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US Defense Planning:
The Challenge of Resources

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Executive Summary

As is the case with virtually every aspect of US force planning and "overstretch," the US faces far more serious issues in making national security decisions than dealing with Iraq. If Iraq sounds any warning about the challenge of resources, and "overstretch" from a strategic perspective, it is that America needs to conduct a much broader examination of the costs associated with remaining the world's preeminent superpower and needs to make harder choices about its national priorities.

The US does not effectively program or manage defense spending. It lets costs escalate to the crisis point and then either reduces program costs to fit its budget goals or increases expenditures on a crash basis. It manages through failure. When major equipment purchases or force transformations finally escalate too much in cost, the level of activity is cut back to fit the budget, or parts of the spending are slipped into future years. The DoD has a long history of compensating for undercosted plans by not fully executing the plan or entirely canceling the program. In fact, every major DoD procurement and force transformation plan has been subject to such cuts or deferrals for at least the last quarter century. American defense plans simply do not survive engagement with reality.

US defense spending can be interpreted in several ways. One way is to focus on the fact that US military spending has risen sharply since FY2000, and may well exceed $500 billion a year in constant dollars indefinitely into the future. The US has found that the cost of fighting asymmetric wars in Iraq and Afghanistan has been far higher than the Department of Defense planned for. The US will either have to increase spending in the future or cut some aspect of US defense programs. The US also faces major problems in funding current force transformation and procurement programs that either require significant force cuts or additional spending.

However, while it is easy to talk about the burden of US military spending, such spending only puts a limited burden on the total US economy and federal spending. In 2006, the US had a GNP of well over $11 trillion. The Bush Administration projected in its official budget submission to Congress for FY2007 that the US would spend only 3.3% of its GDP for DoD, and 3.8% for all defense spending. Such estimates for FY2007 ignored wartime supplementals, but if one looks at actual spending that included such supplementals during FY2003-FY2006, DoD accounted for 3.6-3.9% of all federal spending, and total defense spending accounted for 3.9-4.1%.

The figures for federal spending reveal an equally limited strain. The US is now talking about annual budgets in excess of $2.4 trillion a year, and the Bush Administration budget for defense spending as a percent of total federal spending in FY2007 was projected at 16.2% for DoD and 19.0% for all defense spending. If one looks at actual spending during FY2003-FY2006, DoD accounted for 17.9-19.0% of all federal spending, and total defense accounted for 18.7-20.0%.

Historically, defense spending reached annual peaks of 38% of the GNP during World War II, 14% during the Korean War, 9.4% during Vietnam, and 6.2% during the Cold War following Vietnam. The historical low in the post-Cold War era reached 3.0% in FY1999-FY2001, but the average since 1992 has been around 3.6%. If one looks at the averages by decade, defense spending has so far placed a smaller burden on the US economy than during any decade since 1940.

The US badly needs to look beyond the narrow issue of defense spending and consider what forces are actually putting pressure on the federal budget and US economy. If one examines what is happening within the federal budget, there may well be a need for a very different kind of

debate over the budget deficit, the federal debt, and growth of mandatory federal spending and other sharply rising domestic expenditures -- rather than simply focusing on defense.

According to the CBO baseline forecast, the federal budget deficit is estimated to change from $318 billion in 2005 to $337 billion in 2006, $271 billion in 2007, $259 billion in 2008, $241 billion in 2009, $222 billion in 2010, and $114 billion in 2011. Moreover, the CBO baseline forecast estimates that the federal debt will increase from $3.3 trillion in 2005 to $3.5 trillion in 2006, $3.8 trillion in 2007, $4.1 trillion in 2008, $4.5 trillion in 2009, $4.8 trillion in 2010, and $5.2 trillion in 2011. Other projections forecast that if current policy trends continue, they will lead to large sustained deficits. For example, the Concord Coalition baseline projection estimated that the federal budget deficit would reach approximately $380 billion in 2007, $390 billion in 2008, $400 billion in 2009, $410 billion in 2010, and $500 billion 2010. In addition, this projection estimated that the US federal budget deficit would reach approximately $800+ billion in 2015.

The US needs prudent federal fiscal polices. If it wants national security in an era where geoeconomics are at least as important as geopolitics and military forces, it needs a society that is competitive, that allows free markets to work while protecting those who truly need public aid, and where individuals remain productive and pay their own way. Yet, fiscal responsibility does not mean myopic focus on defense.

Mandatory programs like Social Security, Medicaid, Medicare, and other social welfare programs must be brought under control. The Bush Administration and the Congress, however, have so far chosen politics over fiscal responsibility, and spending could be far higher. The GAO has warned that current spending trends -- driven by net interest, Medicare and Medicaid, and Social Security -- could easily raise baseline federal spending from some 20% of GDP through 2015 to 25% by 2030 and close to 30% by 2040. If all current tax cuts and relief were sustained, and spending grew at recent rates, these figures would drive federal spending to around 24% of GDP by 2015, 34% by 2030, and over 45% by 2040.

The US needs to make major trade-offs in the cost of mandatory programs that are estimated to rise in cost from $1.4 trillion in 2007 to $2.5 trillion in 2016. The pressures defense puts on the economy and the federal budget are low by historical standards, and minor compared to the pressures put on the budget by mandatory expenditures and entitlements. Moreover, even if defense spending rose by another third, it would still only equal the burden defense placed on the economy during the less expensive periods of the Cold War. The real issue, therefore, is not to seek ways to reduce defense costs or resources, but rather to determine what levels of spending are actually needed and provide them. The US can almost certainly afford all of the national security it needs if it can manage other aspects of social programs and defense spending.

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Introduction

As is the case with virtually every aspect of US force planning and "overstretch," the US faces far more serious issues in making national security decisions than dealing with Iraq. If Iraq sounds any warning about the challenge of resources, and "overstretch" from a strategic perspective, it is that America needs to conduct a much broader examination of the costs associated with remaining the world's preeminent superpower and needs to make harder choices about its national priorities.

Iraq is a contingency where the US scarcely faces an opponent with the capabilities of North Korea or China. If Iraq is "overstretch," then many other possible contingencies can push US forces beyond their current limits. The US has no guarantee that it will not fight serious conventional wars, fight more serious forms of asymmetric war, or confront periods like the one it faces today where it has three simultaneous conflicts: Afghanistan, Iraq, and the global "war on terrorism."

It is clear, however, that the resources the US spends on defense need close examination for a nuclear of key reasons:

- The failure to create effective tools for linking strategy, force plans, programs, and budgets.
- The need to understand what the Iraq War, Afghan War, and war on terrorism do and do not explain about the overall adequacy of US defense resources.
- The level of overall stress that defense spending puts on the federal budget and the GDP in both wartime and peace.
- The need to consider whether defense spending is the main challenge in terms of priorities for federal or social spending or whether on a national level there are actually major greater strains that may argue for major shifts in resources to higher priority areas like defense.

Understanding the Challenge of Resources

It is sometimes difficult to understand why the US does so bad a job of defense programming and budgeting and why dollars usually receive less attention than policy. Strategy, force plans, and technology always seem to have a level of glamour that makes money seem boring by comparison. They almost inevitably receive far more attention than resources, and far too often the focus on strategies, force plans, and weapons means little attention is paid to their real world affordability and cost. Even the best plans have little practical value unless they are affordable and properly funded. Strategy, tactics, doctrine, and force transformation plans are meaningless unless they are actually executed, and the limiting factor is almost always resources.

It is also hard to tie most defense spending data to the ability to execute a given strategy or force plan. The US provides a flood of data on military spending, but most of this apparent transparency has severe limits and many of the data are totally dysfunctional in showing what forces or missions cost -- much less whether the resources provided are adequate.

The latest Quadrennial Defense Review is simply one more milestone in a long line of well-intentioned failures to give strategy real meaning in terms of force plans, costs, and practical program budgets. Generations of US defense officials have talked about fixing the US defense planning, programming, and budgeting system (PPBS), but the current system still has all the same flaws it did when it was formed under Secretary Robert McNamara in the early 1960s.

The "programs" in the US program budget are categorized in ways that have little or no practical meaning in terms of key missions. It is far more a crude budgeting tool than a planning or programming tool, and its future year defense plan (FYDP) is heavily decoupled from both US military force plans, civilian force transformation efforts, and the real world costs of future procurement plans and programmed force changes.

The problems in the way the US shapes and reports on defense spending go far beyond military taxonomy and the nature of the data presented. Planning, programming, and budgeting have little meaning unless they are executed efficiently within the planned level of funding and costs. The PPBS and budgeting effort has also become one of the most inefficient bureaucratic nightmares in human history. The ability to formulate the FYDP has become steadily more cumbersome and time consuming in spite of computers, word processors, and countless efforts to improve and integrate the Department's accounting and budgeting systems.

It is the ability to create plans and management tools that ensure plans are affordable, however, that has proved to be the most serious problem the US has in managing its defense resources. The Department of Defense has an appalling record in costing its forces, particularly major force changes and major new procurement programs. In case after case, the Department has to make drastic cutbacks in some aspects of its force or procurement plans, but such exercises in "cost containment" at best are exercises in living with failure after the fact.

The US does not effectively program or manage defense spending. It lets costs escalate to the crisis point and then either reduces program costs to fit its budget goals or increases expenditures on a crash basis. It manages through failure. When major equipment purchases or force transformations finally escalate too much in cost, the level of activity is cut back to fit the budget, or parts of the spending are slipped into future years. The Department has a long history of compensating for undercosted plans by not fully executing the plan or entirely canceling the program. In fact, every major Department of Defense procurement and force transformation plan has been subject to such cuts or deferrals for at least the last quarter century. American defense plans simply do not survive engagement with reality.

There are several other techniques for managing through failure that the Department uses to reduce the burden of defense spending, and that compounds its future problems in bringing plans into balance with resources. One is to defer spending during wartime or periods of peak spending in areas like maintenance, housing and construction, and every other area where it is possible to put spending off for several years. Another is to play with the annual flow of spending on major programs so they do not appear in the current year's outlays -- and become visible in terms of their impact on the overall budget deficit. Still another is to slip major spending on new procurement or forces beyond the tenure of the current president or the period of the FYDP. This "slipping expenditure to the right" either forces the next president to take hard decisions about cutting programs or increasing spending, or hides the full budget impact of defense plans from the Office of Management and Budget and Congress.

The Cost of US Defense Efforts

Some of the cost containment problems put on US forces have been eased by the fact that US defense budgets have risen steadily in recent years, compounded by the ability to use wartime budget supplementals to pay for a host of planning and management mistakes. This rise has been far smaller in constant dollars than in current dollars, and defense costs have continued to escalate more quickly than resources, but throwing more money at the problem does conceal a multitude of evils and mistakes.

Department of Defense Spending

The data in **Figure 3.1** reflect the trends in past and projected national security spending by the Department of Defense. They show the recent trends in US defense spending in current and constant FY2006 dollars and both the new authority to spend incurred in a given year (Budget Authority or BA), which may actually be spent over a period of future years, and the actual money that will be obligated from the federal budget in a given fiscal year (Budget Outlays or BO).

Such figures provide a rough estimate of the cost of US defense burdens, although they do not include such other national security spending as the cost of programs in the Department of Energy, some aspects of intelligence, homeland security efforts by civilian agencies, and some aspects of pensions.

The data that project future spending also conceal the cost of most wartime expenditures, and an increasing number of programs with no direct links to war, which have recently been paid for using budget supplementals. The past additions authorized by Congress, and included in the actual spending totals through FY2006, amounted to $13.6 billion in budget authority in FY2001, $17.2 billion in FY2002, $78.6 billion in FY2003, $88.1 billion in FY2004, $75.6 billion in FY2005.[1] Congress is putting increasing pressure on the Department to include such costs in its formal budget submissions, but it is naturally reluctant to do so as long as supplementals offer the promise of "easy money" and help reduce political resistance to raising spending.

The analysis of US defense spending is also complicated by the fact that the US does not count most internal security spending in its figures, and reports two different totals for defense spending. The first, called the 051 account, only covers spending by the Department of Defense. The second, called the 050 account, includes spending by the Department of Energy on defense-related items like nuclear weapons and limited transfers from other agencies. This spending adds from $20 billion to $24 billion a year to Department of Defense budget authority and budget outlays, and is planned to average about $20 billion during FY2007-FY2001.

Figure 3.1 focuses on Department of Defense spending and shows the O51 account, because this provides the best picture of how US strategy, force plans, programs, and budgets are being shaped. In spite of the limitations in the data, the spending trends and estimates in Figure 3.1 illustrate several important points:

- The rise in real defense expenditures is much smaller than the trends in current dollars indicate. There is a tendency to focus on current dollars, but such rises are never a particularly meaningful measure of the burden defense spending imposes or of the real resources available. In fact, if one looks at the longer term pattern in outlays -- which is the key measure of the burden on the budget -- the levels programmed for 2007-2010 are not higher than the spending in constant dollars during the Vietnam War (FY1968 and FY1969), or peak peacetime spending before the end of the Cold War (FY1986-FY1988).[2]

- While US budget outlays and authority differ from year to year, they generally follow a consistent pattern. From the viewpoint of measuring defense resources, or "overstretch," the trends in one type of spending are generally valid in shaping the other.

- The spending through FY2004 consists of "actual" spending (figures can be revised in minor ways for several years later). The sudden peak shown for FY2003-FY2007 reflects both a planned increase in spending by the Bush Administration and the impact of unprogrammed and unanticipated spending on the Iraq War. This sudden rise is scarcely a minor amount. At the same time, one needs to be careful about talking about any strain or "overstretch" coming from such wartime spending. Even the peaks remain close to the levels the US spent during the Cold War when there was no conflict at all.

- The future year defense plan for FY2007-FY2011 presents several problems for future year spending. Outyear costs legitimately do not include what is not yet planned and programmed, and undercost current forces and capabilities by definition. The data shown, however, does not include the future costs of the Iraq and Afghan Wars, which have been left to budget supplementals that will cost $120 billion more in FY2007 alone.

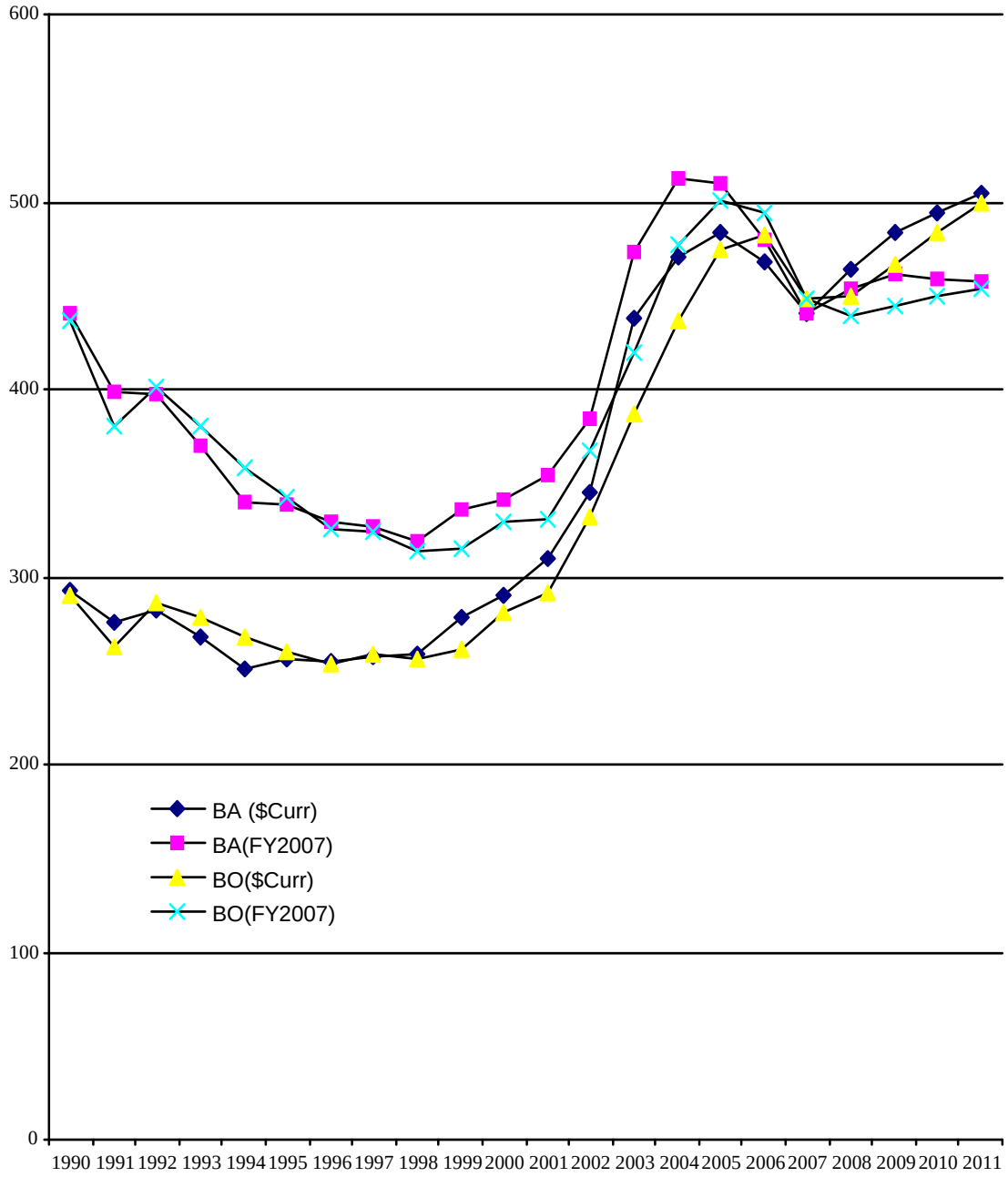
- These totals do not reflect anything approaching the real world cost of the force transformations and new weapons systems and equipment the Department is counting on. This is partly because the Department only includes "known" expenditures in its forecasts. For decades, however, the main problems in such underestimates have been budgeting tricks that slip much of the main wave of such spending for the years beyond the budget projections, and by perpetually undercosting procurement and research and development.

At this point in time, it is hard to do more than guess at how much the US will really spend as long as the wars in Afghanistan and Iraq last. The unfortunate reality is that it is far easier to analyze both the adequacy of past defense spending -- and the extent to which it places a burden on the federal budget and economy -- than the impact of current and probable spending in war time (where a reliance on supplementals means the Department fails to attempt to cost ongoing conflicts), or future spending involving major force shifts or new procurements.

Figure 3.1

Department of Defense Expenditures Since the End of the Cold War: FY1990-FY2011

(In $US billions in 051 Account)



Source: Adapted by Anthony H. Cordesman from data provided by Office of the Under Secretary of Defense (Comptroller), "National Defense Budget Estimates for FY2006", Washington, Department of Defense, March 2006, Table 1.1 and 1.2.

Total Defense Spending

Figure 3.2 supplements Figure 3.1 and provides a more comprehensive estimate of the possible trends in future total defense spending, as calculated by the Department of Defense and the Congressional Budget Office (CBO). The data show estimated budget outlays, not authorized funding in years. As such, this is the most realistic basis for the level of "overstretch" in spending, and the level of burden on federal spending and GNP.

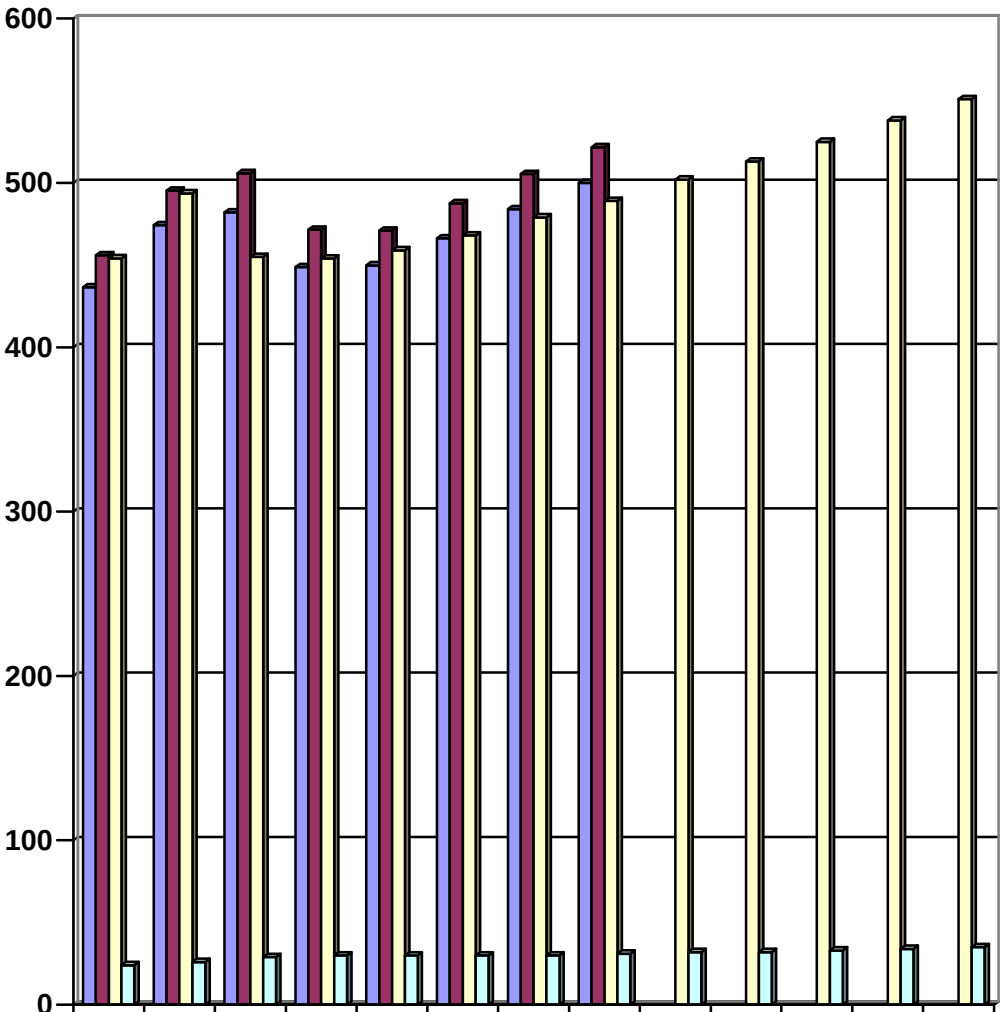
The DoD figures compare both the projections the Department of Defense makes for its own expenditures (051) and the national total of defense-related spending by other agencies like the Department of Energy (050). CBO estimates are similar to the DoD estimates, but the CBO provides through 2016, which projects a more realistic period for forecasting future defense spending, given the long periods necessary to implement force transformation and major procurement programs.

Once again, however, the DoD and CBO estimates do not attempt to project the future costs of the Iraq War and cannot compensate for the undercosting of major defense procurements and force changes. The CBO estimate of cost of civilian spending on homeland defense is also shown as separate from defense spending since it is not normally counted as part of military spending. As such, the trends in Figure 3.2 are a broad illustration of current estimates of future trends, not a clear source of insight into the future.

Figure 3.2

Patterns in Future Department of Defense and US National Security Spending: FY2004-FY2016

(By Fiscal Year, Budget Outlays in $US Billions)



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
DoD (051)	436.5	474.2	482	448.8	449.8	466.3	484	499.9					
Total (050)	455.9	495.3	505.9	471.5	471	487.6	505.4	521.7					
CBO (050	454.1	493.6	455	454	459	468	479	489	502	513	525	538	551
CBO Homeland Defense	24	26	29	30	30	30	30	31	32	32	33	34	35

Source: Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2006, Washington, Department of Defense, March 2006, Table 1-1 and 1-2; and Congressional Budget Office, "An Analysis of the President's Budgetary Proposals for FY2006, Washington, CBO, March 2005, Table 1-6.

The Current Burden of US Defense Spending

The meaning of these trends in US defense spending can be interpreted in several ways. One way is to focus on the fact that US military spending has risen sharply since FY2000, and may well exceed $500 billion a year in constant dollars indefinitely into the future. The US has found that the cost of fighting asymmetric wars in Iraq and Afghanistan has been far higher than the Department of Defense planned for. The US will either have to increase spending in the future or cut some aspect of US defense programs. The US also faces major problems in funding current force transformation and procurement programs that either require significant force cuts or additional spending.

At the same time, it is important to note that Americans need to be careful about talking about overstretch in ways that imply that the current level of total defense spending reflects the limits on US capability to fund America's strategic posture. Any discussion of "overstretch" must be based on a broad look at the patterns in federal spending and at what America can and cannot afford.

The trends in US defense spending do not show that the US is sharply increasing the level of spending as a percentage of total federal spending, or as a burden on the US economy. The risk in US defense spending has been offset by major ground in the US in economy, and the problems in US defense spending are relatively minor in the terms of the overall problems in federal spending, and when compared to the problems raised by the rising cost of mandatory civil spending.

However, while it is easy to talk about the burden of US military spending, such spending only puts a limited burden on the total US economy and federal spending. In 2006, the US had a GNP of well over $11 trillion. The Bush Administration projected in its official budget submission to Congress for FY2007 that the US would spend only 3.3% of its GDP for DoD, and 3.8% for all defense spending. Such estimates for FY2007 ignored wartime supplementals, but if one looks at actual spending that included such supplementals during FY2003-FY2006, DoD accounted for 3.6-3.9% of all federal spending, and total defense spending accounted for 3.9-4.1%.[3]

The figures for federal spending reveal an equally limited strain. The US is now talking about annual budgets in excess of $2.4 trillion a year, and the Bush Administration budget for defense spending as a percent of total federal spending in FY2007 was projected at 16.2% for DoD and 19.0% for all defense spending. If one looks at actual spending during FY2003-FY2006, DoD accounted for 17.9-19.0% of all federal spending, and total defense accounted for 18.7-20.0%.[4]

The Burden on the US Economy

These burdens scarcely argue for an unusual burden or major overstretch in US defense spending. **Figure 3.3** shows the burden that national security expenditures have placed on the US economy and gross national product during recent wars. In general, the development of the US economy has at least kept pace with defense spending, in spite of the war on terrorism, the Afghan conflict, and the Iraq War.

Figures 3.4 and 3.5 expand this analysis and show that this percentage compares with a defense burden of 6-14% of the US GNP during the Cold War. Historically, defense spending reached annual peaks of 38% of the GNP during World War II, 14% during the Korean War, 9.4% during Vietnam, and 6.2% during the Cold War following Vietnam.[5] The historical low in the post-Cold War era reached 3.0% in FY1999-FY2001, but the average since 1992 has been around 3.6%. If

one looks at the averages by decade, defense spending has so far placed a smaller burden on the US economy than during any decade since 1940.[6]

The creation of professional forces, and the end of conscription have also limited the burden on the labor force. The Bush Administration projects that the Department of Defense military and civilian manpower accounted for only 1.4% of the American work force in FY2006 and that Defense will account for 3.8% of the labor force if all defense-related industry is included.[7] These percentages are not likely to change according to the supplementals for the Afghan and Iraq wars because these have only limited impact on any aspect of defense manpower.

They compare with a Department of Defense total of 2.5%-3.8% of the US work force during the Cold War and annual peaks of 22% during World War II, 7.8% during the Korean War, 5.9% during Vietnam, and 3.3% during the Cold War following Vietnam.[8] If all defense-related labor in the Department and in the defense industry is counted, these percentages compare with 4.8%-14% of the US work force during the Cold War and annual peaks of 40% during World War II, 14% during the Korean War, 9.8% during Vietnam, and 6.1% during the Cold War following Vietnam.[9]

Such estimates are always uncertain, and past wars and crises have shown that they can change radically by the year. They reflect the current strategic and political conditions that would shape US defense spending under current plans. They could only become real *if* US defense plans were accurately costed, *if* defense costs were properly controlled, and *if* no further supplemental was required for Iraq after FY2004.

The US Congress seems likely to continue to be asked to approve supplemental funding at least through FY2008 and probably through FY2010. It also seems virtually certain that the Department of Defense will not improve its consistent history of failing to accurately cost its plans or control escalation in the foreseeable future. The Department has already spent decades talking about such reforms and has made no meaningful progress in implementing them.

Nevertheless, even if US defense expenditures rose to $750 billion a year, it would still be under the average level of economic burden that defense spending imposed during the Cold War when the US was not fighting a conflict anywhere in the world.

The "worst case" estimate for the cost of a peacetime US force posture, based on current strategic needs and programs, would probably total no more than 7% of its GNP, even after a realistic estimate of force transformation costs. The actual burden could average several percent less. Is this really "overstretch" in any practical sense in today's world? It is certainly affordable in terms of the size of our economy. We know that the US spent at similar or far greater levels for half a century. While the cost in wartime could be much higher, the issue then becomes the necessity of the war, and not the economic burden. If the war is necessary, it must be paid for. If the war is not necessary it should not be fought. In any case, America has accepted sustained burdens well over 20% of its GDP in past wars.

The Burden on the Federal Budget

Another way to examine the possibility of overstretch is to look at the burden that maintaining an effective force posture would place on the federal budget. As might be expected, the past and current trends in US defense spending as a percent of the federal budget exhibit much the same pattern as defense spending as a percent of GNP.

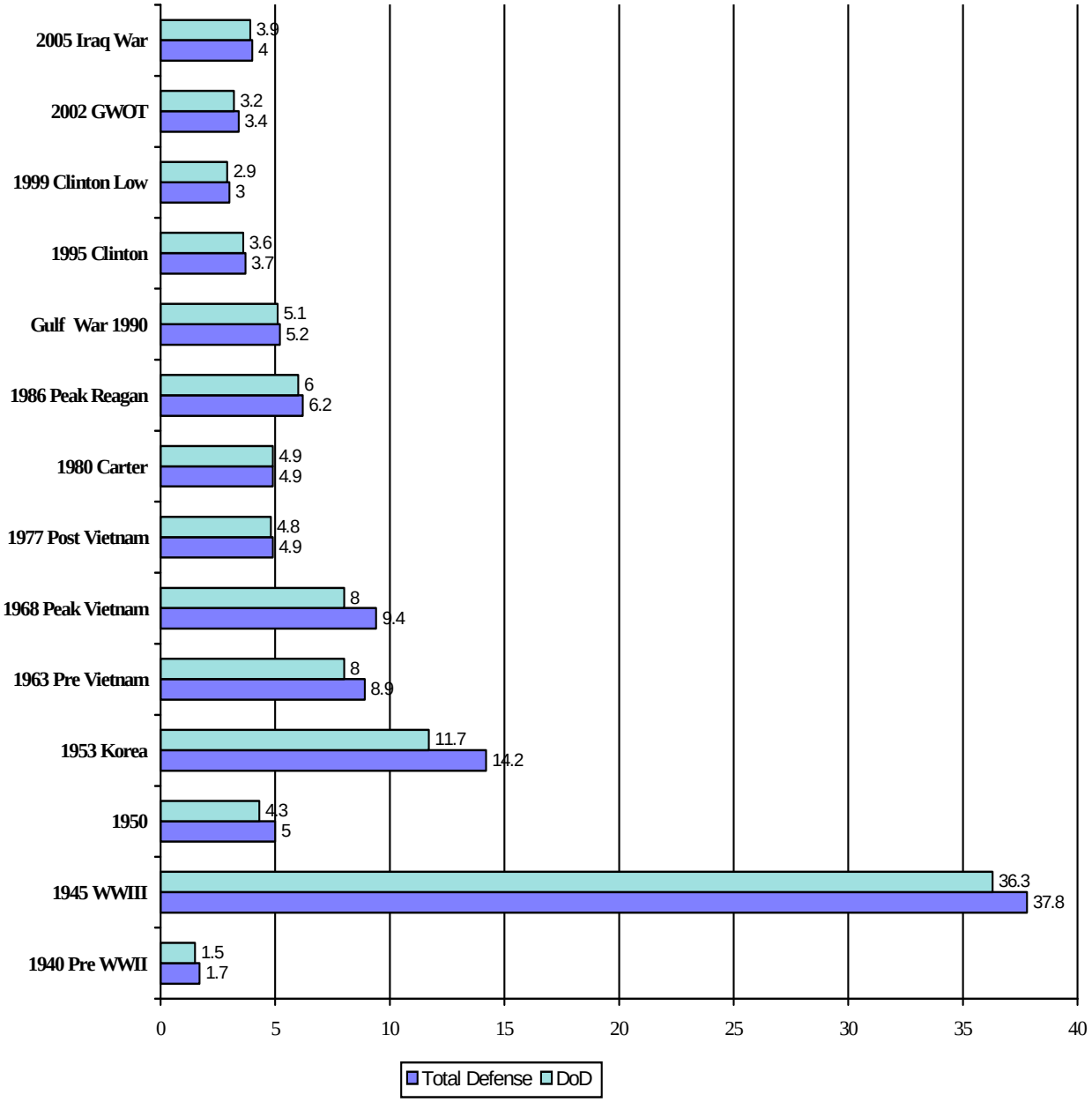
Figure 3.6 shows that the percentage has been far higher in past times of war or crisis. **Figure 3.7** shows the decline in national security spending as a percentage of total federal spending since the end of the Cold War.

Current CBO projections of the US budget and federal defense spending for FY2006-FY2015 indicate defense spending will make up around 18-20% of the federal budget. In practice, actual spending could be over 20%, but not drastically so, and this level has generally been higher for virtually all of the period since 1941:

- The projected FY2006 level is about 2% less than in 1992, when we were taking the "peace dividend" from the end of the Cold War.
- It is only about 2% lower as share of the federal budget than during the lowest year for defense spending in the Clinton Administration.
- Once again, the Bush Administration's outyear projections for defense spending seem much too low. Some estimates put the spending levels necessary to buy current forces, required additional forces, and all the necessary transformational weapons systems and equipment at closer to $700 billion than some $550 billion. That still, however, is unlikely to push defense spending much above 21% of the federal budget.

Figure 3.3

National Defense Spending as a Percent of GNP in Previous Conflicts and Crises (Total Federal Outlays)

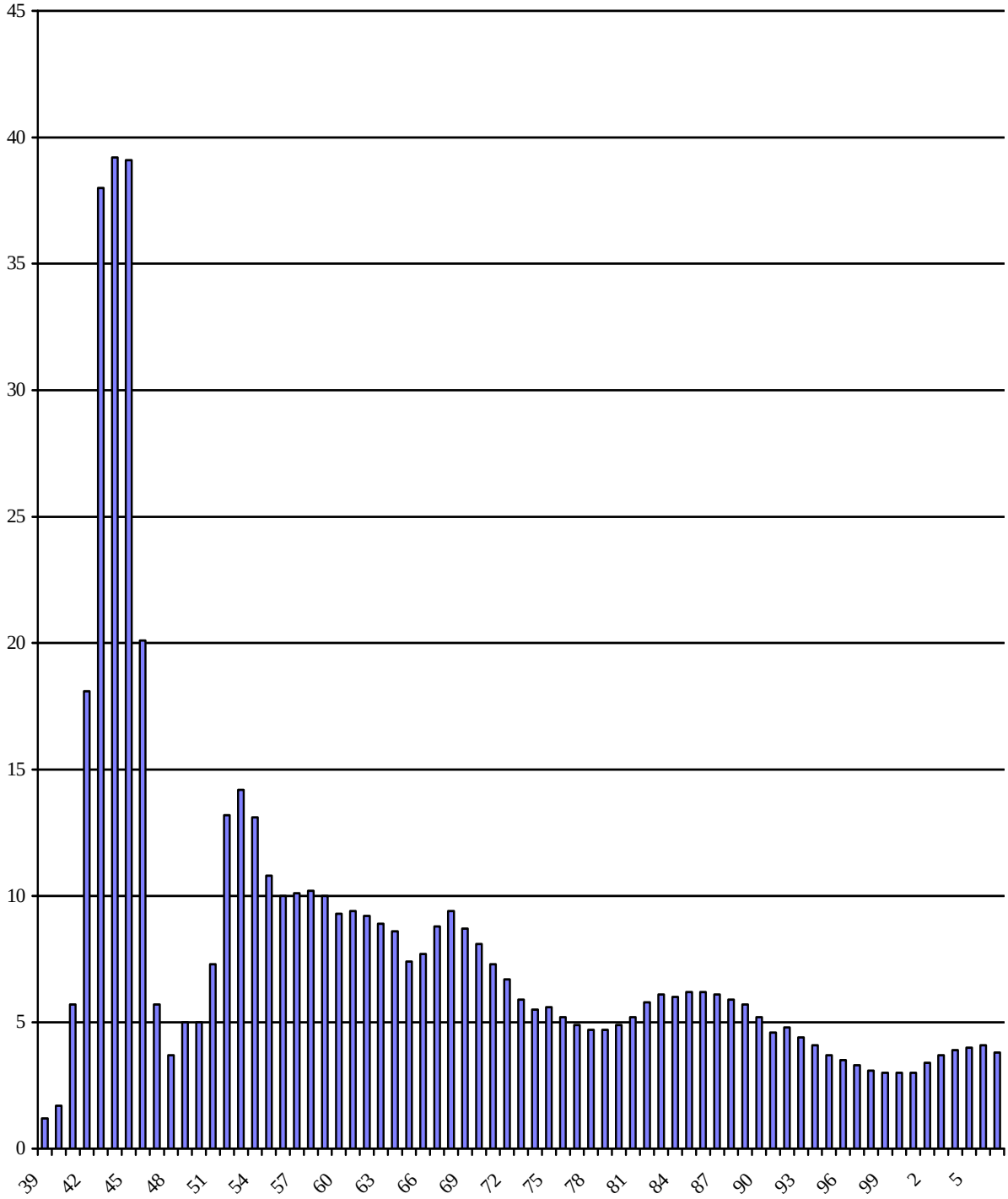


Source: Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2007, Washington, Department of Defense, March 2006, Table 7-7, pp. 216-217. Budget Total is for entire national defense, and not just Department of Defense.

Figure 3.4

National Defense Spending as a Percent of GDP: 1939-2007

(050 Total defense spending for DoD and all agencies as % of GNP)

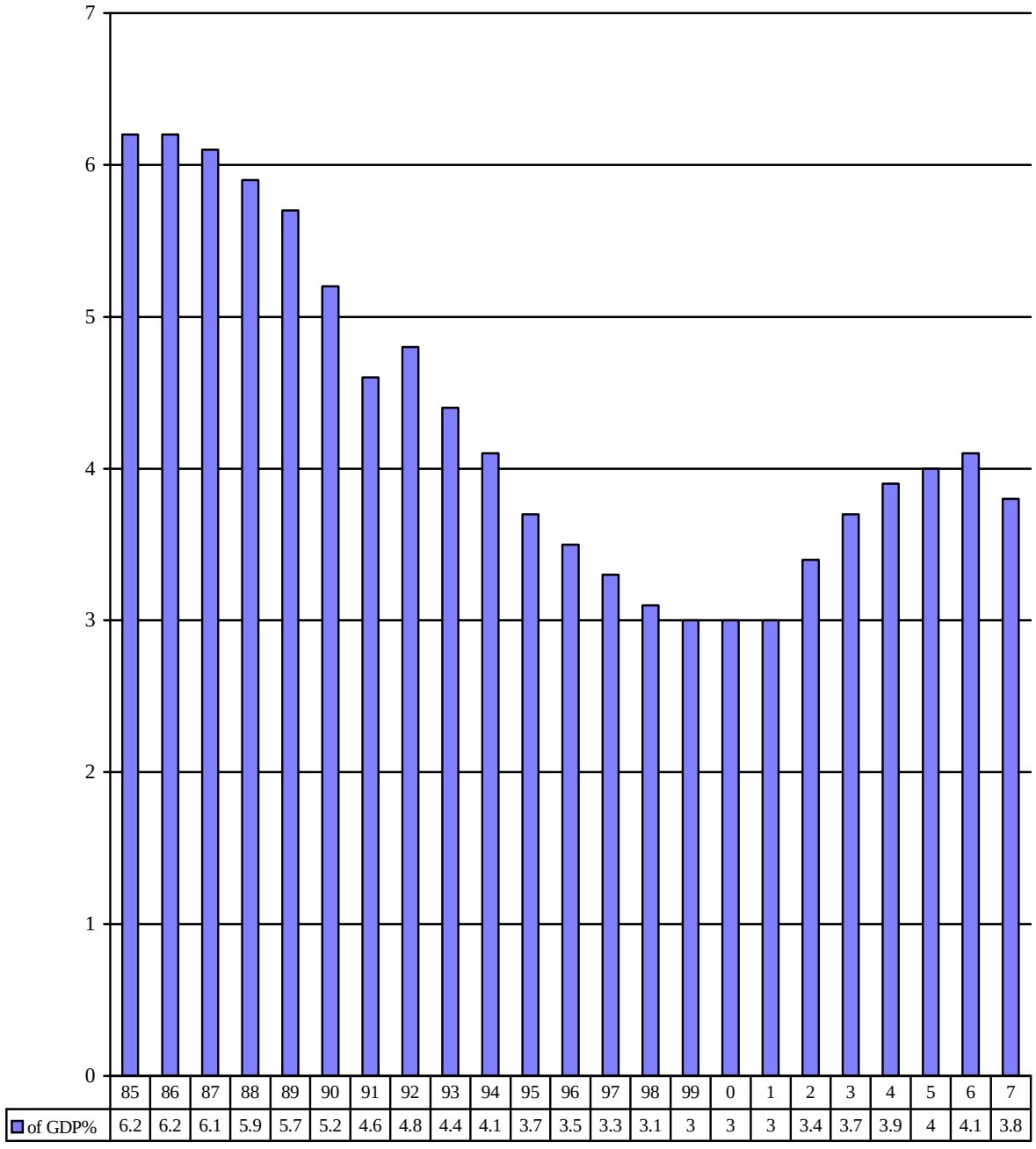


Source: Data provided by OMB, and Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2007, Washington, Department of Defense, March 2006, Table 7-7.

Figure 3.5

Shift in National Defense Spending as a Percent of GNP since the End of the Cold War

(050 Total defense spending for DoD and all agencies as % of GNP)



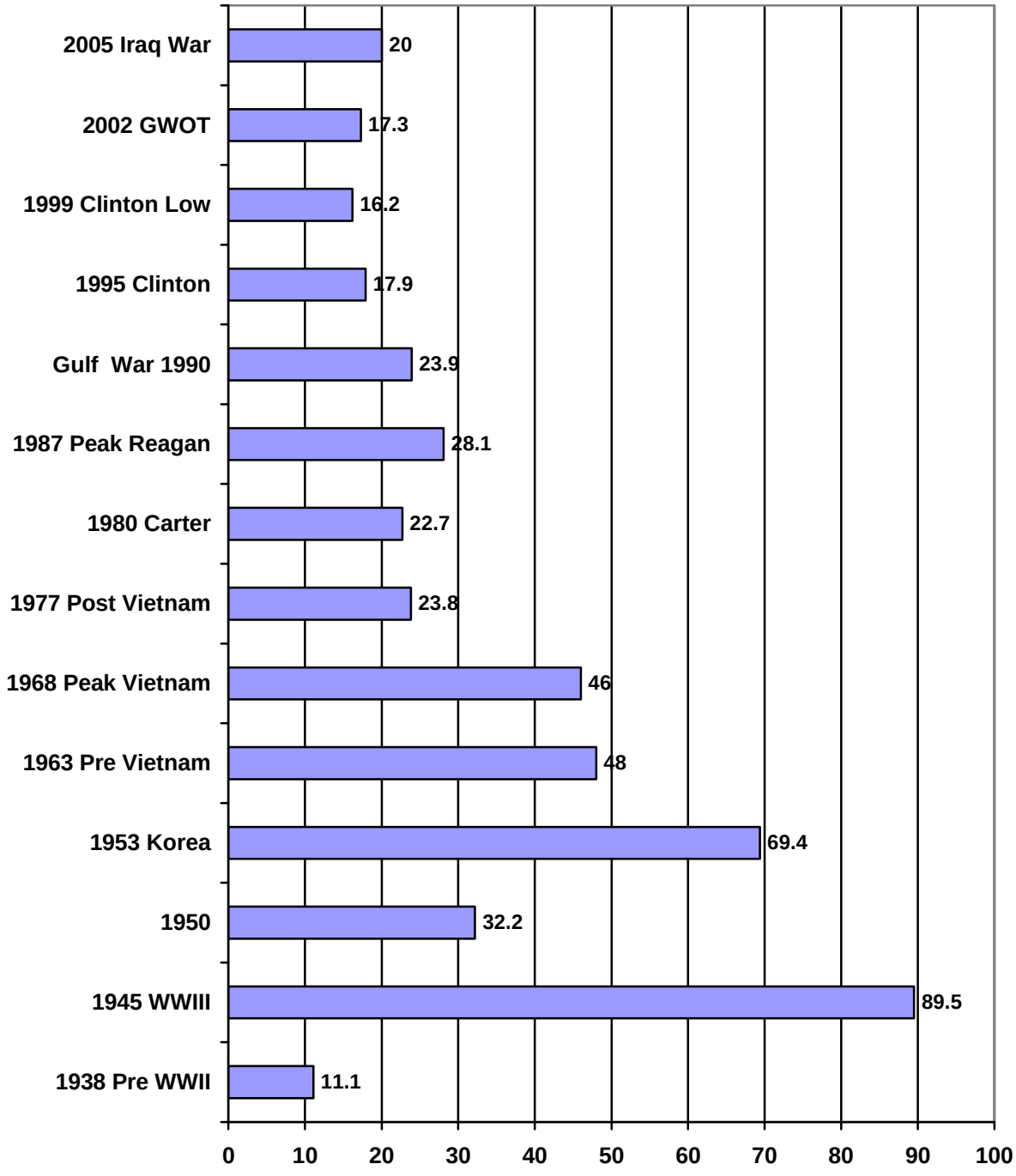
	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	0	1	2	3	4	5	6	7
of GDP%	6.2	6.2	6.1	5.9	5.7	5.2	4.6	4.8	4.4	4.1	3.7	3.5	3.3	3.1	3	3	3	3.4	3.7	3.9	4	4.1	3.8

Source: Data provided by OMB, and Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2006, Washington, Department of Defense, April 2005, Table 1-1 and 1-2

Figure 3.6

National Defense Spending as a Percent of Total Federal Budget: 1939-2005

(Total Federal Outlays in 050 Account)

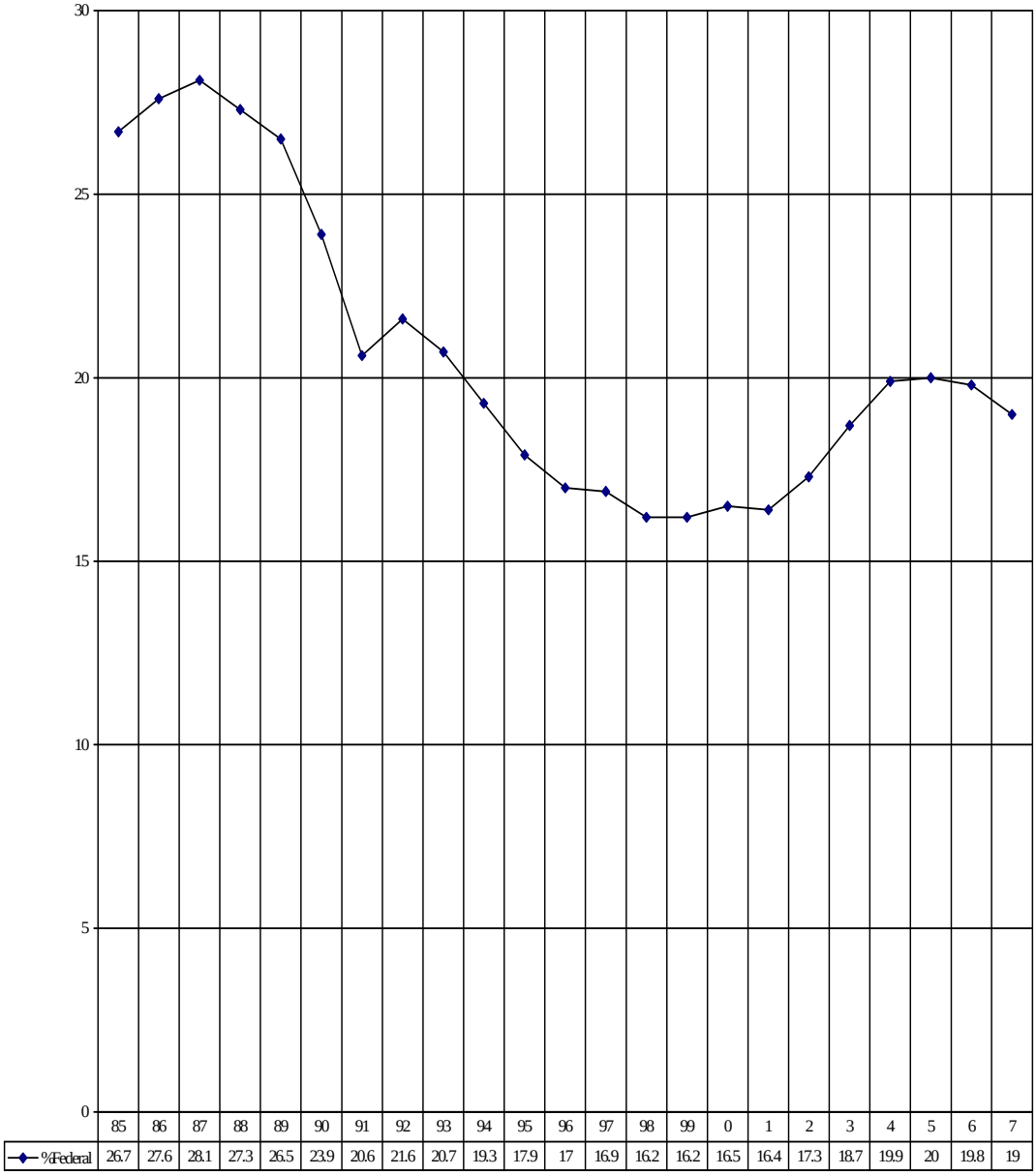


Source: Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2007, Washington, Department of Defense, March 2006, Table 7-7, pp. 216-217. Budget Total is for entire national defense, and not just Department of Defense.

Figure 3.7

Cuts in National Defense Spending as a Percent of Federal Budget Since the End of the Cold War

(Total Federal Outlays in 050 Account)



	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	0	1	2	3	4	5	6	7
%Federal	26.7	27.6	28.1	27.3	26.5	23.9	20.6	21.6	20.7	19.3	17.9	17	16.9	16.2	16.2	16.5	16.4	17.3	18.7	19.9	20	19.8	19

Source: Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2007, Washington, Department of Defense, March 2007, Table 7-2; and Congressional Budget Office, "An Analysis of the President's Budgetary Proposals for FY2006, Washington, CBO, March 2005, Table 1-6.

The Rising Cost of Professionalism

The size of the US active military has dropped significantly since the end of the Cold War. It has dropped from over two million in 1990 to less than 1.5 million in 2006 -- a drop of roughly 25% -- in spite of an increase in the number of men and women in this total who have been deployed in actual military and warfighting assignments. A similar drop has occurred in career Department of Defense civilians, which dropped from nearly one million in 1990 to under 700,000 in 2006 -- a drop of more than 30%.[10] The net result has been to reduce the total burden that DoD manpower has put on the national labor force from around 2.5% in 1990 to 1.4% in 2006.[11]

Trends in Total Defense Manpower Costs

As **Figure 3.8** shows, however, more is involved in calculating total defense manpower than simply counting uniformed military and government civilians. The US defense establishment has become steadily more dependent on contract employees. The number of employees in defense-related industries increased from 1.8 million in 1975 to 3.1 million in 1990, and to over 3.6 million by the mid-2000s. As a result, the total number of men and women in the military, civil service, and private sector related to defense remained far more constant than the drop in career military and government personnel would indicate. It dropped from around 6.3 million in 1990 to 5.7 million in 2006 -- a drop of roughly 10%. (These figures do not include the Coast Guard and foreign hires).

The high level of defense industry employment has been sustained in part because of the high cost of an all volunteer military and career civil servants. In effect, the US has reduced the burden of career expenditures by going to what was supposed to be lower cost manpower in the public sector -- although the postulated cost savings sometimes did not materialize or were more than offset by inefficiency. Unfortunately, the Department of Defense and federal government do not report on total manpower costs, including civilians outside government -- and there is no way to cost the overall impact of the manpower shift from a part-draft to an all-volunteer force structure, or the gross cost burden imposed on the nation by total defense related manpower.

Trends in Military Manpower Costs

The US reliance on professional military forces means that some aspects of today's force costs are not comparable with those of the past, but future costs are difficult to estimate because the Department of Defense shows reductions in near term defense costs which may or may not be practical in wartime, followed by a steady rise in cost in the outyears which seems to come from steadily rising costs per man or woman in service -- while end strength actually slightly declines.

Figure 3.9 shows the DoD estimate of trends in military compensation per active duty service member for FY2005-FY201 *in current dollars* as presented in the president's budget request for FY2006. This figure includes both budget authority direct outlays on military personnel costs in the discretionary and entitlements budget in the 051 account. It does not include substantial indirect costs like family housing, which now total close to $4 billion a year.[12]

Entitlements and mandatory spending have also increased military manpower costs, and the CBO shows a much higher estimate for total mandatory expenditures than the Department of Defense. For example, military health care and other medical spending has increased significantly. According to the CBO, during the 15-year period between 1988 and 2003 annual military medical spending nearly doubled, from $14.6 billion to $27.2 billion (in constant FY2003 dollars). During this same period, the size of the total active force decreased from 2.2

million personnel to 1.4 million, meaning that medical spending per active duty service member increased 7.5% annually in real terms.[13]

Two key factors accounted for 40% of the medical spending increase in this period. First, the number of retirees and other dependents increased sharply relative to active duty personnel because of the post-Cold War drawdown in troop levels. In 1988 3.1 non-active duty individuals for each active duty service member were eligible for military medical benefits. By 2003 this figure had increased to 4.7. Second, accrual budgeting for the benefits of military retirees eligible for Medicare was introduced in 2003, which forces the future expense of medical care to be financially recognized in current budget documents.[14]

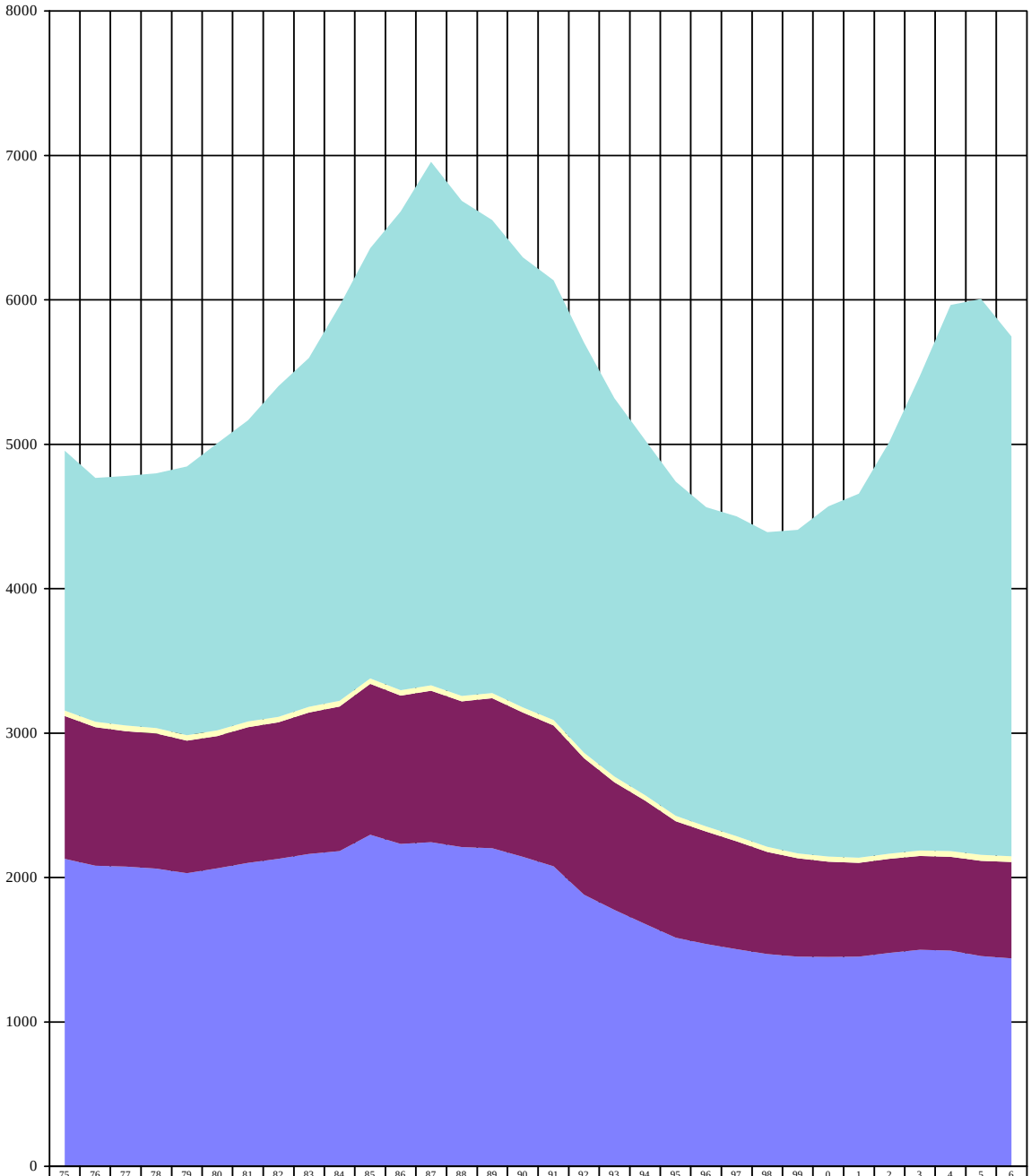
Military retirement and disability costs have also gone up. The CBO projects the cost of military manpower as rising sharply over the next decade. Its estimate of the total cost of mandatory military retirement and disability outlays was $39 billion in FY2005, rising to $55 billion in outlays in FY2016. The cost of mandatory veterans programs rose from $36 billion in FY2005 to $50 billion. This would bring the total cost of mandatory programs from $75 billion in FY2005 to $105 billion in FY2016 -- a rise of 40%. Similar data are not available for career defense civilians.[15]

Yet, any analysis of how today's manpower costs again requires a broader historical perspective. **Figure 3.10** shows the trend in constant FY2007 dollars and goes back to the end of the Cold War. Even if one assumes that the Iraq War peak shown in Figure 2.11 continues through FY2010, the total costs for an all-volunteer force would still be lower than the military manpower costs during much of the Cold War, when the US had a much smaller economy and lower level of overall federal spending. Moreover, during the Korean War and Vietnam War, the cost of military manpower reached peaks of well over $160 billion in constant FY2007 dollars, an average that was about 33% higher in real terms than the spending projected during FY2005 to FY2011.[16]

Force quality is not necessarily more expensive than force quantity and -- with the right strategy, tactics, and technology -- can often accomplish far more.

Figure 3.8

Trends in Defense Manpower (End-Strength in Millions)



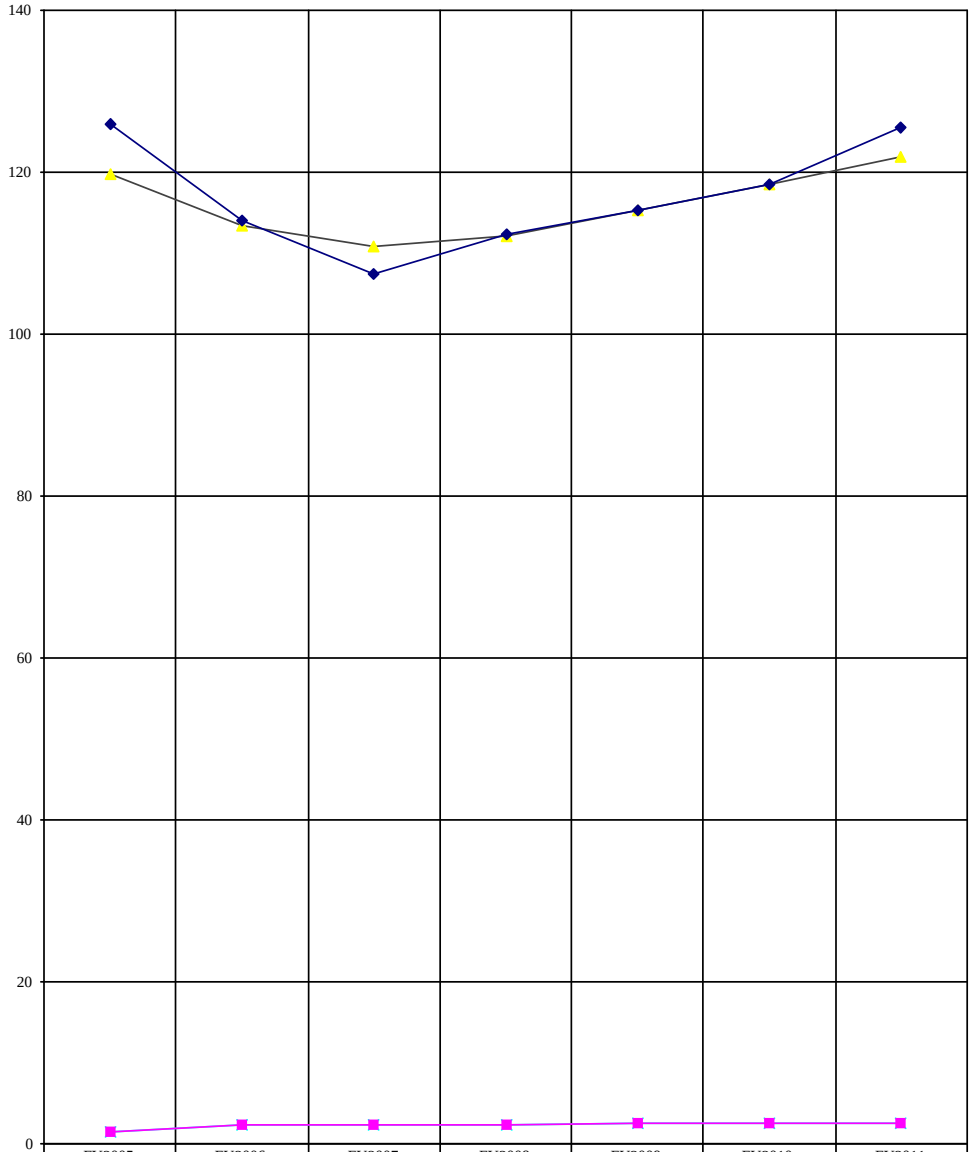
	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	0	1	2	3	4	5	6
Defense Industry	1800	1690	1730	1765	1860	1990	2085	2290	2415	2735	2980	3315	3625	3430	3275	3115	3045	2840	2620	2460	2315	2210	2215	2180	2240	2425	2520	2850	3285	3780	3850	3600
Coast Guard	37	38	38	38	39	39	40	38	40	40	38	37	39	38	38	37	39	39	39	37	37	37	35	35	35	36	36	37	39	40	41	41
Defense Civilians	989	959	938	935	916	916	940	945	980	1000	1043	1027	1049	1010	1037	997	974	945	885	854	807	779	746	707	681	660	650	650	649	650	660	665
Active Military	2129	2081	2075	2062	2031	2063	2101	2130	2163	2184	2297	2233	2244	2209	2203	2144	2077	1880	1775	1678	1583	1538	1504	1470	1451	1449	1451	1478	1500	1494	1455	1441

Source: Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2006, Washington, Department of Defense, April 2005, Table 7-6.

Figure 3.9

Trends in Military Manpower Costs: FY2005-FY2011

(Budget Authority and Budget Outlays (051) in $US Current Billions)



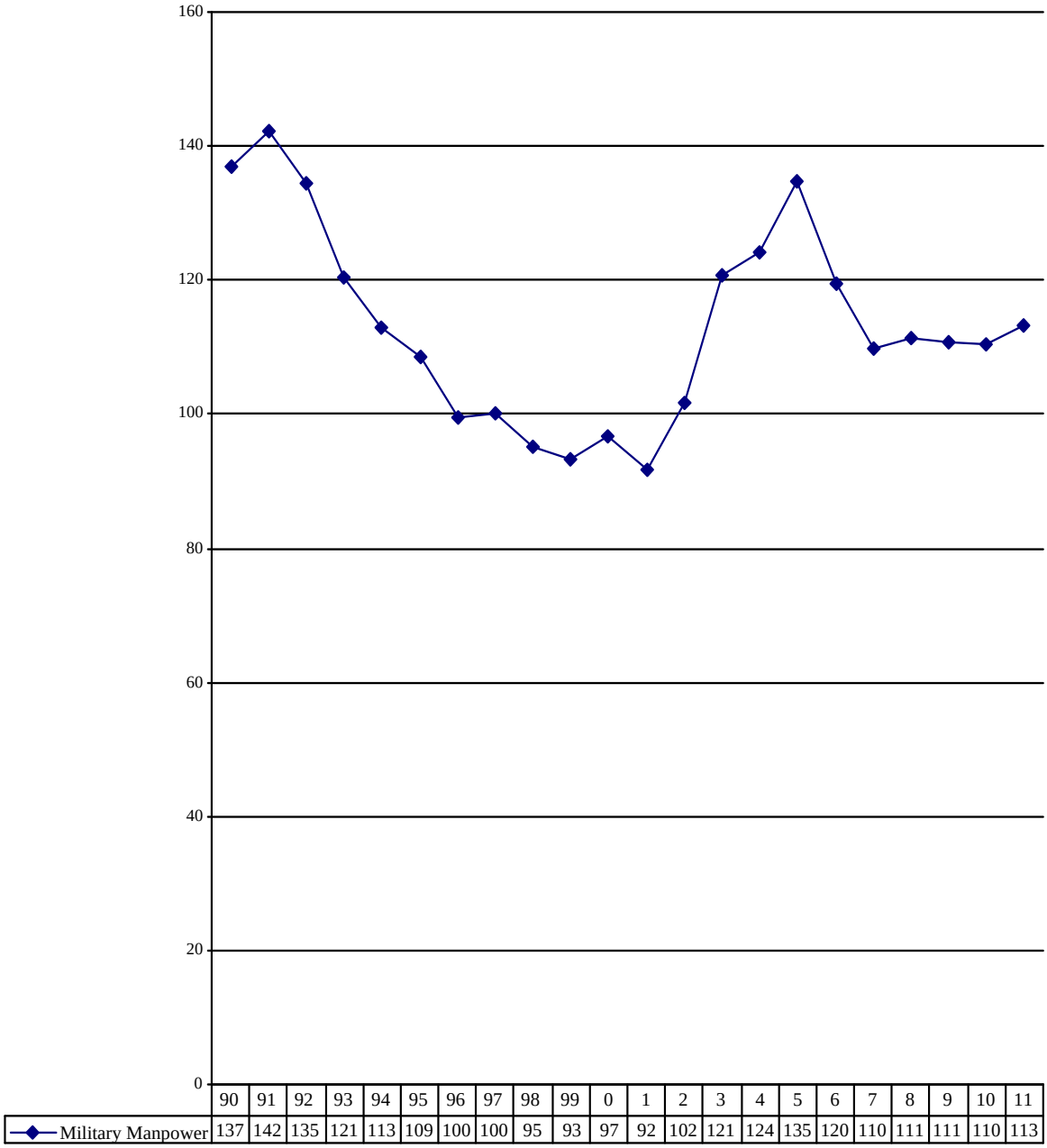
	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Discretionary Authority	119.7	113.5	110.8	112.2	115.4	118.6	122
Discretionary Outlays	125.9	114	107.5	112.4	115.4	118.5	125.5
Mandatory Authority	1.5	2.3	2.4	2.4	2.5	2.5	2.6
Mandatory Outlays	1.5	2.3	2.4	2.4	2.5	2.5	2.6

Source: Office of the Under Secretary of Defense (Comptroller), "National Defense Budget Estimates for FY2006," Washington, Department of Defense, March 2006, Table I-10.

Figure 3.10

Military Manpower Costs Since the End of the Cold War: FY1990-FY2011

(In Constant FY2006 $US billions in Budget Outlays)



	90	91	92	93	94	95	96	97	98	99	0	1	2	3	4	5	6	7	8	9	10	11
Military Manpower	137	142	135	121	113	109	100	100	95	93	97	92	102	121	124	135	120	110	111	111	110	113

Source: Adapted by Anthony H. Cordesman from data provided by Office of the Under Secretary of Defense (Comptroller), "National Defense Budget Estimates for FY2006," Washington, Department of Defense, April 2005, Table 6-8 and 6-11.

Force Transformation and Equipment Costs

The Department of Defense has never provided a detailed spending plan for force transformation. It has also never done anything approaching an adequate job of costing and finding future procurement. GAO study after GAO study has shown that the Department's efforts to estimate the cost of future year procurements fall short of the true cost of such procurement efforts. Coupled with the fact that the Department also perpetually downsizes its plans to fit the budget, this makes it impossible to know what level of resources the Department needs to actually execute its plans and buy the equipment the services have, in theory, been given permission to procure.

Figure 3.11 shows the Department's actual procurement spending since the Cold War and its plans through FY2011. These data project a major increase in research, development, test, and evaluation (RDT&E) spending in the outyears -- presumably driven in part by the cost of "transformational" systems. The projected levels of outlays on RDT&E are higher in constant dollars than the US spent during much of the Cold War, but they also would be much lower than during some earlier periods, such as the late 1980s, when RDT&E outlays averaged well over $100 billion in constant dollars and reached peaks of over $120 billion -- roughly twice the planned level for $2010.

The procurement expenditures shown in Figure 3.12 rise sharply in the period between 2000 and 2010, but will again still be similar in constant dollars to spending at the end of the Cold War. They will be far lower than peak periods during the Cold War, when they reached levels well above $100 billion a year, and outlays reached $132 billion in FY1986.

However, any such estimate of the total spending levels needed to buy the planned equipment for transformation and to sustain a proper RDT&E effort is highly speculative. The Department of Defense has consistently undercosted RDT&E and procurement plans for decades. It seems likely that actually paying for the RDT&E and procurement activities called for in current US defense plans could require funding at levels well in excess of $200 billion a year versus the $150 billion shown in the FY2006 FYDP and the peak of $180 billion shown for FY2001. It is possible that the true cost of all current plans could reach levels approaching $250 billion.

This is an ambitious increase, to put it mildly, and even the projected rise during after FY2008 may well reflect an effort by the Bush Administration to defer much of the spending and burden on the budget until after it leaves office. While this may not be a deliberate "poison chalice" that puts really hard resource decisions on the next administration, it follows a pattern of many administrations that dodge really hard decision making and budget problems by leaving them to their successors.

These games with outyear budgets compound all of the problems in major procurement and transformational programs. About all that can be said in their defense is that the US was spending roughly $250 billion a year for procurement and RDT&E in the late 1980s, and it is difficult to describe such spending levels as "overstretch."[17]

Other Cost Factors

The Iraq War has driven Operation and Maintenance (O&M) spending to very high levels. O&M spending dropped from annual levels of more than $140 billion in constant FY2007 dollars during the Cold War to levels below $120 billion during the late 1990s. It rose sharply after the beginning of the war on terrorism in 2001. O&M outlays surged from $131 billion in FY2000 to $134 billion in FY2001, $152 billion in FY2002, $173 billion in FY2004, and have been over

$190 billion a year ever since. This is a rise of over 40% in real terms between FY1990 and FY2005.[18]

At the same time, the data used in creating **Figure 3.12** make it all clear that far too few provisions have been made in the budget projections for FY2007-FY2010 to pay for the massive costs of recovering readiness, parts, and other capabilities that come after a war. The FYDP presented in the Department of Defense FY2007 budget request simply does not consider or cost the problem. In this case, any impact on "overstretch" is simply ignored.

Aside from military personnel costs, some analysts have also suggested that certain O&M costs are likely to increase significantly over time:[19]

- **Equipment Maintenance and Repair.** Through most of the 1990s, the age of the Services' weapons inventory increased only modestly, despite the fact that relatively few weapons were purchased during the decade. This is because the Services bought large quantities of new weapons systems in the 1980s, and then in the 1990s cut the size of the force structure by about one-third, with the oldest equipment generally being retired first. However, the buildup of the 1980s is now receding further into the past, and most of the planned force structure cuts were completed by the middle of the decade.

  As a result, the average age of most major weapons systems is projected to increase substantially over the next decade. To date, the aging of the Services' weapons inventory does not seem to have resulted in a substantial increase in operations and maintenance costs. However, as the aging of the force accelerates over the coming decade, age-related O&M costs could grow significantly, perhaps by as much as $5 billion annually by 2010. According to CBO, by 2022, cost growth associated with operating older equipment could cause O&M funding requirements to increase by as much as $14 billion annually. Moreover, replacing aging weapons systems with newer systems may, at best, only partially offset this cost growth, since the greater complexity of some new weapon systems can also lead to higher O&M costs.

- **Facilities Maintenance and Repair.** It is widely believed that DoD operates an excessive number of military bases. In an attempt to address this problem, for the first time in a decade the United States is beginning a new round of military base closures. Under the Base Realignment and Closure (BRAC) process, the President has appointed an independent commission that, by September this year, will recommend – based on advice from the Services, as well as its own analysis – the closure of some number of US bases. Currently the US military operates about 425 major US bases. Defense Secretary Donald Rumsfeld has suggested that some 20 percent of those bases might be selected for closure.

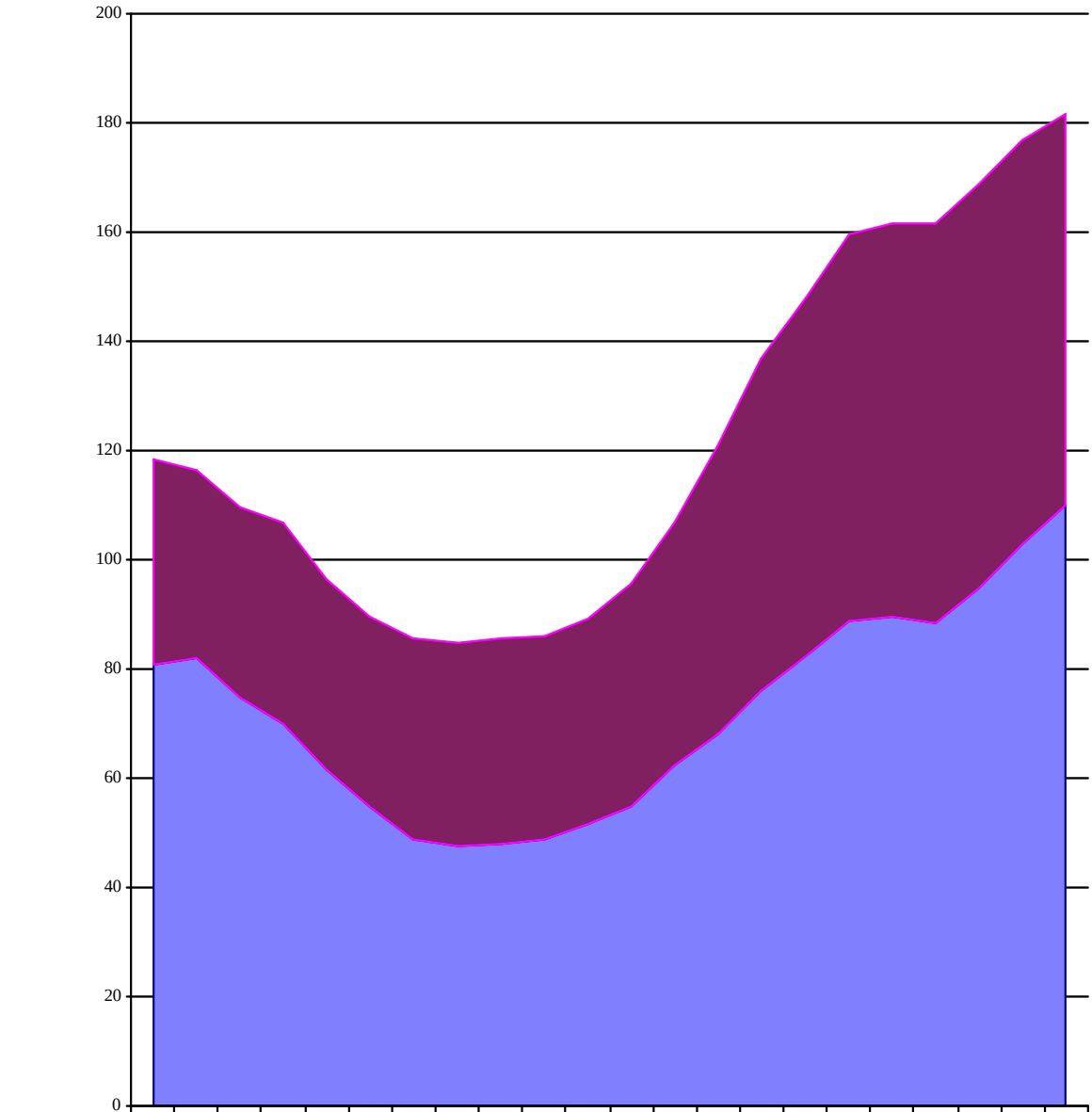
  Over the long term, these closures could yield savings of perhaps $2 billion a year. However, in the near term (e.g., over the next five years), these closures are likely to cost more money than they will save. Moreover, over the long term it seems likely that, even with these base closures, DoD will need to increase substantially its funding for facilities upkeep and construction. This is because DoD appears to have spent too little over the past decade or more on maintaining, repairing and constructing military bases, housing and other facilities.

Even so, future O&M expenditures may not cause any serious form of future "overstretch." Even if average future O&M spending levels have to be sustained at levels closer to the $185 billion wartime levels shown for FY2004, they would not -- by themselves -- pose a major burden on federal defense spending or pose more than a minor burden on the federal budget. It would take a truly massive increase in O&M spending to make that kind of difference.

Figure 3.11

Procurement and RDT&E Spending Since the End of the Cold War: FY1990-FY2011 (In

(Constant FY2007 $US billions in Budget Outlays)



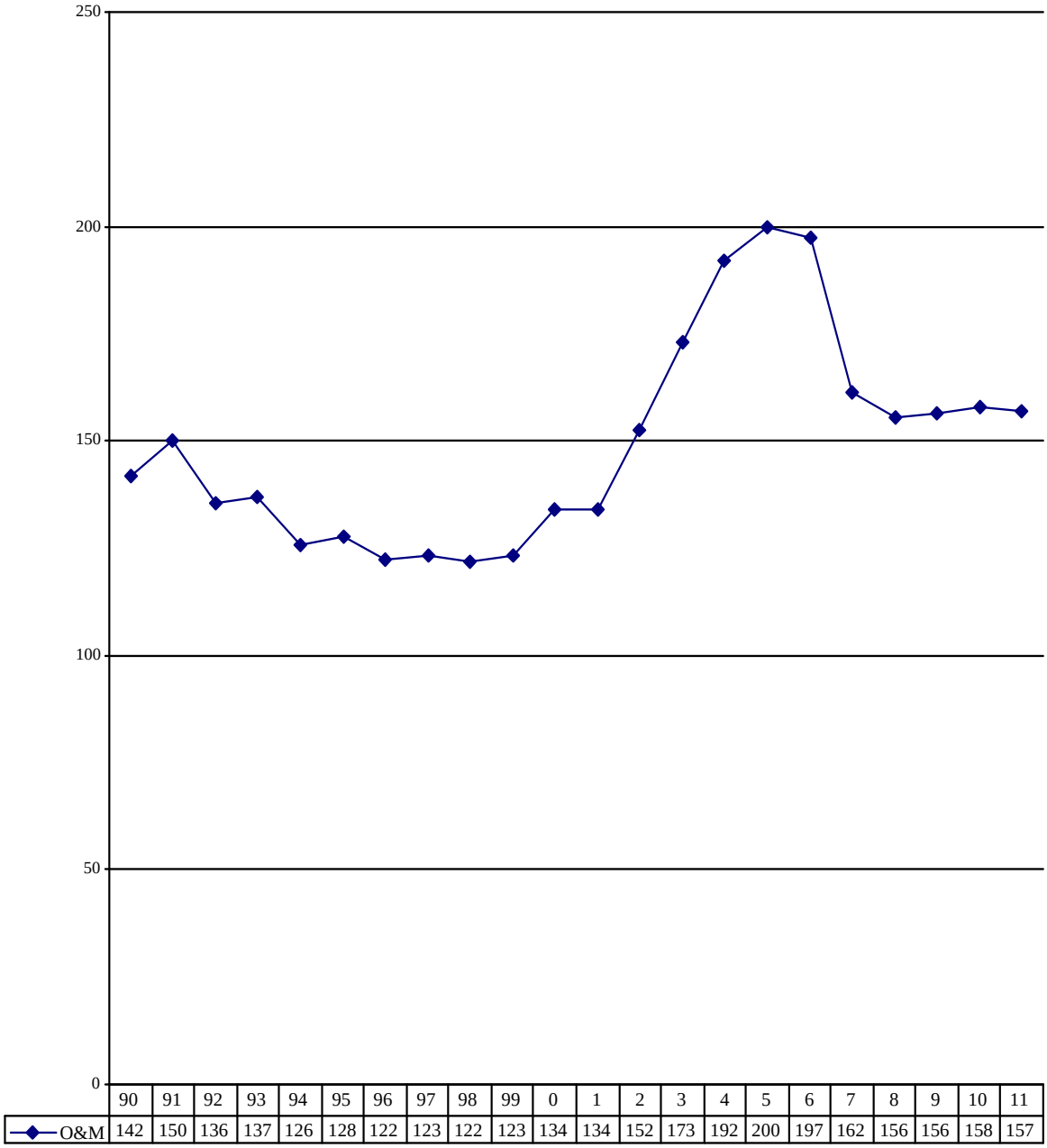
	90	91	92	93	94	95	96	97	98	99	0	1	2	3	4	5	6	7	8	9	10	11
RDT&E	37.5	34.6	34.6	37	34.8	34.7	36.6	37	37.4	37.4	37.6	40.5	44.4	53.1	60.8	65.7	70.8	72	73.1	74.3	73.8	71.7
Procurement	80.9	82	74.9	69.9	61.8	55	48.9	47.7	48.2	48.8	51.7	55	62.5	67.9	76.2	82.3	88.8	89.7	88.6	94.7	103	110

Source: Adapted by Anthony H. Cordesman from data provided by Office of the Under Secretary of Defense (Comptroller), "National Defense Budget Estimates for FY2007," Washington, Department of Defense, March 2006, Table 6-8 and 6-11.

Figure 3.12

Operations and Maintenance (O&M) Spending Since the End of the Cold War: FY1990-FY2011

(In Constant FY2007 $US billions in Budget Outlays)



	90	91	92	93	94	95	96	97	98	99	0	1	2	3	4	5	6	7	8	9	10	11
O&M	142	150	136	137	126	128	122	123	122	123	134	134	152	173	192	200	197	162	156	156	158	157

Source: Adapted by Anthony H. Cordesman from data provided by Office of the Under Secretary of Defense (Comptroller), "National Defense Budget Estimates for FY2007," Washington, Department of Defense, March 2006, Table 6-8 and 6-11.

Short-Term Prospects for FY2007-FY2011

It is always dangerous to focus too much on short-term trends, and current projections. Reality often intervenes, and this is particularly true in wartime and when so much US defense spending is not included in supplements and not in the president's formal budget request and forecasts. Even so, if one looks at what the previous analysis means for the Department of Defense budget projections for FY2007-FY2001, issued as part of the FY2007 budget request, the near-term trends highlight the kind of problems that emerge in US defense budgeting and programming, and in tying them to strategy and force planning:[20]

- Total national security costs in outlays rose from $298 billion in FY2001, in constant FY2000 dollars, to $442 billion in FY2007 -- a rise of 48% in real terms since 9/11.[21] They rose from $305 billion in FY2001, in current dollars, to $536 billion in FY2007 -- a rise of 75%.

- Such increases mark a very sharp rise, but defense costs have never been stable in real terms. Total national defense costs in outlays in constant 2000 dollars rose from $267 billion in 1980 to $399 billion in 1989 (49%). They dropped from $383 billion in 1990 to $284 billion in 1999 (-26%). They then increased by 50% from $295 billion in 2000 to $443 billion in 2007. They are projected to drop to $392 billion in FY2008 and then decline to $389 billion in 2011.[22]

- In spite of such rises, the burden national security spending puts on the national economy has dropped sharply over time. Total national security expenditures averaged around 9% of the GDP throughout the 1960s, and Department of Defense spending averaged around 8%. Total national security expenditures averaged around 9% of the GDP throughout the 1960s, and Department of Defense spending averaged around 8%. Both declined to levels around 6% in the 1970s, and remained at close to these levels in the 1980s. The end of the Cold War allowed them to drop to levels closer to 3.0% during the 1990s. Total national security expenditures rose back to around 4% of the GDP after "9/11" and Department of Defense to around 3.7%.[23]

- The burden national security spending puts on the federal budget has also tended to decline. Total national security expenditures declined from 52% at the start of the 1960s, to 45% at the end. They dropped from 42% in 1970 to 23% in 1979, then rose to 27% in 1989. They dropped from 23% to 16% in the 1990s, and have since risen back to around 19-20%. The Department of Defense share has generally been about 1.5% to 2.7% lower.[24]

This does not mean the US faces overstretch. The pressures defense puts on the economy and federal budget are low by historical standards, and minor compared to the pressures put on the budget by mandatory expenditures and entitlements. Moreover, even if defense spending rose by another third, it would still only equal the burden defense placed on the economy during the less expensive periods of the Cold War.

It does mean that the Bush Administration has submitted a FY2007-FY2011 defense plan that is deeply unrealistic. It does not fund ongoing wars after FY2007, and even its 2007 figures are unrealistic given current supplementals. Less such supplementals, the Department of Defense projects spending in outlays as follows:

- In current dollars, projected national security expenditures go from $536 billion in 2006 to $527 billion in 2007, $494 billion in 2008, $494 billion in 2009, and then rise sharply to $507 billion in 2010 and $523 billion in 2011.

- In constant 2000 dollars, projected expenditures go from $443 billion in 2006 to $427 billion in 2007, $392 billion in 2008, $384 billion in 2009, and then rise much more slowly because of assumptions about inflation to $386 billion in 2010 and $389 billion in 2011.

The Bush Administration also manipulates the future year defense plan (FYDP) for FY2007 to FY2011 by allowing BA (which does not affect the "balanced budget") to rise much more sharply and quickly in the outyears to fund defense program and force transformation, while

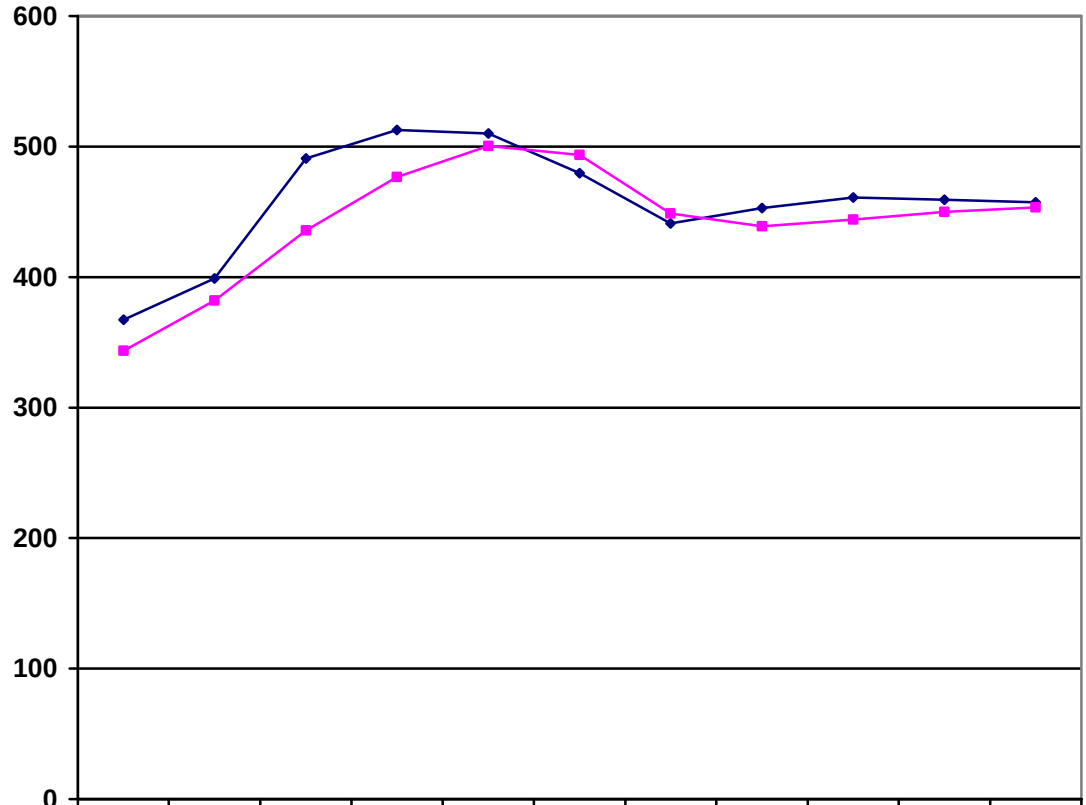
delaying the rise in outlays (which does not affect the politics of budget balancing) until President Bush leaves office. This has become standard practice for outgoing administrations since the Eisenhower administration and allows a presidency to understate the true cost of defense by slipping expenditures to the outyears, sometimes called "dancing to the right."

The problem is that the US not only has to pay for its wars, but must be able to implement its strategy and carry out a continuous process of force transformation. If one looks at the levels of defense spending projected in **Figure 3.13**, it again highlights the fact that future spending by the Department of Defense should almost certainly be budgeted at an average approaching $100 billion more a year during much of FY2008-FY2011.[25]

Figure 3.13

Budgeting for a "Warless World" After FY2006: Total DoD Budget FY2001-FY2011

(In Constant $US FY2007 Billions)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total BA	367.3	399	491	512.6	510.1	479.5	441	453	461	459.3	457.3
Total BO	343.6	382	435.7	476.6	500.4	493.7	448.8	438.8	444	449.9	453.4

	FY2001	FY 2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Total BA (051-DoD)	364.0	512.1	510.1	479.5	441.0	453.0	461.0	459.3	457.3
Total B0 (051-DoD)	343.6	476.6	500.4	493.7	449.0	438.8	444.1	449.9	453.4
Total BA (050-Total)	-	533.9	533.1	503.7	463.0	473.5	481.5	479.2	477.2
Total B0 (050-Total)	-	497.8	522.8	518.2	471.5	459.5	470.7	471.6	473.1

Source: Adapted from Office of the Under Secretary of Defense (Comptroller), "National Defense Budget Estimates for FY2007, March 2006, pp. 4 -5.

Other Costs Than Defense Now Drive the Federal Budget and Tax Burden

That said, the US still badly needs to look beyond the narrow issue of defense spending and consider what forces are actually putting pressure on the federal budget and US economy. If one examines what is happening within the federal budget, there may well be a need for a very different kind of debate over the budget deficit, the federal debt, and growth of mandatory federal spending and other sharply rising domestic expenditures -- rather than simply focusing on defense.

The Budget Deficit and Federal Debt

The budget deficit is driven largely by domestic and mandatory programs and not defense spending. If the US is to be both secure and globally competitive, it needs basic fiscal responsibility, regardless of the importance of the public policy issue. This means hard trade-offs, not deferring decisions, or letting future (outyear) costs escalate while appearing to control budget obligations (BO) during the current and next fiscal years. It means matching revenues and expenditures, and asking the American public to assume equal fiscal responsibility for the individual.

At this point in time, it is difficult, if not impossible, to determine how bad the level of American fiscal irresponsibility is getting. Estimates of the trends in the national debt, budget deficit, or the future costs of mandatory expenditures/entitlement programs are so subject to political views and problems in cost estimates that the only thing really clear is a steadily growing vector of overspending. This situation is made worse by Congressional gimmicks to get through the current year, like the Budget Reconciliation Act, games with supplementals, and undercosting outyear expenditures.

The near-term projections made in the President's budget request are shown in **Figure 3.14**. They are conservative in estimating the growth of civilian spending and mandatory programs, but they also show that it is these programs, and not defense, that are projected to dominate the overall growth of federal spending and its impact on the US economy.

The baseline data in the CBO budget outlook for FY2007-FY2016 make very favorable assumptions about Congressional willingness to re-impose a massive tax burden when past cuts begin to expire in 2010. Even so, one sees the following trends:[26]

- A $337 billion baseline deficit costing 2.6% of the US GDP for FY2007, with a more realistic total of $360 billion, or 2.8% of the GDP, including supplementals for the wars.
- Mandatory expenditures will continue to increase by 5.8% per year during FY2007 through FY2016, versus 2% for discretionary expenditures (a pace less than half the assumed average growth in GDP).[27]
- Total Social Security, Medicare, and Medicaid costs will rise from 43% of all federal spending in 2006 to 56% in 2016, and from 8.7% of GDP to 18.8%.[28]
- A rise in Medicare costs from 7.4% in 2008 to 8.3% in 2016.[29]
- A rise in Medicaid spending to 8.3% of GDP by 2016.[30]

According to the CBO baseline forecast, the federal budget deficit is estimated to change from $318 billion in 2005 to $337 billion in 2006, $271 billion in 2007, $259 billion in 2008, $241 billion in 2009, $222 billion in 2010, and $114 billion in 2011.[31]

Moreover, the CBO baseline forecast estimates that the federal debt will increase from $3.3 trillion in 2005 to $3.5 trillion in 2006, $3.8 trillion in 2007, $4.1 trillion in 2008, $4.5 trillion in 2009, $4.8 trillion in 2010, and $5.2 trillion in 2011.[32]

Other projections forecast that if current policy trends continue, they will lead to large sustained deficits. For example, the Concord Coalition baseline projection estimated that the federal budget deficit would reach approximately $380 billion in 2007, $390 billion in 2008, $400 billion in 2009, $410 billion in 2010, and $500 billion 2010. In addition, this projection estimated that the US federal budget deficit would reach approximately $800+ billion in 2015.[33]

Studies by groups like the GAO have raised the need to reexamine the very base of the US government.[34] It has warned that current spending trends -- driven by net interest, Medicare and Medicaid, and Social Security -- could easily raise baseline federal spending from some 20% of GDP through 2015 to 25% by 2030 and close to 30% by 2040. If all current tax cuts and relief were sustained, and spending grew at recent rates, these figures would drive federal spending to around 24% of GDP by 2015, 34% by 2030, and over 45% by 2040.[35] The Brookings Institution raised many of the same issues in its study on *Restoring Fiscal Sanity–2005*, by Alice M. Riviln and Isabel Sawhill.[36]

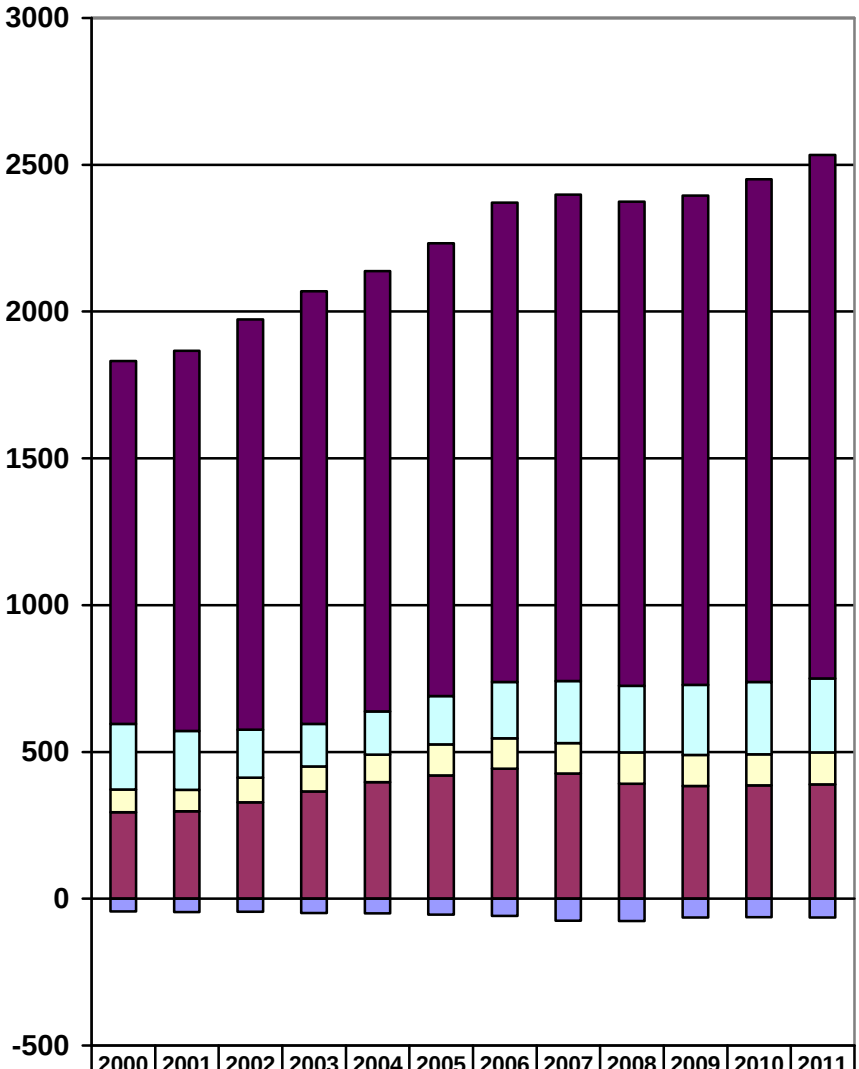
The US needs prudent federal fiscal polices. If it wants national security in an era where geoeconomics are at least as important as geopolitics and military forces, it needs a society that is competitive, that allows free markets to work while protecting those who truly need public aid, and where individuals remain productive and pay their own way. Yet, fiscal responsibility does not mean cutting defense first.

The US may not fight another version of the Iraq War, but it faces very real external threats, rivals, and foreign enemies. It needs to fight the "long war" against extremism and terrorism, to aid its allies, deter potential enemies, and defeat real ones.

Figure 3.14

US National Defense Spending Relative to Other Federal Budget Costs: FY2000-FY2011

(By Fiscal Year, in Constant $US FY2000 Billions)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
TOTAL	*1789	*1820	*1930	*2020	*2089	*2179	*2312	*2314	*2298	*2332	*2388	*2471
Social & Economic	1237	1294	1397	1474	1500	1543	1633	1657	1649	1667	1713	1784
Net Interest	223	201	164	144	147	164	192	211	227	238	246	252
Veterans, Space & International	77	73	84	86	94	106	103	103	106	106	106	109
National Defense	295	298	328	365	397	420	443	427	392	384	386	389
Offset Receipts	-43	-46	-44	-49	-50	-54	-59	-75	-76	-64	-63	-64

Source: Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2006, Washington, Department of Defense, April 2005, Table 7-2.

VS&I = Veterans, Space, and International; Offset Receipts = Offsetting Receipts.

The "Threat" to the US from Mandatory Programs

If one looks beyond defense per se, and at the best ways to keep federal expenditures from limiting US economic growth, one key priority may be to keep federal spending capped at the current level of roughly 19% to 20% of GDP, and do so in ways that do not drive states to increase their share of GDP. In reality, this will only be possible if Americans openly debate the trade-offs between increased reliance on the federal government and/or increased federal debt, and limiting public spending generally.

This cannot be done without bringing mandatory programs like Social Security, Medicaid, Medicare, and other social welfare programs under control. Figure 3.14 has already illustrated this point, but **Figures 3.15 and 3.16** illustrate it in more detail. Figure 3.15 shows the growth of mandatory programs by type relative to defense in both percentage and absolute terms as projected in the material prepared for the President's FY2007 budget request. Figure 3.16 shows a conservative Congressional Budget Office projection made through FY2016, based on the budget baseline in outlays. Both serve as a clear warning about the need to bring mandatory programs under control even under the most conservative estimates.

The Bush Administration and the Congress, however, have so far chosen politics over fiscal responsibility, and spending could be far higher. The GAO has warned that current spending trends -- driven by net interest, Medicare and Medicaid, and Social Security -- could easily raise baseline federal spending from some 20% of GDP through 2015 to 25% by 2030 and close to 30% by 2040. If all current tax cuts and relief were sustained, and spending grew at recent rates, these figures would drive federal spending to around 24% of GDP by 2015, 34% by 2030, and over 45% by 2040.[37]

The CBO has made a similar estimate, and typical CBO projections of spending based on past trends in economic growth and federal spending are shown in **Figure 3.17**. Even if Medicare and Medicaid alone are kept under tight control through 2050 will still have risen from 0% of the GDP in1966 to some 4% today, and will rise to 6% by 2050. US medical costs for the normal population have exceeded the annual rate of GDP growth by an average of 2.6% a year from 1960 to 2003.[38]

If their cost growth in real terms is controlled to only 1% annual real growth -- a level of Administration and Congressional restraint that would approach a historical miracle, they would rise to over 12% of the GDP by 2050. At a historical trend of a 2.5% annual rise in real cost, they would rise to about 8% of the GDP in 2020 and well over 20% of the GDP by 2050.[39] These figures do not include Social Security, which the CBO estimates is on a track to rise from 4.2% of the GDP in 2006 to 6.0% in 2030 and 6.4% in 2050 -- a rise of more than 50%.[40]

The US is a rapidly aging society and this is having a massive impact on federal spending as well as the structure of the American labor force:

- The percent of the US population over 65 will continue to rise from 14% in 2016 to more than 19% in 2030.[41]
- CBO estimates that the number of US adults under 65 will grow by 12% over next 30 years, but the number over 65 will double. The older population rises from one-fifth to one-third between 2005 and 2050.[42]
- Social Security costs must rise, driven by the first baby boomers reaching age 62 in 2003. That means that the burden Social Security puts on the US economy will rise from 4.8% of the GDP in 2008 to 6.5% in 2016.[43]

- Medicare costs increased by more than 10 times as a percent of GDP between 1970 and 2004, from 0.7% to 2.6%. Medicaid costs increased by more than 15 times as a percent of GDP between 1970 and 2004, from 0.3% to 1.5%.[44] Total is 0.1% in 1970 and 4.1% in 2004.

- The cost of budget outlays for Social Security and Medicare will rise by a trillion dollars from FY2007 to FY2016. ($1.4 to $2.5 trillion)[45]

- The CBO estimates that combined federal spending on Social Security and Medicare will rise about 2% of GDP over next decade, from around 6.5% to 8.7%. Last year, it projected it would rise to 12.8% by 2025, and 22.6% by 2050.[46]

- To keep such programs funded, and to keep the federal budget under some sort of control, the CBO estimates discretionary spending must drop from about 8% of GDP to 6%.

Asking a given Congress or Presidency to act decisively without popular support is almost certainly a triumph of hope over experience. There are, however, measures that might help:

- Focus federal planning and budgeting on controlling both BA and BO. Require every federal department and agency to submit a five-year rolling program budget, and require Congressional approval of the program budget, and not just BA and BO in a single year.

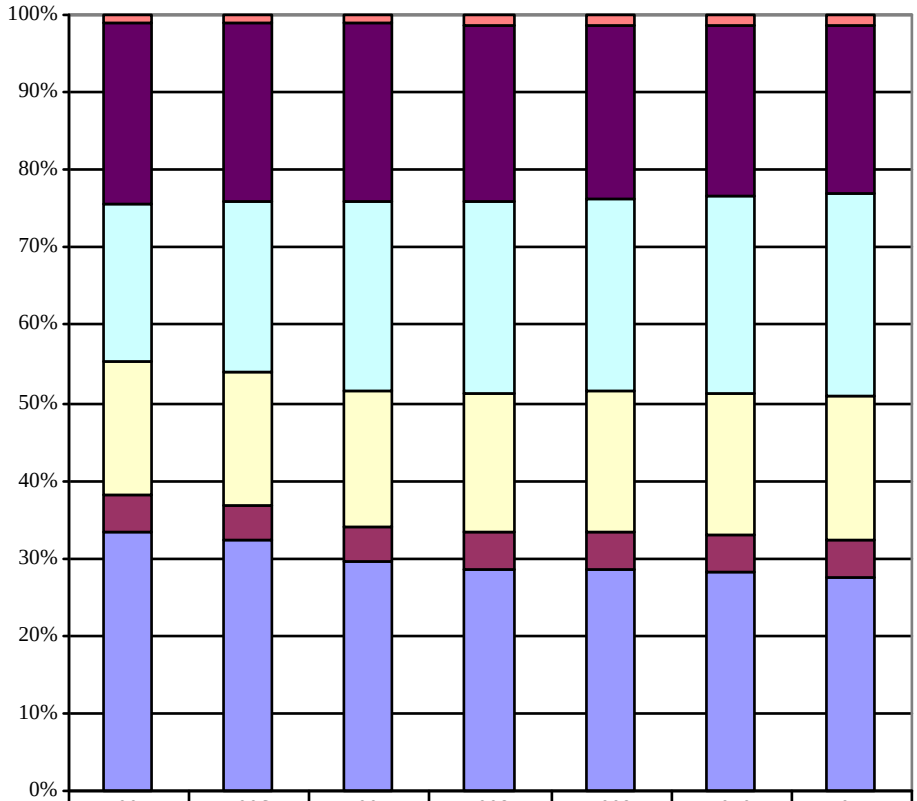
- Require the Executive Branch to provide at least a 30-year projection of all mandatory program costs. Require all bills with mandatory provisions and costs to be costed for 30 years, and require Congress to vote on the outyear estimates and not simply BA and BO in a single year.

- Put an end to phony reconciliation acts. Do not ignore the real-world need to bring taxation back to the levels to sustain the budget without more deficits and increases in the national debt, and halt entitlement creep.

Figure 3.15

US National Defense Spending versus Major Health and Mandatory Programs: FY2005-FY2011

(Percentage of outlays by function in Current $US Billions by Fiscal Year)



	2005	2006	2007	2008	2009	2010	2011
Social Security	17	16	18	21	22	24	27
Income Security	346	361	367	376	383	392	407
Medicare	299	343	392	404	426	452	494
Health	251	269	281	294	309	326	347
Veterans, Space & Internation	70	70	74	79	82	84	91
National Defense	495	506	472	471	487	505	522

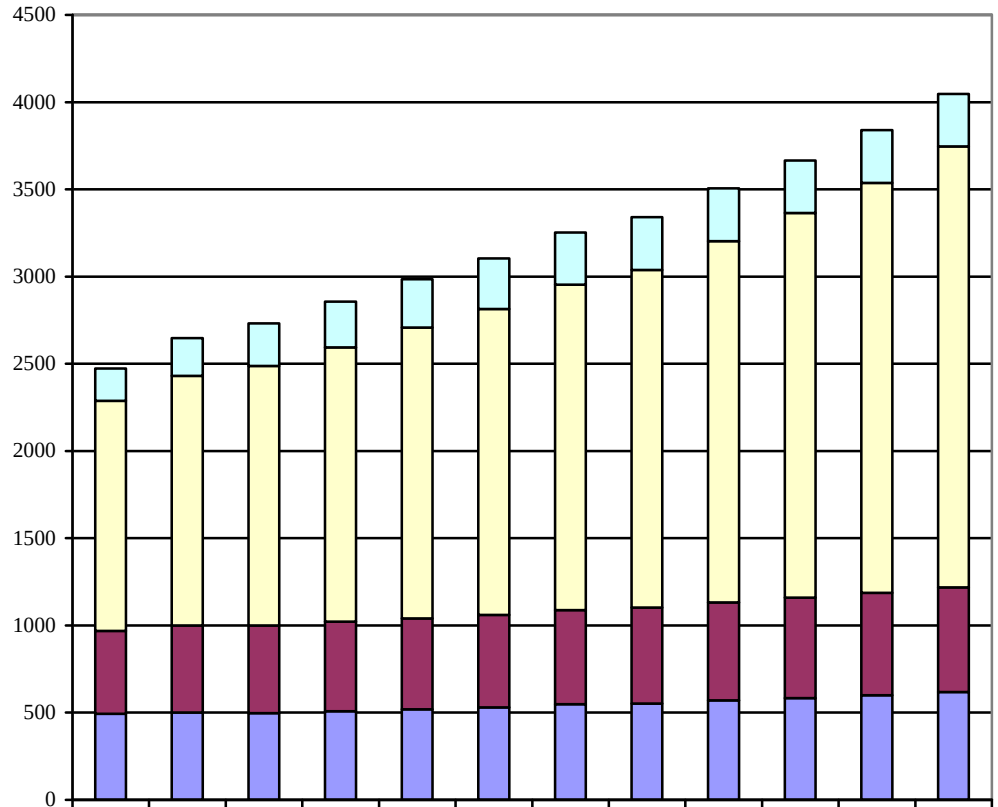
Source: Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2006, Washington, Department of Defense, April 2005, Table 7-2.

VS&I = Veterans, Space, and International; Offset Receipts = Offsetting Receipts.

Figure 3.16

CBO Projection of US National Defense Outlays versus Other Entitlements and Mandatory Programs: FY2005-FY2016

(Percentage of outlays by function in CBO projection under baseline assumptions in $US Billions by Fiscal Year)



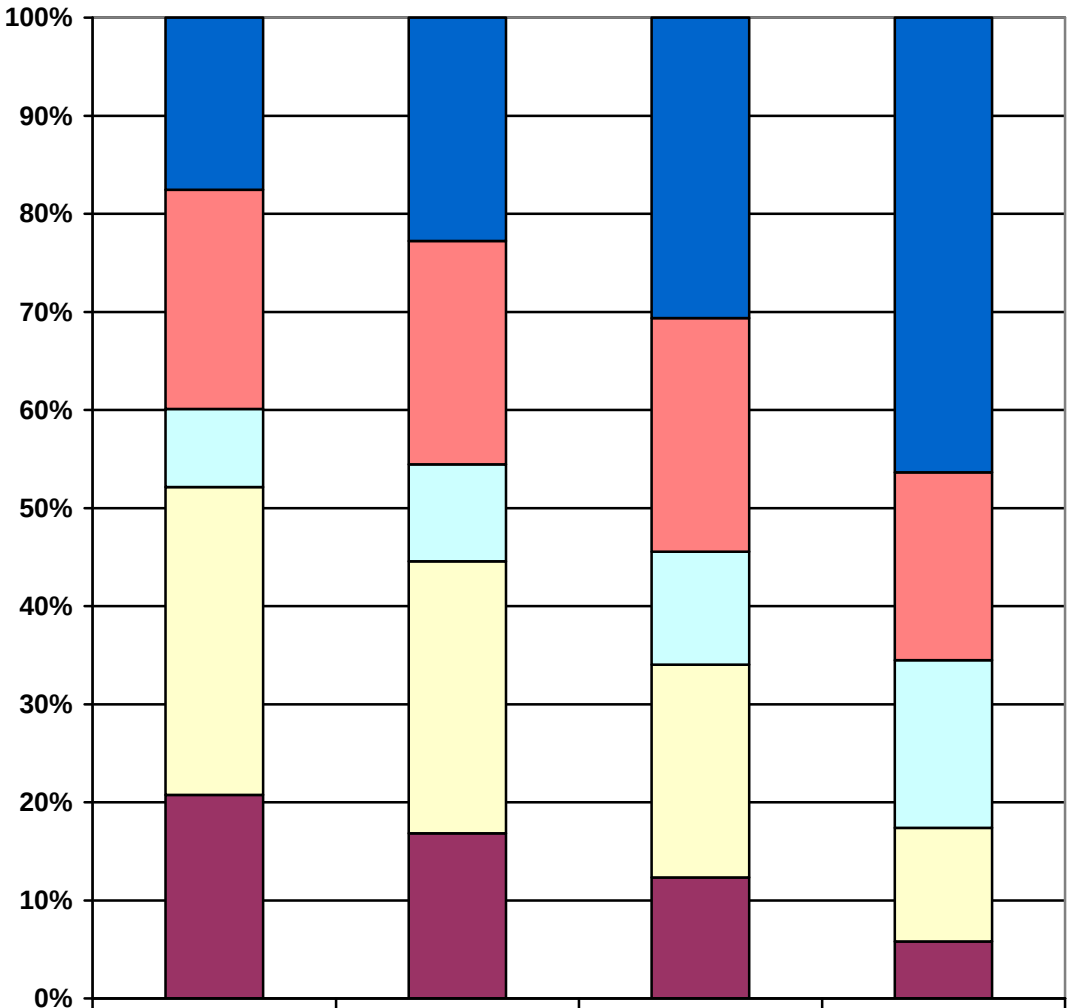
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
TOTAL	2472*	2649*	2732*	2857*	2984*	3105*	3252*	3340*	3506*	3666*	3839*	4046*
Interest	184	217	244	263	277	289	299	303	303	302	302	300
Mandatory	1320	1432	1488	1572	1667	1755	1866	1935	2071	2205	2350	2527
Other Discretionary	474	499	502	513	521	529	539	550	562	575	588	601
Defense	494	500	498	509	519	531	548	552	570	584	599	618

Source: Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2007-2016," January 2006, p. 52.

VS&I = Veterans, space, and International; Offset Receipts = Offsetting Receipts.

Figure 3.17

Entitlements "Hell": CBO FY2006 Estimate of Cost of Programs as a Percent of GDP



	2007	2015	2025	2050
Medicare	3.3	4.6	7.2	16
Social Security	4.2	4.6	5.6	6.6
Medicaid	1.5	2	2.7	5.9
Other	5.9	5.6	5.1	4
Defense	3.9	3.4	2.9	2

Source: Author's compilation based on President's FY2007 budget request, CBO analysis of budget and economic outlook for FY2007-FY2016, and primarily on the range of extrapolations in Congressional Budget Office, The Long Term Budget Outlook, December 2005, p. 10. For additional analysis, see US Government Accountability Office, "21st Century Challenges: Reexamining the Base of the Federal Government," GAO-05-325SP, February 2005.

The Broader Problem of "Overstretch"

There is no simple way to resolve the problems the US faces in allocating and managing defense resources, or in bringing them into balance with other federal and social needs. There is a clear need to improve the planning, programming, budgeting, and management of US defense spending. Part is to ensure that strategy and planning are formulated as an integrated part of programming and budgeting, part is to improve the quality of the programming and budgeting process, and part is to reduce the kind of waste and mismanagement that exist in many defense activities, particularly force planning and procurement.

It should be clear, however, that the US not only needs to look far beyond the Iraq War; it also needs to look beyond defense spending and look at a far broader range of issues. Defense is only one priority among many, but the early part of the 21st Century is clearly not going to be more stable or safer than the 20th.

The US does not need radical rises in defense expenditures as a percent of its GDP. But it does need to recognize that it needs to maintain levels much closer to those it spent during the Cold War -- particularly as long as it faces challenges like Iraq, Afghanistan, and the war on terrorism -- and it must prepare for potential conflict in Korea and over the Taiwan Straits.

When defense is considered in the broader context of Homeland Defense and emergency preparedness, it is also clear why mandatory expenditures should not be allowed to either force further reductions in discretionary expenditures or drive up the total burden on the economy that is imposed by federal spending.

The US needs to make major trade-offs in the cost of mandatory programs that are estimated to rise in cost from $1.4 trillion in 2007 to $2.5 trillion in 2016.[47] The pressures defense puts on the economy and the federal budget are low by historical standards, and minor compared to the pressures put on the budget by mandatory expenditures and entitlements. Moreover, even if defense spending rose by another third, it would still only equal the burden defense placed on the economy during the less expensive periods of the Cold War. The real issue, therefore, is not to seek ways to reduce defense costs or resources, but rather to determine what levels of spending are actually needed and provide them. The US can almost certainly afford all of the national security it needs if it can manage other aspects of social programs and defense spending.

[1] Congressional Budget Office, "The budget and Economic Outlook, Fiscal Years 2007 to 2016," CBO, Washington, January 2006, p.7.

[2] Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2007, Washington, Department of Defense, March 2006, Table 6-11.

[3] Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2007, Washington, Department of Defense, March 2006, Table 7-7, p. 217.

[4] Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2007, Washington, Department of Defense, March 2006, Table 7-7, p. 217.

[5] Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2007, Washington, Department of Defense, March 2006, Table 7-7

[6] Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2006, Washington, Department of Defense, April 2005, Table 7-7.

[7] Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2007, Washington, Department of Defense, March 2006, Table 7-7

[8] Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2006, Washington, Department of Defense, April 2005, Table 7-7

[9] Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2007, Washington, Department of Defense, March 2006, Table 7-7

[10] Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2007, Washington, Department of Defense, March 2006, Table 7-6.

[11] Includes unemployed.

[12] Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2007, Washington, Department of Defense, March 2006, Table I-10.

[13] Congressional Budget Office, Growth in medical Spending by the Department of Defense, September 2003, pgs. 1 – 6.

[14] Congressional Budget Office, Growth in medical Spending by the Department of Defense, September 2003, pgs. 1 – 6.

[15] Congressional Budget Office, "The budget and Economic Outlook, Fiscal Years 2007 to 2016," CBO, Washington, January 2006, p.7.

[16] Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY2007, Washington, Department of Defense, March 2006, Table 6-11, pp.128-129.

[17] Office of the Under Secretary of Defense (Comptroller), "National Defense Budget Estimates for FY2006", Washington, Department of Defense, April 2005, Table 6.8 and 6-11.

[18] Comptroller, Office of the Under Secretary of Defense, National Defense Budget Estimates for FY 2006, March 2006, p. 67.

[19] Steven M. Kosiak, "Analysis of the FY2006 Defense Budget Request," Center for Strategic and Budgetary Assessments, 2005, pgs. 13 – 14.

[20] Office of the Under Secretary of Defense (Comptroller), "National Defense Budget Estimates for FY2007, March 2006,

[21] Office of the Under Secretary of Defense (Comptroller), "National Defense Budget Estimates for FY2007, March 2006, p. 207.

[22] Office of the Under Secretary of Defense (Comptroller), "National Defense Budget Estimates for FY2007, March 2006, p. 207.

[23] Office of the Under Secretary of Defense (Comptroller), "National Defense Budget Estimates for FY2007, March 2006, p. 216.

[24] Office of the Under Secretary of Defense (Comptroller), "National Defense Budget Estimates for FY2007, March 2006, p. 216.

[25] Adapted from Office of the Under Secretary of Defense (Comptroller), "National Defense Budget Estimates for FY2007, March 2006, pp. 4 and 5.

[26] Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2007-2016," January 2006, and Donald B. Marron, "The Budget and Economic Outlook: Fiscal Years 2007-2016," Testimony before the Committee on the Budget, US Senate, February 2, 2006.

[27] Donald B. Marron, "The Budget and Economic Outlook: Fiscal Years 2007-2016," Testimony before the Committee on the Budget, US Senate, February 2, 2006, p. 5

[28] Donald B. Marron, "The Budget and Economic Outlook: Fiscal Years 2007-2016," Testimony before the Committee on the Budget, US Senate, February 2, 2006, p. 5.

[29] Donald B. Marron, "The Budget and Economic Outlook: Fiscal Years 2007-2016," Testimony before the Committee on the Budget, US Senate, February 2, 2006, p. 4.

[30] Donald B. Marron, "The Budget and Economic Outlook: Fiscal Years 2007-2016," Testimony before the Committee on the Budget, US Senate, February 2, 2006, p. 4.

[31] Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2007 To 2016," p. 19.

[32] Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2007 To 2016," p. 2.

[33] Concord Coalition baseline estimate, available at http://www.concordcoalition.org/issues/fedbudget/charts/0601-plausible-baseline.pdf

[34] US Government Accountability Office, "21st Century Challenges: Reexamining the Base of the Federal Government, Washington, GAO-05-3255, corrected edition of March 4, 2005.

[35] US Government Accountability Office, "21st Century Challenges: Reexamining the Base of the Federal Government, Washington, GAO-05-3255, corrected edition of March 4, 2005, pp. 7-8.

[36] Alice M. Riviln and Isabel Sawhill, Restoring Fiscal Sanity – 2005: Meeting the Long-Range Challenge, Washington, Brookings Institution, 2005

[37] US Government Accountability Office, "21st Century Challenges: Reexamining the Base of the Federal Government, Washington, GAO-05-3255, corrected edition of March 4, 2005, pp. 7-8.

[38] Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2007 To 2016," p. 23.

[39] Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2007 To 2016," pp. 21-24.

[40] Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2007 To 2016," p. 23.

[41] Donald B. Marron, "The Budget and Economic Outlook: Fiscal Years 2007-2016," Testimony before the Committee on the Budget, US Senate, February 2, 2006, p. 5

[42] Congressional Budget Office, "The Long Term Budget Outlook," December 2005, p. 19.

[43] Donald B. Marron, "The Budget and Economic Outlook: Fiscal Years 2007-2016," Testimony before the Committee on the Budget, US Senate, February 2, 2006, p. 3.

[44] Congressional Budget Office, "The Long Term Budget Outlook," December 2005, pp. 29 and 30.

[45] Congressional Budget Office, "The Long Term Budget Outlook," December 2005, p. 19.

[46] Congressional Budget Office, "The Long Term Budget Outlook," December 2005, p. 31.

[47] Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2007-2016," January 2006, p. 9.