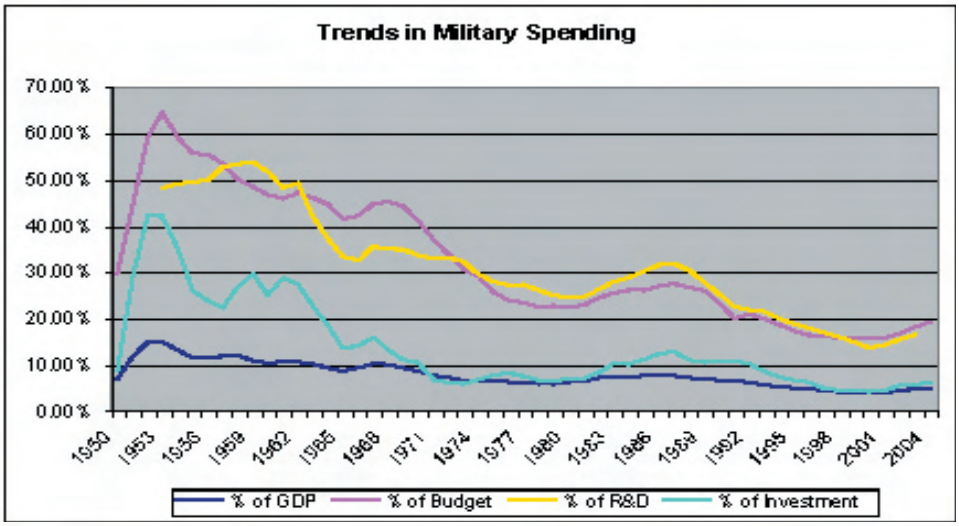
The United States presently faces a global war on terrorism likely to continue for years. Major troop deployments in Iraq and Afghanistan have uncertain end dates. The national debt is fast increasing. Can we afford this defense posture?

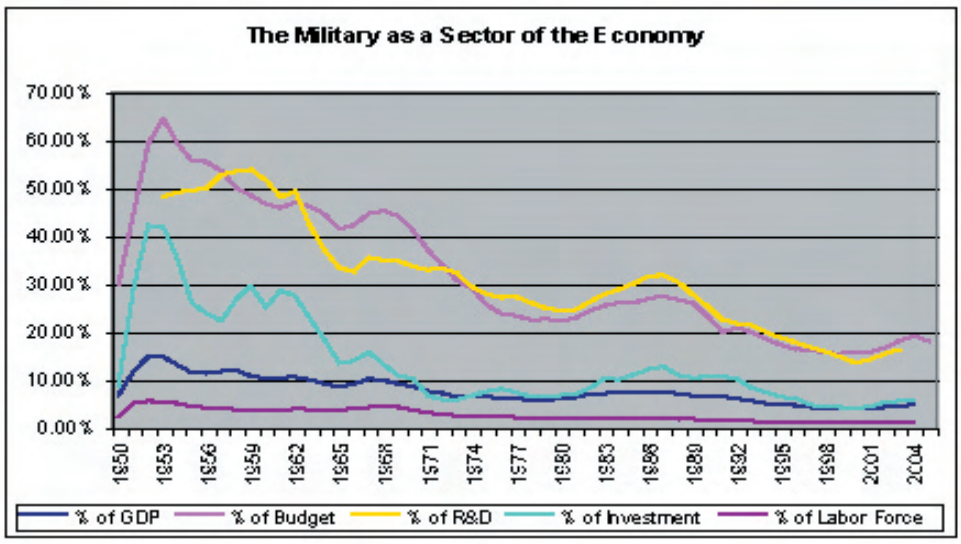
Yes, we can. That is, according to Murray Weidenbaum, eminent economist and CSIS trustee. At a recent CSIS Global Strategy Institute forum, Weidenbaum set present levels of military spending in historical perspective and offered his finding that current funding is well below past peaks by any measure. But he made this claim with an important caveat: the fact that we can sustain this level of spending doesn't imply that we should.

Dr. Weidenbaum's analysis illustrates a common trend across multiple measures of U.S. defense spending. As the peaks and troughs in the graph show, spending rises with tension and war, but then proceeds to fall afterward. This is no surprise. More interestingly, the data illustrate an overall downward trend in spending as a relative percentage since the end of the Second World War. From the mid-1950s onward, peaks and troughs are lower with each military build-up cycle. The same trend holds for the labor force involved with the military.

Prof. Weidenbaum provided an exception to this argument. He noted that defense spending represents just over half of the discretionary budget. Congress allocates the discretionary budget each year, unlike entitlement spending, such as interest on national debt and social security, which are budgeted automatically. As a result, if deficits pressure Congress to cut the budget, defense spending is particularly vulnerable to cutbacks.

Budgetary figures seem to support the idea that defense spending is vulnerable to cuts. The rise in entitlement spending corresponds with the drop in defense spending. The retirement of the baby-boomer generation means that





Source: Data from PowerPoint presentation by Professor Wiedenbaum, September 28, 2005.

unless current programs are changed dramatically, entitlement spending will continue to grow as a percentage of the budget. The past few decades have also shown that non-defense discretionary spending has tended to hover around 20 percent of the federal budget. If these trends continue, the defense budget may still get more money in absolute terms, but it well get an ever smaller slice of the federal budget pie.

What should the U.S. spend on defense? How much is too much; how much is enough? Weidenbaum suggested that budget and economic analysis does not suggest any practical upper or lower limits to U.S. defense spending. He instead proposed that comprehensive risk analysis should be used to determine U.S. priorities for defense spending. For example, proposed 2006 budgets contained $9 billion for the Pentagon's missile defense systems[1] but just $1 billion for Department of Energy nuclear nonproliferation programs.[2] Risk analysis could evaluate the emphasis on missile defense by comparing the threat posed by rogue states with long-range missiles to the threat of terrorists acquiring materials necessary to create a bomb.

When it comes to funding for research and development, however, Weidenbaum does not hedge his support for spending. He argues that during the 1980s, defense R&D spending primed the pump for nationwide R&D spending. In the wake of 9/11, however, Pentagon spending has not had a similar effect. The Pentagon spending on research, development, testing, and evaluation has increased by 40 percent over the past five years.[3] However, audience members suggested that development of outdated weapon systems represented too large of a percentage of that spending. Pentagon general science and basic research has risen by a little less than six percent since 2003 suggesting that it has by no means been abandoned.[4]

Finally, audience members pointed out that with the dramatic increase in homeland security spending, researchers should not equate military spending with national security spending. This echoes the recommendation of CSIS's Beyond Goldwater Nichols Report, which calls for integrating national security and homeland security approaches.[5] Professor Weidenbaum pointed out that this debate over what constitutes national security spending is not new. When the military is popular, other groups try to attach their spending to defense bills. When the military is more controversial, the opposite occurs. This trend will probably expand. Even though homeland security does not have a special top-level budget category, many programs outside the department try to justify themselves as guarding against terrorism.

The issues raised by homeland security bring us back to Professor Weidenbaum's suggestion that risk analysis and not budgetary analysis must drive spending. Without a comprehensive understanding of risk, the American government is prone to directing spending to the issue of the year rather than to those programs that will best protect citizens. Worse yet, Hurricane Katrina showed that correctly predicting risks is far easier than taking the steps necessary to mitigate them.

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[1] AFP. 2005. Missile Defense Takes Big Hit In 2006 Budget Plan. *Agence France-Press (Paris)* February 7, 2005.

[2] OMB, 2005. *Budget of the Unitd States Government, FY 2006; Department of Energy*, 2005 [online]. Washington: Office of Management and Budget [cited 20 December 2005]. Available from the World Wide Web: (http://www.whitehouse.gov/omb/budget/fy2006/energy.html)

[3] AAAS, 2005. *Trends in Defense R&D, FY 1976-2005*, 2005 [online]. Washington: Advancing Science Serving Society [cited 20 December 2005]. Available from the World Wide Web: (http://www.aaas.org/spp/rd/trdef05c.pdf)

[4] AAAS, 2005. *Trends in Defense R&D, FY 1976-2005*, 2005 [online]. Washington: Advancing Science Serving Society [cited 20 December 2005]. Available from the World Wide Web: (http://www.aaas.org/spp/rd/trdef05c.pdf)

[5] CSIS, 2005. *Beyond Goldwater Nichols*, 2005 [online]. Washington: Center for Strategic and International Studies, International Security Program [cited 20 December 2005]. Available from the World Wide Web: (http://www.csis.org/isp/bgn/)