DEFENSE 2020

“Demystifying and “De-mythifying” the U.S. Defense Budget, Part 1”

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Kathleen Hicks: Hi, I’m Kathleen Hicks, Senior Vice President and Director of the International Security Program at the Center for Strategic and International Studies. And this is Defense 2020, a CSIS podcast examining critical defense issues in the United States’ 2020 election cycle. We bring in defense experts from across the political spectrum to survey the debates over the US military strategy, missions, and funding. This podcast is made possible by contributions from BAE Systems, Lockheed Martin, Northrop Grumman, and the Thales Group.

Kathleen Hicks: In this episode of Defense 2020, I’ll be speaking with three experts to demystify the US defense budget. My colleague, Todd Harrison, Director of Defense Budget Analysis and Director of the Aerospace Security Project at CSIS, Bill Hartung, Director of the Arms and Security Project at the Center for International Policy, and Mackenzie Eaglen, Resident Fellow at the American Enterprise Institute.

Kathleen Hicks: Thanks for joining us today for this conversation about the defense budget. I promise it will be scintillating despite that topic, perhaps turning off the average listener, but we’re going to start first with our own Todd Harrison here at CSIS to tell us a little bit about what is actually in the US defense budget. What does it actually pay for and cover and maybe some about what is not inside it.

Todd Harrison: Sure. The first thing is to kind of scope what we mean when we say defense budget. Typically what people talk about nowadays is the National Defense Budget. For budget geeks, it’s the 050 budget function, but really what that is, that’s all of DOD [Department of Defense] and then it’s part of the Department of Energy that funds nuclear weapons, nuclear reactors, used by the military on ships and subs, and then some other cats and dogs throughout the overall federal budget that actually relate to defense.

Todd Harrison: So what it does not include are things like Homeland Security, the Coast Guard, those types of things are not included in it. Also, it does not include the veterans budget, budget for veterans benefits and services. That is not part of what we talk about when we talk about the National Defense Budget. And to put it in perspective, for 2019, the fiscal year that we just ended, the total National Defense Budget was $716 billion. The Trump Administration has requested $750 billion for 2020, but under the budget deal that Congress passed back in August, that’s now going to be limited to $738 billion for 2020. Congress has not yet passed that budget, so we’re still waiting. We don’t know what the details are going to be, but they are almost certain to go all the way up the limit that’s established, so it will be $738 billion. We just don’t know the composition of it yet.
Kathleen Hicks: And Todd, before we leave you on this point, can you also give a sense of how that budget level, that $750 billion request, fits in any historical pattern of where defense budgets have been?

Todd Harrison: Yeah, there are a lot of different ways of looking at it. So, if you just look at the defense budget and inflation adjusted dollars, so constant dollars, we’re not at the absolute peak, actually peaked in fiscal year 2010 under the Obama Administration. So we’re not back up to that level yet, but we actually are higher level of defense spending now than we were at the peak of the Reagan buildup in 1985. So it is ... the budget is very robust. It’s at a high level by historical standards.

Todd Harrison: Another way of looking at it is as a percentage of the overall US economy, percent of GDP, and in that respect, the size of the defense budget, as a share of the economy, has been declining over time. So now, I forget the exact number, we’re around 3.5% of GDP. Historically, there’ve been times when we’ve been five, six percent of GDP. Go back to the 1950s, we were doing 10% of GDP. So why the difference? Why are we higher in inflation adjusted dollars, but lower as a percent of GDP? It’s because our wonderful economy has been growing. And so hopefully it will stay that way. So as long as the economy is growing faster than defense, then defense as a percent of GDP goes down. I argue this is not a good metric to use.

Todd Harrison: Another metric you can look at is defense as a percent of the overall federal budget. And again, you see that defense as a share of the budget, overall budget, has been declining over the years. I think we’re at around 15, 16% of the federal budget now. The reason for that, of course, is the overall federal budget has been growing much faster than defense, mainly because starting in the 1960s, the addition of a lot of federal government spending, not just for Social Security, but for Medicare, Medicaid, and more recently, the rapid growth in veterans benefits and services as a share of the federal budget. So, defense is a smaller share of the overall federal budget, a smaller share of the overall US economy, but nevertheless, in inflation adjusted dollars, it’s at a high level, higher than it was during the Reagan Administration.

Kathleen Hicks: So Mackenzie, let me turn to you. Todd briefly mentioned that we are at a point now where we’re in a continuing resolution and in fact, in 15 out of the last 21 fiscal years, DOD has begun the year operating under a continuing resolution. Tell us about where we are and what the prospects are for this budget for FY20 in this coming year.

Mackenzie Eaglen: It’s an unusual place to be in the Budget Control Act [BCA] era where we actually have the final two year mini deal, the mini budget deal to amend the caps overall, and yet that wasn’t enough to move the ball forward in getting the defense bill signed into law on time, like they were able to do last year because they had the deal. And what’s the big difference? The big difference is anger and outrage on both sides of the aisle over the President’s declaration of an emergency at the Southern border and his pilfering of military construction funds in particular. He took less money from other
places in the federal budget, but the vast majority comes out of the defense budget.

Mackenzie Eaglen: And out of MILCON, military construction specifically, of which Assistant Secretary Niemeyer has testified, there's a $116 billion deferred maintenance backlog. These are things you can see and touch and unfortunately smell. If you're a member of Congress and you're on these bases and posts and you can look around and say, "We need a refresh." So there's a political-

Kathleen Hicks: So just for a listener, that might include things like family housing. It might include things like facilities maintenance. I'm guessing you're pointing to sewage issues. Is that a good way of thinking of it?

Mackenzie Eaglen: Yes. For the most part, family housing is being accepted because they were being a little political about it, but yeah. It can be a generator at a plant in Alaska, which is about to go at any minute for example, and well, it gets really cold there most of the year. And these are things constituents and service members and heroes actually need. So that's the big hangup.

Mackenzie Eaglen: And then the hangover is impeachment, over, above, and below every other issue, including defense. And so until ... but it's really about the wall. Chairman of the House Armed Services Committee, Adam Smith, is in negotiations with the White House about how to resolve this issue. But it's a signature campaign issue for the White House. I just don't know how they're going to get there. So that leaves the defense bills in suspension under a continuing resolution, which is a freeze on last year's spending for DOD, but it's even more, and it's worse than that.

Mackenzie Eaglen: So in the last decade in particular, the Defense Department has operated under 10,000 days of continuing resolution. So, they don't just start. They go quite significantly longer amounts of time. In some cases, six and in one almost extreme case, nearly nine months into the fiscal year, which is at that point almost a wash. It's inefficient. It wastes taxpayer money. It wastes time. Now the department has normalized operations around the assumption of one coming, but this year feels different than the past, in that it could get wrapped up by March, but if it doesn't, it could go through the [2020] Presidential election.

Kathleen Hicks: Okay. So that would be a four year plus for FY20 into FY21, which kicks off October one.

Todd Harrison: But I would want to point out we've never had a full year continuing resolution for defense in the history of having federal budgets for defense. Never had it. We always worry about it. I think the likelihood of it actually happening is pretty low, so I wouldn't want people to freak out about it.

Bill Hartung: What's your bet?
Todd Harrison: If I had to bet, I would bet that we would see an extended CR [continuing resolution]. If they really can’t reach a deal on the border wall, it could go five, six months into the fiscal year. We eventually will get to a full year continuum, a full year appropriations bill, because it’s just so incredibly disruptive to so many things that DOD does. It’s in no one’s interest to do a full year CR.

Kathleen Hicks: So Bill, Mackenzie already mentioned the border spending issue, obviously also the impeachment issue. From your perspective, what are both the immediate concerns you think are present in the debate over the FY20 budget? And then maybe stepping back a little, do you see major fault lines as we are in this election year that will play out in terms of the defense budget?

Bill Hartung: Sure. Well, one thing that kind of stands out as the top line has not been debated in a major way. Democratic leadership came in 733 [US$B]. I think Trump was 750 [US$B]. They came to 738 [US$B]; pretty modest differences. And of course Trump did his little back and forth where, “Oh, maybe we can go down to 700. We’re spending a lot of money”. And then Mattis and others pushed back, he came back up again.

Bill Hartung: You’ve got the issue of Trump thinks somewhat erratic on these matters, although the general trend has been up. He also says things like, "Hey, I’ve had the three biggest defense budgets ever", which of course is not true. And he actually ... when he was in for a few months before his first budget was completed, said he had rebuilt the military. So, there’s that factor of, does he know what he’s saying? Is it for public relations? But it makes it hard to predict what he might do.

Bill Hartung: And then there’s a lot of policy issues in the National Defense Authorization Act. There’s been disagreements during the budget process about whether to fund a low yield nuclear weapon, which caused quite a bit of controversy. And Mac Thornberry called it a partisan bill because he felt somehow this was sacrosanct, this notion of a low yield nuclear weapon.

Bill Hartung: So this ... I mentioned policy debates, not so much about changing the top line, but I think in the presidential arena that could change a bit. [Elizabeth] Warren came out for eliminating OCO [Overseas Contingency Operations] and her version of that includes not just the war money but the parts of OCO that were subsidizing the base budget. So that would mean, all right, so you’re getting rid of the war money. It still means you have to figure out, in the base budget, what you’re going to reduce. And she seems aware of that, but she hasn’t specified what it would be.

Bill Hartung: Bernie Sanders talks about corruption and contractors. He makes general statements about, wouldn’t it be better if we were spending all this global money on climate change instead of dealing with military spending, but he hasn’t put a number on it and he hasn’t put out a detailed paper.
Bill Hartung: Joe Biden is not looking to reduce defense, but one of his advisors did say, "Well, he could envision a scenario where he would spend less than Trump or there would be kind of a leveling partly by investing more in technology, less in personnel". He's against... On paper, he's against the "Forever Wars", but his idea that includes possibly keeping some troops in Afghanistan. So it's a very kind of fungible term, "Forever Wars", because it doesn't tell you what does ending it mean and how are we going to go about it? What timeline, what diplomacy will accompany it if any, or are you going to do what Donald Trump just did in Syria, where you just pull out with no consultation with anybody and cause a disaster.

Kathleen Hicks: Any other big issues that aren't already on the table that anyone thinks are going to become divisive around the defense budget?

Todd Harrison: One of the things that’s looming, and they’re not going to handle it this year, but one of the things that’s looming is cuts to legacy force structure. That for the Department to actually move out on this strategy and to, fund the capabilities and new technologies, but also the new forces that they're going to need in the future, they're not going to be able to do that in any kind of budget constrained environment. Even if the top one's higher, they're still going to need to cut some structure. And so I think that is increasingly going to be part of the debate. And in the past, when the department tries to cut legacy force structure, that's where Congress will often step in and prevent it. Because there are a lot of constituents that have vested interest in that legacy force structure. And so I think that's becoming more and more of an issue.

Kathleen Hicks: Mackenzie, one of our last speakers on this podcast series, Mark Cancian here at CSIS, used this great phrase saying that he thinks that the deficit hawks have been hunted to extinction in the Republican Party. Do you think that's a fair characterization of where the debate on defense budget is today, up on Capitol Hill with Republicans?

Mackenzie Eaglen: The debt and the annual deficit aren't an issue until they are. And I think it's a cyclical process, so it comes and then it goes. I don't think it ever goes away permanently. I recall testifying before the late Senator John McCain and the Senate had just passed the President's proposed tax bill, not cut, because I think mine went up. But the tax bill had just passed and all the Democrats on the committee who were asking questions about the National Defense Strategy, lamenting this bill, and talking about the debt. So actually, it depends on who's in the White House. And it's a good convenient talking point for the party of opposition, regardless of which party that is.

Mackenzie Eaglen: Now is there another Tea Party wave ahead for the GOP? No, I don't. Actually, I agree. I don't see that unless there's some external forcing function that gets Washington scared and I don't know what that would be. The markets seem fine and I'm not ... I just don’t see it yet on the horizon.
Todd Harrison: Also, if you look historically, Republicans tend to become more fiscally conservative when a Democrat's in the White House.

Kathleen Hicks: Yeah.

Mackenzie Eaglen: That's what I'm saying.

Kathleen Hicks: Yeah, totally. And vice versa.

Todd Harrison: So, if we see the White House change control in the next election, then I would expect the Tea Party folks to come back out of the woodwork in the Republican party. And there's at least one fiscal conservative that's still alive and well, even though he's not necessarily being listened to. It's Mick Mulvaney, and he's right there at the presidency ear. And he is deep down in his bones, a fiscal conservative who wants to reduce the size of government, including defense, and that is ever present.

Bill Hartung: Well, I think one thing that may be of concern over the next say five years, is at this level of deficits, the interest on the debt is going to become a larger share of the total budget, maybe rivaling defense. And so that is a constraint even if it doesn't affect the larger economy.

Kathleen Hicks: There is this looming crisis I think all of you are talking about, about balancing expenditure and revenue. And we don't really have a solution on the horizon. I doubt it's going to happen in an election year, but maybe if you can each look ahead, cast yourselves ahead a year, the election turns out, whatever it turns out. What are the prospects for getting to any kind of consensus around managing our way through the bigger budget challenges that defense has to sit within?

Todd Harrison: Well, it will be a new environment without the caps and the BCA. I don't know if that's going to be helpful or hurtful. The BCA Budget Control Act, the Democrats would support somewhat larger defense spending in order to get the caps on domestic spending lifted. So if that's out of the picture, maybe it's more of a free for all. That's hard to say.

Todd Harrison: And of course you've got the issue of embedded interests in legacy systems because of jobs, and that will be present. And so if somebody's coming in saying, "I'm going to cut those systems", that will be a fight that may not break down in party lines. It may be based on where you sit, where you live. So it's ... yeah, I think it's hard to say. And as has been pointed out, I think on other issues of this podcast, these things don't happen overnight. Even if you want to start to cut, it takes a while for the savings to kick in. So ...

Kathleen Hicks: In addition to that, we have on the table in this cycle, these pretty major investment ideas, particularly coming from some of the Democratic candidates, but also the President in theory has an infrastructure approach that he'd like to pursue at some point. So, this issue of where the revenue's going to come from, I'm just wondering if actually it will come a little more
to the head than it has. And I don't know if that makes it more likely that we
can come to a resolution, but I'm thinking the year one would do that in
general would be following a Presidential election. That's when you have the
most momentum. So, prospects?

Bill Hartung: Yeah. I don't know. I guess I'm a little pessimistic, because you look back and
the Congressional budget process has really been dysfunctional for more
than a decade, certainly since 2011 it's been just a really dysfunctional
process in Congress. In the normal process that was set up back in 1974, the
last time they really overhauled the process, was you're supposed to start
every year with a budget resolution. Right? And so that's where Congress
considers the overall federal budget and how much are we going to allocate
to different parts of it, including national defense, and then you do your
allocations down. You say, okay, well this is how much the Defense
Appropriations Committee has, and all the other appropriation committees,
and you go down from that to this is how much we're going to do for DOD
versus DOE. Right?

Bill Hartung: And then all of that winds back up and you pass 12 separate appropriations
bills and you get them enacted by October 1st. That's how it's supposed to
work. It's not been working that way. What has happened since the Budget
Control Act was enacted is that this whole budget resolution process has
kind of become somewhat irrelevant. It's all been about debating how are
we going to modify the budget caps for defense and non-defense. And we
have been doing that in two year deals that take a very long time and are
very painful to get to.

Bill Hartung: But then we get to a two year deal and that effectively does the job of the
budget resolution. And then they, at the last minute, figure out the
appropriations, cram them together in a big omnibus bill or some mini bus
bills where they pass a bunch of appropriations at once. They do it late in the
fiscal year. It's a must pass piece of legislation. And members of Congress are
forced to kind of suck it up and just vote for it.

Bill Hartung: Now that we've come to the end of the budget caps, then we don't have that
forcing function anymore of, "Oh well, here's how we're going to get to a
budget deal. We're going to negotiate the caps", and it's trade off: defense
and non-defense. And we all know how that works. We don't have that
anymore starting in fiscal year '22. And that will be the new ... When the new
administration is stepping right into it, that will be this-

Kathleen Hicks: That's their first full budget-

Bill Hartung: Their first budget.

Kathleen Hicks: To put together.

Bill Hartung: Yeah. And so there's not ... The budget process in Congress has been broken
down. There's not a natural framework like the Budget Control Act budget
caps to start a negotiation. So I think there’s a lot of uncertainty on how that’s going to work.

Kathleen Hicks: Mackenzie, can you depress us a little less?

Mackenzie Eaglen: Right. Let me list some of the things I think you were referencing, Kath, in the appetite for new spending. And I do think it’s on both sides, it’s just slightly less on the Republican side. Medicare for All, green new deal, universal pre-K, student debt forgiveness/relief. These are some election themes of new spending ideas, many of which I’m sure would be considered mandatory spending, as in automatically funded by Congress as opposed to being debated on the floor and voted on, through the appropriations bills.

Mackenzie Eaglen: And of course those new spending ideas, which are significant, come on the heels of a major new entitlement under President Obama, Obamacare, and under President Bush, Medicare Part D, after his efforts to reform Social Security failed so spectacularly, he decided to add a brand new unfunded permanent entitlement.

Mackenzie Eaglen: But if you look at the ... if we go back in time to the Budget Control Act 2011 timeframe, President Obama was dealing with a powerful Tea Party at the time, and who was the ... We have some precedent here to thinking about your question. The largest bill payer overall in the Budget Control Act reductions was the Defense Department. So I think members on the GOP are going, if that were to be proposed, something like that again, and I suspect it will be actually BCA by another name. Defense will probably ... it will look very similar to exactly how the last one was. Defense takes a disproportionate hit, partly because of the last three years of increases in defense.

Kathleen Hicks: And Bill, just to close this topic out, do you think under any new deal that could be struck, do you anticipate that Democrats will continue to want the dollar for dollar cap approach on domestic spending and defense? Because it does seem like that’s given them leverage on issues that they wanted to advance.

Bill Hartung: I think that’s a good question. Under Trump it was a different calculation because he came in with these big proposed cuts in diplomacy and domestic spending, and then the Democrats had to try to put the money back. Now if you have a Democratic President who’s not going to do that, then Congress might have a different terrain to work on.

Todd Harrison: And one thing we didn’t mention explicitly here that’s worth calling out is interest on the national debt. And that’s ever present. It’s growing, and it in no small part depends on the rate at which we can continue to borrow money. And right now interest rates are very low and that’s great, but got to be mindful of the fact that interest rates won’t always be low. And when our borrowing costs go up, you’re going to see a huge expansion of the federal budget, just going to pay interest on the national debt. And projections look
like within a few years we will be spending more on interest payments on the national debt than we do on national defense, not because national defense has been cut, but because interest costs are growing and the more we keep running up a deficit, we're running trillion dollar deficits each year now, the more we keep doing that, the more we are putting this out there in the future that we're going to be spending more and more every year on interest. And I like to remind people interest doesn't buy you anything except time.

Kathleen Hicks: I’m really glad you brought that point up because I do think we often get ... in Washington and certainly in the campaign seasons, you get into these guns versus butter or conversations around budget and there's nothing wrong with that. It's just it is missing this big picture. I think CBO, Congressional Budget Office projections, you're going to correct me Todd, if I have this wrong, show that on our current pathway within the next 30 years, actually probably less than that, we will be crowding out all discretionary spending so we won't be sitting here having a conversation about how much to spend on Headstart versus defense. We will be talking about how much to spend on the interest on the debt, and this if you will, mandatory social spending. Is that a fair way to think about the bigger budget challenge?

Todd Harrison: Absolutely. And another way of thinking of it is that we are borrowing money today just to pay interest on money we already borrowed. That's not a good way to run your personal finances, much less a government. You can do it for a while, but when you lose the ability to borrow money cheaply, you quickly, very quickly, run out of options.

Kathleen Hicks: Okay. I want to close out this podcast. We're going to dive into some deeper issues on defense budget in our next podcast, but I want to close this one out by asking around the table, starting with Bill, to sort of try to capture your perspective on where we sit today on the defense budget with a pop culture or cultural reference that you think can quickly convey your thoughts.

Bill Hartung: Well, I was thinking about this on the train and I had divergent views, of course. One is William Butler Yeats, who of course is at the top of everybody's mind as a pop culture figure. “The center will not hold”. Is this kind of consensus on the top line going to go away in this new budget environment? But then I thought about the Who, “Don't Get Fooled Again”, which basically anything that's put forward at the beginning of the year, don't assume it's going to look that way at the end of the year, especially if there's a new administration.

Kathleen Hicks: Great. Todd?

Todd Harrison: I’m going to appeal to the baby boomers out there listening. Rolling Stones.

Kathleen Hicks: Okay, boomer.
Todd Harrison: Yeah, okay boomer. "You can't always get what you want". And often we forget that the President proposes the budget, but Congress ultimately enacts it. And the things that we often know we should do, or the things that the military wants to do in the budget, you're not always going to be able to get it. And I think it's important for folks to remember that the Joint Chiefs can get up there and pound the table and say they need three to five percent real growth every year in the defense budget. Reality is you can't always get that.

Todd Harrison: I think the answer also lies in the lyrics of the same song that if you try some time, you just might find you can get what you need. So it's not always about getting everything you want. Sometimes you got to get serious about what do we really need?

Kathleen Hicks: Great. And Mackenzie, you get the last word.

Mackenzie Eaglen: So many choices from Arrested Development, Alice Adventures in Wonderland, but I settled on the Big Short, which of course was the movie that was ... It was actually ... no, excuse me, a real world event, but the movie based on the subprime housing market lending and the credit default swaps that basically sent the economy into a tailspin and recession in 2008. So I'm not saying that that's what's coming, but I'm saying the reckoning over your question over all of these issues under basically the federal government's priorities and where we're putting dollars and including dollars we don't have and spend any way, will be particularly acute this coming election.

Kathleen Hicks: Great. Well, Mackenzie Eaglen, Todd Harrison, Bill Hartung, thanks so much for joining me today.

Kathleen Hicks: On behalf of CSIS, I'd like to thank our sponsors, BAE Systems, Lockheed Martin, Northrop Grumman, and the Thales Group for contributing to Defense 2020.

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