

Meeting the True Fiscal, Social and Political Challenges to U.S. National Security

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We need to reform the ways we spend on national security. We need to debate our levels of spending on defense, foreign aid, and dealing with terrorism. Few doubt that defense spending grew far too fat over more than a decade of wartime increases, that every aspect of defense spending needs to be examined, reshaped and made more efficient, and we urgently need to control the spiraling costs in defense procurement. We need to reexamine the balance between military spending and foreign aid at a time when political upheavals in the Middle East illustrate the need to use such aid as a tool in bring political and economic stability. We need to ask why the Office of Management and Budget (OMB) estimates we are now spending nearly \$80 billion a year on homeland defense and the war on terrorism.

There are equally good reasons to focus on the overall structure of federal spending. The moment one moves away from partisan political polarization, it becomes all too clear that we need to both raise taxes to provide more revenue and to make cuts in entitlement spending. Moreover, it becomes clear that we need to think in terms of the total mix of federal, state, and local programs, and not simply the current debate over federal revenues and spending. The issue is not simply national security spending as a percent of federal spending; it is national security relative to the total tax burden, the total cost of civil governance, and their impact on our overall economy.

Seen from this perspective, national security spending becomes something of a bargain, as well as a very limited source of solutions to our total fiscal problems. But even the best set of reforms to our current national security spending is unlikely to cut the total burden on our economy by 2 percent of the U.S. gross domestic product (GDP); the savings will probably be closer to 1 percent or less. It is doubtful that we can get the baseline (peacetime) cost of defense below 4 percent of GDP. Even with the nation at war in 2011 we only spent 4.7 percent of GDP on defense, and this was scarcely a critical burden on our economy. It was far less than the 5.4 percent we spent as the Cold War was ending in 1991 or the average of 7-9 percent of the GDP we spent on the Cold War for nearly half a century.

We also cannot control some aspects of our future spending. Even through the Iraq War is over, the cost of a relatively limited conflict still requires \$85 billion in Overseas Contingency Operations (OCO) spending out of some \$633 billion for the FY2013 defense budget. If we have new contingencies to deal with Iran, North Korea, the Pacific, or any other major crisis, we will have to spend the money.

All of the budget planning in the world and all the ten year plans will amount to nothing if there is not enough money to deal with the world. Moreover, weak deterrents and hollow forces ultimately cost far more when contingencies arise than the temporary savings we gained through military weakness. Moreover, even if we added another 0.5 percent of GDP to foreign aid to help reduce the risk of problems like the upheavals in the Arab world turning into strategic crises—which would produce massive increases in actual aid spending—the peacetime cost of every aspect of direct spending on national security would still amount to well under 6 percent of GDP.

If we are to take effective action to deal with the current fiscal mess we need to understand that that national security spending has been only a minor factor in creating that mess even though we failed to raise revenues during the last decade while we spent some \$1.6 trillion dollars on the Afghan and Iraq wars. The crisis in federal and other government spending has very different causes: it comes from the

failure to control entitlement spending. But this too, is only part of the story. We also have to address the underlying causes behind these increases in entitlement spending: the need to raise the working age, to find the proper mix of private and government retirement funding, and the fact our nation has come faces as much of a threat to its overall security from its rising medical costs as it does from any foreign enemy.

The National Security Challenge from an Aging America

We need to look beyond the direct cost of national security in the federal budget to look instead at the overall balance of federal revenues and spending. We need to start honestly addressing the underlying public policy challenges that have created the current fiscal crisis and which impact on the entire U.S. economy.

The first such challenge is an aging United States. We cannot ignore the reality that our population is steadily aging and lives nearly two decades beyond the age of 65 that marked life expectancy when Social Security was created. We cannot ignore the fact most defined pension plans are being phased out, that more and more employers do not contribute to 401Ks, and that a majority of Americans reach retirement age without adequate savings or a pension.

Consider what the Census Bureau and Social Security Administration say about the overall problems of retirement in an aging America: some 23 percent of retiring married couples and 46 percent of unmarried retirees get 90 percent of their retirement income from Social Security and that the average payment is \$14,400 a year, within the general range of the U.S. poverty level of \$10,890. In 2011, 9 percent of Americans over 65 had no retirement savings and did not receive Social Security benefits. Three out five families headed by someone over 65 had no retirement savings. Yet, the number of Social Security beneficiaries will rise from 56 to 91 million between now and 2035.

Moreover, if one looks at the broader range of key trends and statistics, the need to find the right mix of raising the retirement age, increasing private savings, restoring retirement contributions by employer, and raising federal spending to make Social Security a real pension plan becomes all too clear:

Aging

- In 1940, the life expectancy of a 65-year-old was almost 14 years; today it's almost 20 years. By 2036, there will be almost twice as many older Americans as today, from 41.9 million today to 78.1 million.

Social Security:

- In 1980, four out of five private sector workers had traditional pensions. Now just one in five has a traditional defined benefit pension.
- There are currently 2.9 workers for each Social Security beneficiary. By 2036, there will be 2.1 workers for each beneficiary.
- In 2011, 9 percent of Americans over 65 had no retirement savings and did not receive Social Security benefits. Three out five families headed by someone over 65 had no retirement savings.
- In 2011, 54 percent of retired married couples and 73 percent of unmarried persons—some 35 million Americans or 69 percent of those receiving benefits—received 50 percent or more of their income from Social Security.
- About 23 percent of married couples and 46 percent of unmarried persons receiving benefits relied on Social Security for 90 percent or more of their income.

- In addition, 8.4 million disabled Americans and 2 million of their dependents (19 percent of total benefits) depended on Social Security, plus 6.3 million survivors of deceased workers (12 percent of total benefits).
- It is projected that the number of Social Security beneficiaries will increase from 56 to 91 million between now and 2035. By 2033, only 75 percent of benefits will be financed unless taxes are increased or the system is reformed.

401K

- Surveys show that more than one in four Americans with a 401K has used it to deal with preretirement expenses, and 12 percent of Americans have taken loans out against their 401Ks since 2008. In 2010, 28 percent of American has loans against their retirement accounts. Some 30 percent of Americans who earned less than \$50,000 a year have cashed out their retirement accounts.
- 401Ks and other programs are steadily losing employer contributions, and most Americans either do not fund them or fund them far below retirement level.
- A typical worker had \$54,000 in 2010, and small number of real savers had large share of total and real prospects for savings taking them to life expectancy of 82.
- However, even twice the savings, \$120,000, would be less than 25 percent of the recommend minimal savings for retirement and pay roughly \$7,000 a year.
- Many participants empty their accounts when laid off or use the money to buy houses or education for children.
- Most plans have relatively high fees and those who do save often take excessive risks: 38 percent of participants in ages 55 to 64 keep 80 percent or more of 401K in stocks but actually do little to manage their accounts.

All these trends are pushing us towards a time when Americans have to work longer, probably to 70 and beyond, and save more on their own. They mean we need an honest national debate over the need to convert Social Security into a true national pension plan. In doing so, we need to remember that those who do not save and do not have a retirement plan both vote can turn to welfare if they become destitute. Democracies cannot function if the combination of private savings and government spending for aging Americans do not meet their basic needs.

The National Security Threat from U.S. Medical Care

We have an even more urgent need to look beyond the cost of Medicare and Medicaid to reduce the overall economic burden of medical care. For all its merits, American health care has become a key threat to the U.S. economy, our status in the world, and our ability to fund both national security and host of other expenditures like education and infrastructure.

We cannot divorce the debate over national security spending from the fact that since 1960, our national spending on medical care has gone from some 5.7 percent of GDP to over 17 percent and is now projected to rise above 20 percent. We cannot ignore the steady decline in employer medical coverage, the inability of Americans to obtain affordable medical insurance, and the reality of what happens with a crisis or lasting medical condition is not covered.

Once again, this need becomes even clear when one considers the broader range of key trends and statistics:

Medical Costs and Insurance

- The entire pattern of federal spending will be driven by the rising cost of Medicare, Medicaid (and potentially national medical care under the Affordable Care Act as of 2014).
- By 2021, health care will account for nearly 20 percent of the U.S. economy, up from 5.2 percent in 1950, 7.2 percent in 1980, 12.5 percent in 1990, 13.8 percent in 2000 and 17.9 percent in 2010.
- Expenditures in the United States on health care surpassed \$2.3 trillion in 2008, more than three times the \$714 billion spent in 1990 and over eight times the \$253 billion spent in 1980. Without major changes in cost, they will equal some 25 percent of GDP in 2025.
- The United States now spends close to [18 percent of its GDP on medical care](#); the next highest developed country is Switzerland, which pays 11.4 percent. Other developed countries, including all with national health plans, spend less than 11 percent.
- The United States has, by far, the [highest total expenditure on health care per capita per year of any OECD country](#), \$,7960, and spends approximately \$2,600 more per person annually than Norway, the second-highest spender. Only 47.7 percent of this amount is public expenditure, the third-smallest percentage among developed countries. However, the actual amount of public spending, \$3,795, is among the highest. The United States also spends the largest amount on pharmaceuticals and other medical nondurables. The country has fairly low rates of doctors and hospital beds relative to its population.
- In most of the OECD countries, health care expenses come to more than \$2,000 per person each year. In the case of the 10 countries with the highest costs, expenses are roughly twice that. [However in the United States, spending on health care per capita comes to nearly \\$8,000 per person](#). Yet the United States has the eighth-lowest life expectancy in the OECD. Japan, meanwhile, spends \$2,878 per person, about \$5,000 less than the United States, and has the highest life expectancy among developed nations.
- There are costs for which roughly one quarter of Americans have no insurance, and many only have partial insurance coverage. Even so, the average health insurance premium for family coverage has more than doubled over the past decade to \$13,770 a year.
- Some 45.1 percent of the workforce from ages 18 to 64 had no coverage as of September 2011 and many retirees lacked the savings to pay for any additional payments above Medicare. These figures did not include Americans who had not worked in the last 12 months, and coverage had dropped substantially since 2008. If one includes self-financed medical insurance, some 50 million Americans or 16 percent of the population had no coverage in 2010.
- In 2010, 31 percent of Americans relied on the government for health insurance, up from 24.2 percent in 1999. A total of 9.8 percent of children under age 18 are uninsured despite the government programs.
- As with Social Security, it is forecast that there will be growth in the number of Medicare recipients in the long term, a jump of 15 million recipients from 2010-2021.
- Government healthcare is also complicated by the rising cost of healthcare. Health related costs per capita have been rising at a greater rate than per capita GDP. Participation in Medicare is also forecast to increase by over 30 percent during the same period.
- As a result of these phenomenon, the Congressional Budget Office (CBO) estimated that there will be a nearly twofold increase in Medicare outlays from 2010-2021 (\$520 billion-

1.021 trillion) *without sequestration*. A more recent CBO assessment concludes that even *with sequestration*, Medicare outlays will surge from \$560 billion in 2011 to \$956 billion in 2021 and \$1.064 trillion in 2022.

These problems leave the United States with only two real world options: first, ration medical care far for most Americans in ways that have clear and meaningful cost-benefits, and second, make it far less costly and more efficient. In practice, this means getting the total cost of government and privately funded medical care back to a reasonable share of the economy, one of 9 percent-12 percent of GDP versus the present 18 percent and growing. It means private spending and employer benefits will have still to increase along with taxes. Important as medical care may be, our economy has to pay for the cost of living and not simply the cost of being sick and dying.

True National Security Requires National, Not Federal Solutions

Taken together, the need to solve our national retirement and medical spending problems pose the real challenges to our national security. Our ability to solve them will determine the strength of our future economy and our ability to afford the levels of defense and other discretionary government spending we really need. The current narrow and partisan debate over measures like sequestration, raising or lowering taxes, altering the deficit and lending cap, and cutting federal spending cannot solve our real social, economic, and fiscal problems. Moreover, even the budget deal can only buy time while the underlying forces involved make the problem worse.

This means we all have to start looking in the mirror. It is all too easy to blame our elected officials, and to some extent they deserve it. However, public policy experts, academics and think tanks, the private sector, and the media need to change and broaden their focus. Until Americans can be broadly educated to accept these needs, no sane politician will talk about the true cost of dealing with an aging population and medical spending. Today, the result of a realistic debate in Congress over how the nation should deal with an aging population will be political suicide for the party or members that tell unpleasant truths. The result of discussing the necessary limits to medical care will be an act of political martyrdom. This will be particularly true because of today's environment of domestic political extremism, bitter partisanship, and methods of campaigning that range from the negative to character assassination. Neither the Administration nor Congress will take the lead under such conditions and profiles in cowardice while ideological posturing will remain the political norm.