

Defense Spending and the New CBO Budget Projections for FY2020-FY2029

Anthony H. Cordesman



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The CBO issued a new set of projections for the U.S. Federal budget on August 19, 2019. Almost inevitably, these estimates focus attention on the growing federal debt and deficit. They projected that,

- **Deficits.** In CBO's projections, the federal budget deficit is \$960 billion in 2019 and averages \$1.2 trillion between 2020 and 2029. Over the coming decade, deficits (after adjustments to exclude the effects of shifts in the timing of certain payments) fluctuate between 4.4 percent and 4.8 percent of gross domestic product (GDP), well above the average over the past 50 years. Although both revenues and outlays grow faster than GDP over the next 10 years in CBO's baseline projections, the gap between the two persists... CBO's estimate of the deficit for 2019 is now \$63 billion more—and its projection of the cumulative deficit over the 2020–2029 period, \$809 billion more—than it was in May 2019.
- **Debt.** As a result of those deficits, federal debt held by the public is projected to grow steadily, from 79 percent of GDP in 2019 to 95 percent in 2029—its highest level since just after World War II... Taken together, other changes to the budget projections increased projected debt-service costs by nearly \$0.3 trillion; \$0.2 trillion of that amount is associated with the increase in projected spending stemming from the Bipartisan Budget Act.

These are important fiscal trends, as are the fact that an analysis by the Committee for a Responsible Federal Budget indicates that the CBO estimates an average rate of economic growth of 1.8 percent versus the 2.9 percent used by OMB in its budget estimates. It also indicates that that Federal debt would rise from 78 percent of the GDP to 87 percent by 2029 versus the OMB projection that it would drop to 71 percent. And, that the total deficit over the next decade would rise to \$9.9 trillion, \$2.7 trillion above the Administration's estimate.

The Third “D”: Defense versus the Deficit and the Debt

These are the kind of numbers that grab both expert and media attention, and do so deservedly. At the same time, they are only part of the key trends that the CBO reported in its August 2019 update to the budget and economic outlook for 2019-2029. These trends include continuing massive shifts in the nature of Federal spending, and its impact on the U.S. economy.

They assume that mandatory spending on Social Security, health, and various forms of welfare and social services will continue to grow sharply and that the U.S. can minimize its future level of deficits and debt by sharply reducing its level of defense spending and other discretionary Federal programs – ranging from agriculture to education and beyond.

The massive impact of these assumptions on both Federal spending, and on the U.S. economy, are laid out in **Figure One**. The estimated actual cost in Budget Authority and Budget Outlays is shown in **Figure Two**.

- The data in **Figure One** show a drop in the economic burden from defense spending from a level of 8.4 percent of the GDP in 1969 – a key period in the Cold War—to 3.9 percent in 1994—after the break-up of the Soviet Union. The burden then dropped to 3.2 percent of the GDP today, and the CBO projects they will drop to 2.8 percent in 2029.
- These trends will steadily cut the share of defense spending out of the steadily rising level of Federal revenues that will come from a constant rise in the nation’s massive GDP. They do not, however, mean cuts in defense spending. The data in **Figure Two** show a slow, steady rise in defense spending from \$737 billion in Budget Authority (BA) in FY2020 to \$905 billion in FY2029 (23 percent rise), and from \$700 billion in Budget Outlays in FY2020 to \$874 billion in FY2029 (25 percent rise).

The CBO makes it clear in its analyses that it cannot predict the future, and must make its projections according to Congressional guidelines, and drawing on the current spending estimates of given Departments and Agencies.

Accordingly, the CBO projections of defense spending assume that the U.S. will not face any major new overseas contingency operations during the next decade, that the challenge of shifting back to strategic competition with China and Russia will not force major increases in future defense spending, and the perpetual under-costing of defense in DoD’s annual budget submissions will not continue – assumptions laid out in detail in other CBO projections of national defense spending.

More broadly, they assume that there will be no new budget legislation through 2029, and that no Federal action will be required to deal with a recession or civil crisis, that no change will take place in current federal medical programs or social security, and in none of the current proposals to increase civil spending in areas like education.

Given the fact that the U.S. exists in a troubled and conflict-ridden world, and that it is already clear that the 2020 election will be fought largely over domestic spending issues, *none of these assumptions seem to be credible.*

What is credible is that U.S. defense spending will come under steadily rising pressure from increases in mandatory spending and domestic discretionary spending, that sustaining anything like the current role the U.S. plays in international affairs will require spending that continues to be well above 3 percent the GDP and may often come closer to 4 percent. Moreover, if the debates over domestic spending and defense follow the past pattern of political compromise, either the deficit and debt will be much higher than the CBO has just projected, or the U.S. will have to make major increases in taxes and revenues.

Mandatory and Defense Spending

The CBO does project that mandatory spending will dominate all Federal spending and the Budget Outlay (BO) spending that is used to calculate the deficit and debt burden. There are problems in assessing the impact of timing shifts in mandatory spending, but if the data the CBO budget totals data are used, which adjust for time shifts and offsetting revenues, the CBO projects that:

- Total mandatory spending in BO will be \$2,838 billion in FY2020, or 61 percent of \$4,638 billion in total outlays including interest. Discretionary defense spending will be \$700 billion, which is 15 percent of \$4,638 billion in total adjusted outlays excluding offsetting receipts, and 25 percent of mandatory spending.

- Total mandatory spending in BO will be \$4,454 billion in FY2029, or 64 percent of \$6,997 billion in total outlays. Discretionary defense spending will be \$874 billion, which is 12 percent of \$6,997 billion in total adjusted outlays, and 20 percent of mandatory spending.
- Steady rises in all aspects of Federal spending will raise the total level of spending over FY2020 to FY2029. The CBO projects that total mandatory spending will be \$36,306 billion in FY2020-FY2029, or 52 percent of \$57,845 billion in total adjusted outlays excluding offsetting receipts. Discretionary defense spending will be \$ 7,866 billion, which is 10 percent of \$57,845 in total spending in BO, and 20 percent of mandatory spending.

These figures clearly reflect the growing impact of mandatory spending relative to defense spending in spite of the major increases in defense spending after FY2018, and they do not include the cost of any of the new entitlement programs now being debated in the U.S. It is important to point out, however, that some critics of current mandatory spending seem to assume that it does not include major elements of the real cost of national security.

In reality, both **Figure One** and **Figure One** sharply underestimate full level of U.S, defense spending. The trade-offs between national security and mandatory spending are not as simple as some assume.

Figure Three shows a detailed break out of the CBO projections of future mandatory spending, these numbers include the real-world additional defense cost of military retirement, of civil servant retirements in defense-related Federal programs, and the cost of Veterans programs.

Such programs scarcely dominate mandatory spending. The CBO estimates that

- Social Security costs alone will rise from \$1,097 billion in BO in FY2000 to \$1,820 in FY2029 (66 percent rise), and
- Estimates that Major Civil Health Care costs will rise from \$1,304 billion in BO in FY2000 to \$2,299 billion in FY2029 (76 percent rise), and total \$17,626 billion over the decade.
- Income Security Programs are far smaller, but the projected cost will rise from \$302 billion in BO in FY2000 to \$357 billion in FY2029 (18 percent rise), and total \$3,320 billion over the decade.

If one totals these three key areas of Federal civil mandatory spending, they will rise from \$2,703 billion in BO in FY2000 to \$4,457 billion in FY2029 (65 percent rise), and total \$35,302 billion over the decade. They would total 89 percent of all the \$39,775 billion in mandatory spending in BO during FY2020 to FY2029.

In contrast, the total cost of military retirement between FY2020 and FY2029 is \$711 billion, and this is offset by \$239 billion in retirement payments: a net cost of \$472 billion. The impact of Veterans programs is much higher — \$1,397 billion between FY2020 and FY2029 – and there is no offset.

The end result is that mandatory defense spending will total close to two trillion dollars or \$1,869 billion between FY2020 and FY2029, and average close to \$200 billion a year in additional military spending – even if military retirement revenues are included. (Data on defense civilian retirement costs are not estimated, only total civilian retirement costs.)

These additional costs are vital to sustaining an all-volunteer force structure, and reflect the fact that the U.S. military makes extraordinary sacrifices relative to those who do not serve. They are also a minor fraction of the civil mandatory entitlement costs listed earlier. They are, however, a significant part of real-world U.S. defense spending and are an important part of the U.S. national budget.

U.S. Defense Spending Relative to Other Powers

One final point is also worth raising in assessing these estimates of U.S. defense spending. Regardless of the uncertainties and issues involved in the CBO projections, the U.S. is now spending far more than its major competitors, and potential threats. It also has allies and strategic partners with far more resources and far higher levels of spending.

Figure Four shows just how much higher U.S. spending is now than that of any of its major rivals, and **Figure Two** has shown that future spending is now going to be much higher. Unfortunately, there are no meaningful unclassified net assessments of comparative spending by mission or that examine the comparative efficiency of military spending in the U.S. and threat and allied countries.

The U.S. defense budget is also something of a museum piece. It only reports input costs by military service, and provides no data on the strategic allocation of money by command or mission. It is possible to assess U.S. defense spending in terms of total domestic Federal spending, but not in terms of value for money in achieving any given national security objective.

(For a full analysis of the weakness in the U.S. defense budget, and planning, programming, and budgeting system – see Anthony H. Cordesman, *Shaping U.S. Strategy to Meet America's Real-World Needs*, <https://www.csis.org/analysis/shaping-us-strategy-meet-americas-real-world-needs>, June 4, 2019)

Anthony H. Cordesman holds the Arleigh A. Burke chair in Strategy at the Center for Strategic and International Studies in Washington, D.C. He has served as a consultant on Afghanistan to the United States Department of Defense and the United States Department of State.

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Figure One: CBO's Baseline Projections of Outlays and Revenues as a Percent of GNP: 1969-2029

Percentage of Gross Domestic Product



Source: CBO, *The Budget Outlook, An Update to the Budget and Economic Outlook: 2019 to 2029*, August 2019, p.20.

**Figure Two: CBO's Baseline Projections of Total Budget
Relative to Discretionary Defense and Nondefense Spending,
(Adjusted to Exclude the Effects of Timing Shifts)**

Billions of Dollars

TOTAL BUDGET, DEFICIT, AND DEBT

	Actual,												Total	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020– 2024	2020– 2029
In Billions of Dollars														
Revenues														
Individual income taxes	1,684	1,698	1,800	1,895	1,981	2,076	2,171	2,272	2,501	2,731	2,838	2,962	9,923	23,227
Payroll taxes	1,171	1,247	1,281	1,332	1,385	1,442	1,505	1,567	1,629	1,692	1,759	1,828	6,945	15,420
Corporate income taxes	205	228	245	268	298	335	371	400	409	398	407	415	1,517	3,547
Other	271	278	293	298	307	309	345	345	361	385	386	415	1,552	3,443
Total	3,330	3,451	3,620	3,792	3,971	4,163	4,392	4,585	4,900	5,206	5,390	5,619	19,937	45,637
On-budget	2,475	2,532	2,677	2,811	2,951	3,104	3,292	3,443	3,714	3,974	4,111	4,291	14,835	34,368
Off-budget ^a	855	919	943	981	1,020	1,059	1,100	1,142	1,186	1,231	1,279	1,328	5,103	11,269
Outlays														
Mandatory	2,523	2,707	2,838	2,962	3,192	3,326	3,446	3,682	3,900	4,101	4,405	4,454	15,764	36,306
Discretionary	1,262	1,332	1,400	1,446	1,481	1,513	1,543	1,584	1,622	1,661	1,706	1,736	7,382	15,690
Net interest	325	372	390	418	456	506	554	602	653	704	758	807	2,325	5,848
Total	4,109	4,411	4,628	4,826	5,130	5,344	5,543	5,869	6,174	6,466	6,868	6,997	25,470	57,845
On-budget	3,261	3,505	3,661	3,794	4,027	4,165	4,286	4,532	4,762	4,968	5,276	5,308	19,934	44,780
Off-budget ^a	849	906	967	1,032	1,103	1,179	1,257	1,337	1,412	1,498	1,592	1,690	5,537	13,065
Deficit (-) or Surplus														
On-budget	-779	-960	-1,008	-1,034	-1,159	-1,181	-1,151	-1,284	-1,274	-1,260	-1,479	-1,378	-5,533	-12,208
Off-budget ^a	-785	-972	-984	-983	-1,076	-1,061	-994	-1,090	-1,048	-994	-1,166	-1,016	-5,099	-10,412
Off-budget ^a	6	12	-24	-51	-83	-120	-157	-194	-227	-267	-313	-362	-434	-1,796
Debt Held by the Public	15,750	16,685	17,755	18,841	20,042	21,264	22,457	23,784	25,102	26,407	27,917	29,322	n.a.	n.a.
Memorandum:														
Gross Domestic Product	20,236	21,157	22,013	22,870	23,727	24,611	25,529	26,514	27,518	28,582	29,699	30,847	118,750	261,911
Changes in Debt Held by the Public														
Deficit		785	960	1,008	1,034	1,159	1,181	1,151	1,284	1,274	1,260	1,479	1,378	
Other means of financing ^a		299	-25	63	52	42	41	41	43	44	44	32	27	
Total		1,084	935	1,070	1,086	1,201	1,222	1,193	1,328	1,318	1,305	1,510	1,405	
Debt Held by the Public at the End of the Year														
In billions of dollars	15,750	16,685	17,755	18,841	20,042	21,264	22,457	23,784	25,102	26,407	27,917	29,322		
As a percentage of GDP	77.8	78.9	80.7	82.4	84.5	86.4	88.0	89.7	91.2	92.4	94.0	95.1		

DEFENSE AND NON-DEFENSE DISCRETIONARY SPENDING

	Actual,												Total	
	2018 ^a	2019 ^a	2020 ^b	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020– 2024	2020– 2029
Budget Authority														
Defense	701	719	737	746	764	783	802	822	842	862	883	905	3,833	8,147
Nondefense	722	658	669	672	689	706	724	741	760	779	798	818	3,460	7,356
Total	1,423	1,377	1,407	1,419	1,453	1,489	1,526	1,563	1,602	1,641	1,681	1,722	7,293	15,502
Outlays^c														
Defense	627	670	700	721	740	758	776	795	814	834	854	874	3,695	7,866
Nondefense	639	662	700	724	737	755	771	789	808	827	846	868	3,686	7,825
Total	1,266	1,332	1,400	1,446	1,476	1,512	1,548	1,584	1,622	1,661	1,700	1,742	7,382	15,690

Source: CBO, The Budget Outlook, *An Update to the Budget and Economic Outlook: 2019 to 2029*, August 2019, pp. 7, 15 & 21.

Figure Three: Mandatory Outlays Projected in CBO's Baseline, Adjusted to Exclude the Effects of Timing Shifts – Part One

Billions of Dollars

	Actual, 2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total	
													2020– 2024	2020– 2029
Social Security														
Old-Age and Survivors Insurance	838	893	950	1,008	1,072	1,139	1,209	1,282	1,356	1,435	1,522	1,610	5,377	12,583
Disability Insurance	144	145	147	152	158	165	173	180	189	198	203	210	795	1,774
Subtotal	982	1,038	1,097	1,160	1,230	1,304	1,381	1,462	1,545	1,633	1,725	1,820	6,172	14,356
Major Health Care Programs														
Medicare ^{a,b}	728	768	815	872	937	1,007	1,083	1,161	1,244	1,343	1,424	1,514	4,713	11,399
Medicaid	389	404	418	436	462	490	519	549	582	616	652	691	2,325	5,415
Health insurance subsidies and related spending ^c	49	57	55	56	58	61	63	67	70	71	72	75	293	647
Children's Health Insurance Program	17	18	16	14	14	15	16	16	17	18	18	19	76	164
Subtotal ^d	1,184	1,247	1,304	1,378	1,471	1,573	1,680	1,794	1,913	2,048	2,167	2,299	7,406	17,626
Income Security Programs														
Earned income, child, and other tax credits ^d	81	98	95	94	93	93	94	94	95	82	82	82	468	902
Supplemental Nutrition Assistance Program	68	63	63	62	63	64	65	65	66	67	69	71	317	656
Supplemental Security Income ^a	55	56	57	58	60	61	63	65	67	70	72	74	299	648
Unemployment compensation	29	28	29	33	38	46	50	50	52	54	56	58	196	465
Family support and foster care ^e	32	32	33	33	33	34	34	34	34	35	35	35	166	339
Child nutrition	24	24	26	27	28	29	30	31	33	34	36	37	139	310
Subtotal	290	301	302	306	314	327	335	340	347	341	349	357	1,585	3,320
Federal Civilian and Military Retirement														
Civilian ^f	103	106	109	114	118	122	126	129	133	137	141	145	587	1,273
Military ^g	59	61	63	65	67	68	70	72	74	76	78	79	332	711
Other	6	4	5	6	7	8	9	5	10	7	7	7	35	71
Subtotal	168	170	177	184	191	198	205	206	217	220	226	231	955	2,055
Veterans' Programs														
Income security ^{h,i}	93	100	104	107	109	114	120	123	127	131	135	141	553	1,210
Other	16	15	19	17	18	17	17	18	19	20	21	20	88	187
Subtotal	109	116	123	123	127	131	137	141	146	151	156	162	641	1,397
Other Programs														
Agriculture	16	23	29	16	15	16	16	16	16	16	17	16	91	172
Deposit insurance	-16	-9	-6	-6	-6	-6	-6	-7	-7	-8	-8	-8	-29	-67
MERHCF	10	10	11	11	12	13	13	14	15	15	16	17	60	137
Fannie Mae and Freddie Mac ^b	4	0	2	2	3	3	3	4	4	4	4	4	13	33
Higher education	-6	35	3	4	5	6	6	6	6	6	6	6	23	53
Other	82	57	70	70	72	71	69	69	68	68	68	69	352	694
Subtotal	90	116	108	97	101	102	101	101	101	101	103	105	510	1,021
Mandatory Outlays, Excluding the Effects of Offsetting Receipts^a	2,822	2,988	3,110	3,249	3,435	3,635	3,839	4,045	4,269	4,494	4,725	4,973	17,269	39,775

Figure Three: Mandatory Outlays Projected in CBO's Baseline, Adjusted to Exclude the Effects of Timing Shifts – Part Two

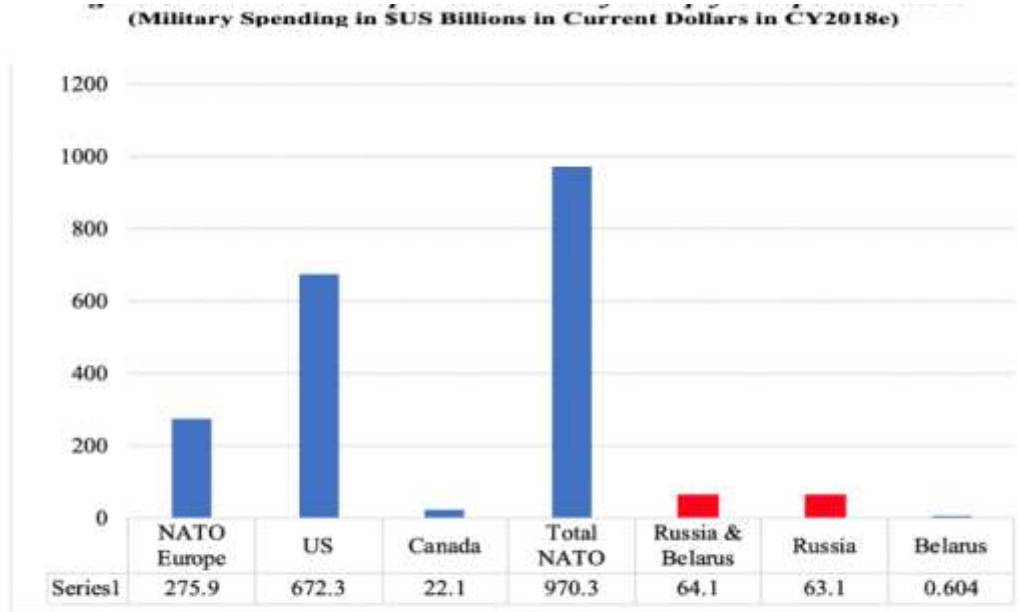
Billions of Dollars

	Actual,												Total	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020–2024	2020–2029
Offsetting Receipts														
Medicare ¹	-123	-133	-141	-151	-161	-174	-188	-202	-218	-237	-253	-271	-815	-1,996
Federal share of federal employees' retirement														
Civil service retirement and other	-36	-37	-39	-41	-42	-44	-46	-47	-49	-50	-52	-53	-212	-463
Military retirement	-18	-20	-22	-22	-23	-23	-24	-24	-25	-25	-26	-26	-113	-239
Social Security	-18	-18	-18	-19	-20	-20	-21	-22	-22	-23	-24	-24	-99	-214
Subtotal	-72	-75	-79	-82	-85	-87	-90	-93	-96	-99	-101	-104	-423	-916
Receipts related to natural resources ⁹	-11	-14	-12	-12	-13	-12	-12	-13	-13	-13	-13	-14	-61	-126
MERHCF	-8	-8	-8	-9	-9	-10	-10	-11	-11	-12	-12	-13	-45	-104
Fannie Mae and Freddie Mac ⁷	-13	-24	0	0	0	0	0	0	0	0	0	0	0	0
Other	-32	-28	-32	-33	-32	-32	-31	-44	-32	-32	-29	-29	-160	-327
Subtotal	-259	-281	-273	-287	-300	-315	-331	-362	-369	-392	-409	-431	-1,505	-3,469
Total Mandatory Outlays, Net of Offsetting Receipts⁸	2,563	2,707	2,838	2,962	3,135	3,321	3,509	3,682	3,900	4,101	4,317	4,542	15,764	36,306
Mandatory Outlays That Are Shifted in CBO's Baseline														
Medicare	-24	0	0	0	38	4	-41	0	0	0	64	-64	n.a.	n.a.
Supplemental Security Income	-4	0	0	0	5	0	-5	0	0	0	5	-5	n.a.	n.a.
Military retirement	-5	0	0	0	5	0	-5	0	0	0	6	-6	n.a.	n.a.
Veterans' income security	-7	0	0	0	10	1	-11	0	0	0	12	-12	n.a.	n.a.
Outer Continental Shelf	*	0	0	0	0	*	*	0	0	0	*	*	n.a.	n.a.
Total	-40	0	0	0	57	5	-63	0	0	0	88	-87	n.a.	n.a.
Total Mandatory Outlays Projected in CBO's Baseline	2,523	2,707	2,838	2,962	3,192	3,326	3,446	3,682	3,900	4,101	4,405	4,454	15,764	36,306
Memorandum:														
Outlays Adjusted to Remove the Effects of Timing Shifts, Net of Offsetting Receipts														
Medicare ⁹	605	636	673	721	776	833	895	959	1,026	1,106	1,171	1,243	3,899	9,403
Major health care programs	1,061	1,114	1,163	1,226	1,310	1,399	1,493	1,591	1,695	1,811	1,914	2,028	6,591	15,630

Source: CBO, The Budget Outlook, *An Update to the Budget and Economic Outlook: 2019 to 2029*, August 2019, pp.21-22.

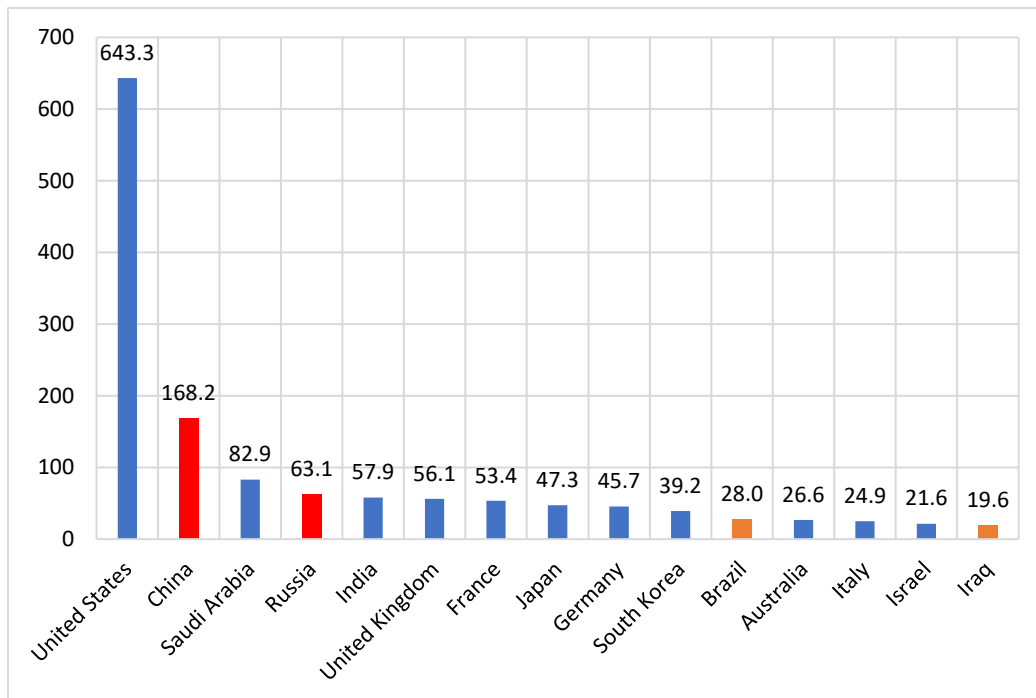
Figure Four: The Other Side of the Hill: U.S. Spending Relative to Other Powers – Part One

U.S. And NATO versus Russia: 2018



Source: NATO, Defence Expenditure of NATO Countries (2012-2019), Communique, PR/CP(2019)069, June 25, 2019, p. 7; IISS, *Military Balance*, 2019, pp. 188 and 195; OSD Comptroller, web page, June 26, 2019.

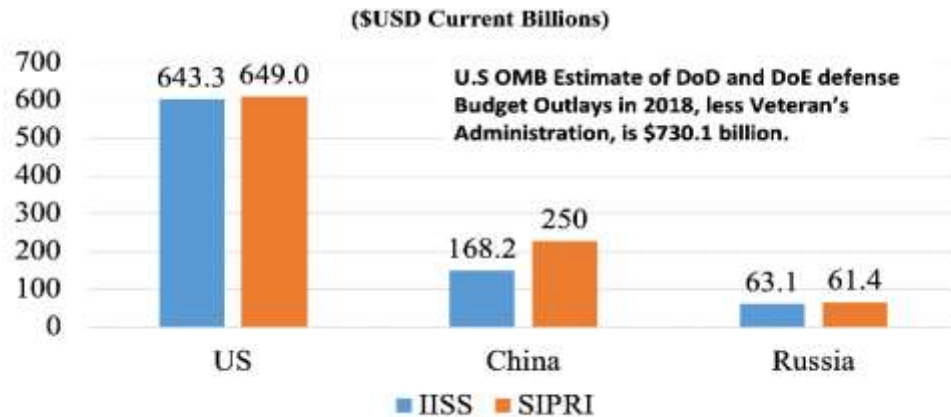
IISS Estimate of Top 15 Defense Budgets of 2018 (US \$bn)



Source: Adapted from IISS, *Military Balance*, 2019, p. 21

Figure Four: The Other Side of the Hill: U.S. Spending Relative to Other Powers – Part Two

IISS versus SIPRI Estimates of Military Spending in 2018



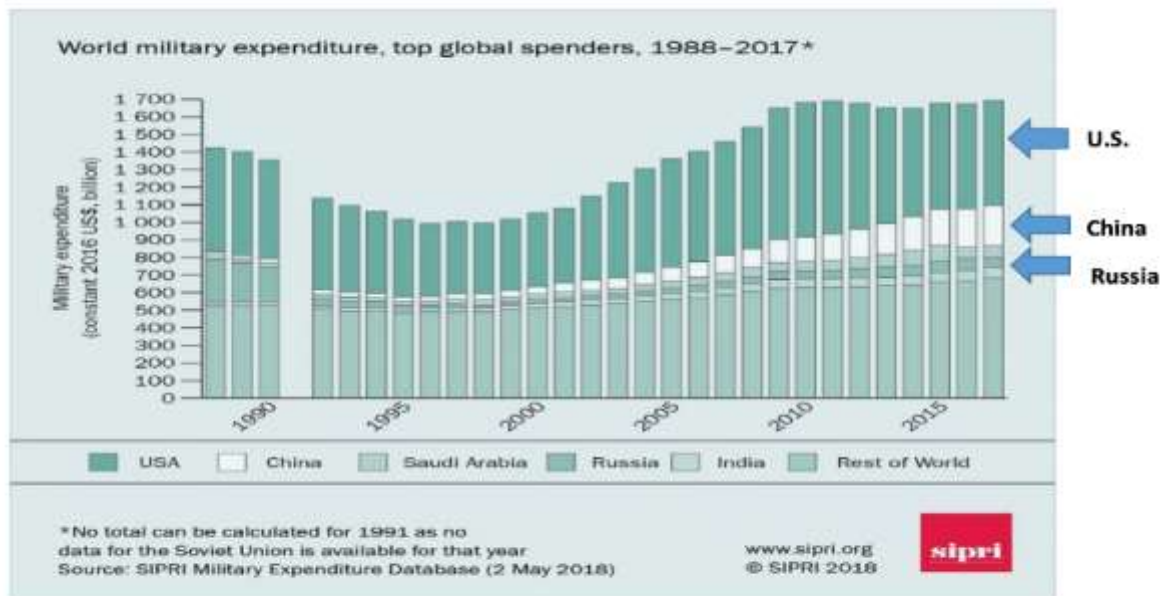
IISS: Asian defense spending continues to increase. It grew by 4.0% in real terms between 2017 and 2018, picking up speed after a year of slower growth; the rate had been 2.8% between 2016 and 2017. Some of the region's top spenders drove the increase. In real terms, Australia's defense budget grew by 8.4%, China's by 5.7% and South Korea's by 4.5%.

SIPRI: China, the second-largest spender in the world, increased its military expenditure by 5.0 percent to \$250 billion in 2018. This was the 24th consecutive year of increase in Chinese military expenditure. Its spending in 2018 was almost 10 times higher than in 1994, and accounted for 14 percent of world military spending. 'Growth in Chinese military spending tracks the country's overall economic growth,' says Tian. 'China has allocated 1.9 percent of its GDP to the military every year since 2013.'

Source: IISS Military Balance, 2019; SIPRI Military Expenditure Database, accessed July 2, 2019.

SIPRI Estimate of Military Expenditure Trends: 1988-2017

(Current \$US Billions)



Source: SIPRI, <https://www.sipri.org/research/armament-and-disarmament/wms-transfers-and-military-spending/military-expenditure>.