

The Biden Administration: Strategy and Reshaping the National Security Budget

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Introduction

The Biden administration and the U.S. Congress face major challenges in shaping an effective FY2022 defense budget. These challenges include the immediate need to create a suitable FY2022 budget proposal – a task the administration must complete no later than April – and to determine what work must begin in order to address the longer-term issues in defense budgeting as part of the FY2022 submission.

This analysis, however, focuses on the need for fundamental reforms in the defense budget's structure and content, the challenges posed by the rising costs of mandatory civil spending and Covid-19 aid, as well as the need for a full national security budget. It addresses the three areas where such reforms are critical:

- *First, the present Department of Defense budget does not tie spending to strategy in meaningful ways, nor does it show how a given strategy can be tied to a given region, real plans, budgets, schedules, costs, and measures of effectiveness.* The current defense budget submission and the review process rely on an archaic line-item budget, which is organized largely by major category of spending, such as “personnel” or “procurement,” for individual services, defense agencies, and military services.
- *Second, there are challenges the defense budget and other national security spending now face from massive rises in civil spending.* These include the spending imposed by massive new federal spending in response to the Covid-19 crisis that may well surpass 3 trillion dollars as well as the additional pressures imposed by the rise in mandatory spending on civil programs, such as health care and Social Security, that have long driven the growth of the federal budget and will continue to do so at least through 2030.
- *Finally, the defense budget process only addresses a limited part of the total national security spending of the United States.* It does not include the massive and growing spending on Veterans Affairs, and it does not address the civil aspects of national security: spending by other departments and agencies like the Department of State, the Department of Homeland Security, and intelligence agencies that are not part of the Department of Defense.

In the process, it shows that the Biden administration needs to look far beyond the coming fiscal year and to make major reforms in the ways that the defense and national security budgets are structured, reported, and justified – and particularly how they should be used to develop and implement an effective national security strategy.

A Budget Driven by Military Service Shopping Lists rather than Strategy

The present U.S. defense budget process has many critical flaws. The most important flaw is that the budget submission and the review process are now driven by the shopping lists of the military services and key elements of the Department of Defense.

This does not present a budget that reflects a strategy at the joint and command levels, justifies the funding of the joint military's needs in key regions or in key functional areas of defense, or uses key analytic tools like net assessment and meaningful program budgeting.

The focus on the spending of each military service ignores the fact that the U.S. is now committed to joint/all-domain warfare and that the U.S. shapes its defense and national security strategies largely in terms of its regional and functional military commands, its strategic partnerships, and the need for foreign aid to the civil and law enforcement sectors of other countries.

Aside from the broad rhetoric about strategic intentions, the defense budget submission does not address these critical aspects of defense. It focuses almost exclusively on the service by service details of planned spending – consistently failing to control the rise in personnel and operations and maintenance (O&M) costs as well as also failing to deploy key procurement programs at the estimated cost and time along with the promised effectiveness.

It is at best a mid-20th Century budget for a very different 21st Century. As a recent report by the Director of Operational Test and Evaluation notes,¹

We are now 20 years into the 21st century but, in many ways, DoD acquisition functions appear to be stuck in the 20th century. Our processes are too slow. By the time many of our systems roll off the production line, the requirements against which they were designed are decades-old and no longer capture the threat or warfighter needs. With our near-peer adversaries rapidly gaining ground, and even getting ahead of us in certain areas, continuing along this path is dangerous!

The current budget also reflects the virtual collapse of any effort to create a meaningful posture or a working planning, programming, and budgeting system (PPBS). Key budget reforms made under the Eisenhower and Kennedy administrations have largely collapsed, and new reforms have not been implemented.

There are many reasons for these failures, but the broader causes include the collapse and break-up of the former Soviet Union in the early 1990s. They include the poorly structured efforts to create the Quadrennial Defense Reviews from 1997 to 2014 that tried to look too far into the future and were decoupled from programming, planning, and budgeting efforts. They include the narrow focus on terrorism and extremism that occurred in 2001, the reaction to the Great Recession of 2008, and the absurdities in budgeting imposed by the Budget Control Act of 2011 that led to budget caps and sequestration efforts.

More recently, they have included the failure to link the broad strategic rhetoric in the new National Security Strategy (NSS) and National Defense Strategy (NDS) that were issued in 2017 and 2018 respectively, to tangible plans, programs, and budgets in the budget submissions that followed. They have also included a growing emphasis over the last four years on worst case war fighting with China and Russia; withdrawals from overseas bases; and a self-seeking focus on burden sharing, arms sales, and transactional relations in dealing with strategic partners.

In spite of recent claims that the recent defense budgets have been “strategy driven,” they have actually been driven by each military service, focused on the coming or current fiscal year, and

often provided little more than placeholder estimates for spending in future years. They have remained exercises where broad, global strategic rhetoric has rarely been linked to any form of substance.

A Deeply Flawed Defense and National Security Budget Process

This report addresses these issues in detail and suggests major reforms in each area. They include a return to an effective planning, programming and budgeting system; a focus on the major combatant commands as key “programs” that can be clearly linked to key strategic needs and challenges; and a focus on the Future Year Defense Program (FYDP) rather than simply the budget for the coming fiscal year.

It addresses the ways in which defense planning and budgeting have steadily declined in quality and coverage and in which there has been minimal real-world progress in tying the defense budget to an overall national security budget. Much of the progress in creating an effective planning, programming, and budgeting system (PPB) that began under the Eisenhower and Kennedy administrations has been lost. At the same time, the outside need for a defense budget reform has steadily increased.

It addresses the fact that the defense budget process is largely decoupled from the analysis of the overall trends in federal spending. Changes in taxation and economic policy over the last four years have greatly increased the deficit and federal debt that they were intended to reduce.

At the same time, it shows that the need for an integrated approach to shaping the spending on national security and civil programs has grown sharply since the start of 2020. The Covid-19 crisis has led to massive new forms of federal spending on civil aid efforts, and all of this is layered over increases in entitlement spending in areas like medical programs and Social Security that have already led to decades of major increases in federal spending and that now call for similar increases through at least 2030.

The rest of the budget brief focuses on the need to properly plan and budget all national security spending – including spending in the civil sector. It addresses the need to consider the full range of national security spending – including for Veterans, the Department of Homeland Security, and intelligence agencies. It also addresses key issues regarding continuing management of key program activities within the Department of Defense (DoD).

Available in Two Versions

Because of the complexity of the data involved, the analysis is available in two forms. This version is written narrative form. It is entitled, ***The Biden Administration: Strategy and Reshaping the FY2022 National Security Budget***, and it is also available on the CSIS website.

The second form has the same narrative content, but it provides a wide range of supporting data in the form of spreadsheets, charts, and tables. These data are complex; often contradictory or uncertain; and – to put it frankly – have to be provided in the visual form of charts, graphs, and spreadsheets. It takes time and patience to compare and understand them. They do, however, provide clear illustrations of the key issues involved.

The data in this PowerPoint version are drawn largely from official U.S. government reporting, and it provides a detailed quantitative picture of the failures and uncertainties in today’s approach to defense budgeting as well as calls for major changes and reforms. The full PowerPoint version is available on the CSIS website.

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The Need for a Strategy-Driven Program Budget: Strategy Does Not Consist of Broad Rhetoric about Goals and Objectives or of Military Service Shopping Lists

The Biden administration and Congress face an immediate challenge in forming and reviewing the FY2022 defense budget. At the same time, even the best effort to draft a budget using the current methods and forms cannot meet the nation's broader needs for the most effective possible force posture and an effective national strategy.

Today, the critical single need for the U.S. defense budget reform is to create a strategy-driven program budget. Today's budget is little more than a long list of the proposed spending for each military service and the efforts to justify such spending based on each service's priorities.

The documentation for the defense budget request provided on the OSD Comptroller web page as well as the testimony to Congress on the annual budget submission all consist of documents that total several thousand pages. These reports, however, focus almost completely on the total spending of the Army, the Navy/Marine Corps, and the Air Force, plus defense agencies and the nuclear weapons efforts of the Department of Energy.

They provide little more than generic rhetoric about overall strategy with no supporting explanation or justification of how strategy is to be implemented by region or key area of focus. In an era of joint/all-domain warfare, they fail to provide any meaningful detail as to how key strategies will be implemented by region or major strategic objective – as well as the plans, programs, and spending necessary to implement them.

Addressing the Entire Defense Budget

It should be noted from the start that this analysis relies on an estimate of the total defense budget – which goes substantially beyond the spending in the Department of Defense (DoD) alone. Most estimates of U.S. defense spending do include such spending on nuclear weapons in the Department of Energy (DoE) and some defense related spending in other federal agencies.

However, the charts in the supporting PowerPoint show that some official estimates of the impact of defense spending only include spending by the Department of Defense (the 050 account in the budget). This understates the need to properly plan and program all defense spending as well as to properly assess its impact on the total federal budget, the economy, the deficit, and the national debt.

There are good reasons why the Office of Management and Budget (OMB) projections for defense spending – such as the 2019-2030 projections in the PowerPoint – include the Department of Energy spending on nuclear weapons and the defense-related costs of other government departments and agencies like the FBI (the 053 and 054 accounts).

In FY2021, these costs raised the discretionary cost of the Department of Defense budget request from \$705 billion for the Department of Defense alone, by 5.0% to \$740.5 billion. Arguably, defense spending should also include the mandatory spending in the Department of Defense account (051), which would have added \$10.775 billion or by 1.5%.

Second, it makes no sense to try to address the serious issues that arise in dealing with the steadily growing spending on Veterans Affairs that should be included in the defense budget without fully accounting for the rest of defense spending, which are addressed later in this analysis. The same

is true of the analysis on the need for an official presentation, justification, and Congressional review of the entire national security budget – which would include at least the cost of Veterans Affairs, the Department of State, the Department of Homeland Security, and the intelligence agencies and efforts that are not part of the Department of Defense.

The Department of Defense does need to develop its own budget estimates, but no analysis of national defense spending can validly exclude the total cost of at least the spending in the entire 050 account for defense.

Strategy Without Plans, Programs, Budgets, and a Real FYDP

That said, the key need for budget reform is far more substantive and requires the budget process to address a real “strategy driven” budget. The supporting PowerPoint provides a summary of this strategic rhetoric, which is drawn from the FY2021 Department of Defense budget submission and the final committee reports of the Senate and House Armed Services Committees. These excerpts summarize the reporting on strategy presented by OMB’s justification in the FY2021 defense budget request, the Department of Defense budget justification, and the Senate Armed Services Committee (SASC) and House Armed Services Committee (HASC) final conference reports on the budget. The hollow content of their strategic rhetoric is all too clear.

Such excerpts, however, can only tell part of the story. To fully understand the scale of the failure to address a strategy in today’s defense budget process – and in the way the budget is reported and addressed – it is necessary to at least skim through the full range of budget documents provided by the Department of Defense. These documents are shown on the OSD Comptroller web page. (<https://comptroller.defense.gov/Budget-Materials/Budget2021/>).

There are almost no discussions in this vast mass of budget narratives and data that actually tie future spending to the implementation of strategy in given regions. There are also none that address the effectiveness of defense-wide efforts in strategic terms or that describe the impact of defense spending on U.S. force postures and their ability to deter and defend.

The Department of Defense’s budget requests do mention strategy in passing. In fact, the FY2020 budget request described itself as a “strategy-driven” budget, and the FY2021 budget request called itself an “irreversible implementation” of the National Defense Strategy issued in 2018. In practice, however, these budgets focused largely on line-item spending by military service.

There were only limited – and often had no ties between the data or the justification in budget requests with actual strategy. The discussion focused almost exclusively on service-by-service spending, readiness, and broad areas of modernization.

A Road Paved with Annual Good Intentions: Failing to Set Meaningful Longer-Term Strategic Goals

If one compares the excerpts of strategy in the Power Point with the details of the budget request, this lack of any real link between strategy and spending in the FY2021 defense budget submission becomes brutally clear. Like the new National Security Strategy and the National Defense Strategy documents issued in 2017 and 2018 respectively, they do not define any clear path to actual implementation, and the vast majority of the “strategy” reporting in the rest of the budget justification consists of discussions about the spending priorities of each military service.

No amount of budget documentation that is only focused on the four separate sets of requests by the Navy, Marines Corps, Army, and Air Force can address the complex issues needed to shape a

real strategy-driven budget – especially in an era where the Joint Chiefs focus more and more on joint/all-domain forces and operations.

Ironically, the few excerpts in the PowerPoint that do provide some substantive discussion of strategy took place in the Senate and House Armed Services Committees' mark-ups of the budget request. Even then, these references were not tied to a specific program's initiatives and budget costs.

Only the Navy makes at least one detailed comparison of the U.S., Chinese, and Russian forces in the *FY2021 Defense Budget Overview* (pp. 9-11 to 9-12). The other references to strategy consisted of broad rhetoric that had no specific content or that was so vague that it was little more than a demonstration of the Buddhist *koan* that asks, "what is the sound of one hand clapping."

There also is little discussion of the links between strategy and budgets outside the budget process. No serious effort is made to tie recent budget requests to net assessments of the threat or the role of strategic partners in key regions and aspects of U.S. strategy. With the exception of the annual DIA report on Chinese military power, no serious effort was made to describe the changes in the threat. No comparisons are made of the requested level of U.S. military spending relative to key threats like China and Russia or on the impact of their spending on military capability.

As for the intelligence community, it provides little more than erratic annual reports on key threats – rarely addressing comparative trends and then only consistently touching upon the growing threat from China, and occasionally from Russia and Iran. No real effort is made to tie military spending to the civil spending done by the State Department and USAID or to link the security efforts of the Department of Homeland Security to the Department of Defense spending in order to counter extremism and terrorism.

Creating More Functional Breakouts and Projections of Defense Spending

The charts and tables in the PowerPoint also illustrate the relative pointlessness of most of the present breakouts and estimates of defense spending provided in official reporting on the defense budget. They show typical examples of the estimates of spending by military service and by key line-item categories like personnel; operations and maintenance (O&M); acquisition; procurement; and research, development, test and evaluation (RDT&E).

This kind of functional breakout may have made sense in World War I, but it says absolutely nothing useful about the way U.S. defense spending is allocated. At best, it shows the market share of each military service, which is roughly as useful as the data on the outcome of their annual football games.

Reforming this does not necessarily require major changes in the routine budget data on each military service or defense agency. It does require the creation of a program budget that provides a clear strategic justification of the spending on each major regional and joint command.

Moreover, the budget justifications that are provided by military service and agency normally focus heavily on the budget for the coming fiscal year, and they rarely prove accurate over time. A closer reading of the charts in the PowerPoint that describe outyear spending after FY2021 show that they often do not seem to reflect the future impact of the key spending priorities of the military services. Far too often, they do not even seem to provide a serious effort to estimate future spending trends.

Strategy – and building effective deterrent and defense forces, postures, and strategies – is not an annual task. Efforts to develop effective Future Year Defense Programs (FYDPs) that project actual defense budget needs five years into the future have become little more than “placeholder” projections of the coming year’s budget. There may only have limited value in making projections as far out as 15 to 20 years in the future, but near-term projections like the FYDP should provide critical insights into the progress and stability of key spending efforts.

Creating the Right Program Categories for a Real Strategy-Driven Program Budget

It is important to note that the lack of focus and meaningful PPBS data in the current defense budget process represents a major regression from past efforts to provide such justification. Today there not only is no meaningful program budget, but there no longer are serious “posture statements” from the Secretary of Defense or the Chairman of the Joint Chiefs of Staff (CJCS) that tie the budget to strategy and also explain these links in any detail. The detailed “posture statements” that emerged at the time of the Eisenhower administration – and the reporting of the Planning, Programming, and Budgeting System (PPBS) developed by Secretary McNamara – have both vanished.

Going back to the past, however, would only be a partial and inadequate solution to the problem of linking strategy to plans, programs, and budgets. One key reason for the collapse of the earlier PPB system was its failure to create functional program categories tied to the actual strategy used in posturing and committing of U.S. forces.

The earlier PPB system placed far too much of the total defense budget in one broad category called “General Purpose Spending.” This lumped almost all of the spending affecting the U.S. force posture in different commands and regions of the world into one program category, and this made it impossible to know the different impact of the budget on key force posture and strategies like those in NATO and Europe, on U.S. forces in the Pacific and the Indian Ocean, as well as on U.S. forces in other regions like the Middle East.

A new program budget must provide a clear strategic justification of spending by command through assessments of the progress, modernization, and force changes taking place in each combatant or defense-wide commands. As the PowerPoint shows, it is these eleven combatant commands that now have what the Department of Defense has defined as the “geographic or functional mission that provides command and control of military forces in peace and war.”

The regional commands include the Africa Command, Central Command, European Command, Indo-Pacific Command, Northern Command, and Southern Command. They are the central focus on the joint operations of all U.S. forces, of the strategy and force posture needs to meet given threats and support given allies, and of the tangible investment in given aspects of deterrence and defense.

The functional commands include specialized commands that serve the common interests of all U.S. forces and are critical to implementing new strategies and tactics that are key elements of joint/all-domain warfare. They include Space Command, Special Operations Command, Strategic Command, and Transportation Command. They dictate the success of resources – not the global spending of each military service.

These regional and functional commands are the logical focus of a new program budget – and the kind of budget justification that has a real strategic focus as well as one that can be linked to clear mixes of strategic partners and threats.

There is an urgent need to modernize defense budgeting and to resume the effort to create an effective Planning, Programming, and Budgeting System as well as FYDP. There is also the need to provide a meaningful strategic justification for the budget request – one that includes some new form of Posture Statement by the Secretary of Defense and the Joint Chiefs.

Looking at the Budgets of Competitors and Allies: The U.S. Defense Budget, Russian and Chinese Military Spending, the Value of Strategic Partners, and the Burden Sharing Myth

Another – directly related area of reform – is the need to focus on the right programs as a means of linking strategy to key missions and strategic interest, as well as the need to tie real plans, programs, and budgets to actual spending. It is also to structure the budget so it can be used to make assessments of how the U.S. defense budget compares in size, efficiency, and effectiveness with the spending of other major powers and allies.

The current U.S. defense budget process fails to address any aspect of how the size and efficiency of the U.S. defense spending and national security efforts compare with that of key rival powers, and it also fails to take account of the role that key regional allies and strategic partners play in creating effective mixtures of force capability in given regions as well as their role in offsetting U.S. costs and burdens.

This need to assess the comparative size and impact of U.S. spending with that of major competitors and of strategic partners has been particularly important during the last four years. These have been years when the U.S. has focused largely on burden sharing bullying rather than building real partnerships at the White House level. There has been too much focus on efforts to get given partners to spend more, provide more offsets, and buy more arms rather than joint efforts to create overall force posture that provide effective deterrence and defense.

The charts and tables in the PowerPoint show recent SIPRI, IISS, Department of Defense, and Defense Intelligence Agency (DIA) of U.S. versus potential threat and strategic partner spending. If one compares official U.S. estimates of Russian defense spending like those from the Defense Intelligence Agency (DIA) and estimates by key non-governmental research centers with the NATO reports on member country spending, *NATO Europe alone has long been spending far more on military forces than Russia.*

Experts may argue over how to make the most valid comparisons, but this only highlights the need to focus on finding the right answers. It does not justify the lack of any meaningful public study on comparative spending.

NATO is a particularly good case in point. It has been the focus of the worst U.S. bullying and caused the most needless increase in tensions with strategic partners. The U.S. has spent the last four years attacking its allies for underspending at the White House level without ever addressing U.S. and other estimates of what Russia – the one threat to NATO with serious resources – is spending relative to NATO.

Yet, both the U.S. and Europe have given the analysis of Russian spending with surprisingly little official attention. DIA last reported publicly on “official” Russian spending in 2017 – and this

estimate seems to allude that the DIA made little or no effort to correct for any spending that Russia conceals.

It is important to note, however, that the DIA put Russian military spending at only \$60.825 billion in 2016 and only \$42.278 billion in 2017 – with spending being driven down by dropping petroleum export revenues. DIA then estimated that Russia was already spending some 3-4% of its GDP on military forces and that it probably could not come close to its future spending goals if oil prices remained low.² It estimates that Russia's official total was only \$54.8 billion in 2019.³ Such estimates are debatable, but these are the official U.S. figures.

In contrast, NATO reporting on member country spending shows that *NATO Europe alone has long been spending far more on military forces than Russia*. Experts again may argue over how valid such comparisons are, but such arguments only highlight the need to focus on finding the right answers. It does not justify the lack of any meaningful study of comparative spending on the part of the United States.

NATO's fall 2020 estimate of U.S., European, and Canadian total spending was made in \$US 2015 prices and exchange rates – where the use of 2015 US dollars understate the NATO figures. If one only counts the numbers for NATO Europe, NATO reports that NATO Europe alone spent \$243.7 billion in 2017, \$253.6 billion in 2018, \$267.5 billion in 2019, and is estimated to spend \$280.5 billion in 2020.⁴

Even if one accepts an estimate for current Russian spending of \$65 billion, NATO Europe alone is spending some four times as much as Russia – whose only tenuous equivalent of a strategic partner is Belarus: a country that SIPRI estimates spends well under \$200 million a year on military forces. This means that even if one totally ignores what the U.S. and Canada spend on defenses, NATO Europe alone spends well over three times as much as Russia. There are some individual experts whose estimates of Russian spending go as high as \$150-\$180 billion. Even if one accepts the highest total of \$180 billion, however, NATO Europe alone would then still be spending some 1.6 times more than Russia.

The U.S. has executed the same burden sharing bullying in the Middle East, even though the latest unclassified DIA estimate of Iranian spending is \$27.3 billion in 2018 and \$20.9 billion in 2019. To put this spending in perspective, SIPRI estimates that a single strategic partner like Saudi Arabia spent over \$61.9 billion in current dollars in 2018, and \$61.9 billion in 2019. Qatar and the UAE do not report official defense spending figures. However, if one looks at their past spending rates and at SIPRI estimates for spending in 2019 current US dollars, the six Arab strategic partners in the Southern Gulf – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE – probably spent over \$110 billion in 2019, which amounts to some five times as much as Iran.⁵

These Arab states are some of America's wealthiest strategic partners, but they are also countries whose growing population means that their "oil wealth" is steadily more limited in per capita terms, that they face additional pressure from reduced demand due to Covid-19, that they need money for economic reform, and that their focus should be on effective deterrence and defense – not on increasing the total volume of security spending or U.S. profits from arms sales.

As for the Indo-Pacific region and Asia, total Chinese military spending is debatable. The 2020 edition of *Chinese Military Power* does, however, provide the official U.S. estimate. It states that the official Chinese military budget was \$176 billion in 2019, and that,⁶

China is spending far more on military forces than Russia, and Asia is a case where the main threat does outspend America's strategic partners in the region. However, this scarcely means that the U.S. should push them to spend more, rather than create effective collective security efforts. They already are making serious defense efforts... The PRC's published military budget omits several major categories of expenditures, including R&D and foreign weapons procurement. In 2019, China's actual military-related spending could be more than \$200 billion, much higher than stated in its official budget. However, actual military expenses are difficult to calculate, largely because of China's poor accounting transparency... If China's official defense budget increases annually by an average of 6 percent, growing to \$270 billion by 2023, the PLA can dedicate more money for training, operations, and modernization considering the reduction of the PLA's size by 300,000 people.

A revised Stockholm International Peace Research Institute (SIPRI) estimate made in early 2021 puts Chinese spending at around 240 billion, but it questions the rate of past estimates of increases in this spending.⁷ In any case, the U.S. would still be spending some close to three times what China is spending.

Once again, America's strategic partners made major spending efforts. SIPRI estimates that in 2019, Australia spent \$25.9 billion on military forces, New Zealand spent \$2.9 billion, Japan spent \$46.7 billion, Singapore spent \$11.2 billion, and South Korea spent \$43.89 billion – for a total of \$130.6 billion versus an official level of military spending of \$261.1 billion for China. These are major contributions to collective security.⁸

Moreover, the role of other potential strategic partners is worth noting. SIPRI estimates that in 2020, India spent \$71.1 billion, Indonesia spent \$7.7 billion, Malaysia spent \$3.8 billion, the Philippines spent \$3.5 billion, Taiwan spent \$10.4 billion, Thailand spent \$7.3 billion, and Vietnam is not reported.⁹ Moreover, their economies, trade, and technology base is worth a great deal to the U.S. in economic competition with China – and economic competition with China may ultimately matter as much as military competition.

The U.S. defense budget should not be issued without an annual net assessment of the strategy, total spending, focus, efficiency, and effectiveness of defense and military spending by key threats and strategic partners. Strategy is a key part of effective defense spending, but so is comparative analysis.

Dealing with the Growing Pressures that Federal Spending on Entitlements, Mandatory Spending, and Covid-19 Put on the Defense Budget

The second highest priority for structural defense budget reform – and the most immediate challenge that the Biden Administration will face in shaping the coming defense budget – is the need to rapidly reshape a draft Trump Administration FY2022 defense budget request. This reshaping will have to take account of all the major uncertainties over the future role of the U.S. in Afghanistan and Iraq as well as all of the other national security issues that are driving the budget.

At the same time, the coming annual budget process will also be driven by the steady major rises in mandatory spending on civil programs like Social Security, Medicaid, and Medicare; the major recent rises in the federal deficit and debt; and the massive new spending to deal with Covid-19.

At this point in time, there is no way to know how great the resulting pressures on defense and other national security spending will be from the Covid-19 crisis. The range of best to worst case estimates for Covid-19 alone is too great, and the level of longer-term pressures may not be clear until late 2021 to mid-2022.

The Covid-19 crisis has, however, already led the U.S. to allocate some \$2.9 trillion dollars in federal spending to deal with the domestic economic crisis caused by Covid-19, and President Biden has called for the spending of \$1.9 trillion more. The pressures caused by this Covid-19 spending and the uncertain future of the U.S. economy may lead to major efforts to reshape and cut both the defense budget and total national security spending.

Mandatory and Covid-19 Spending, Not Defense Spending, Drives the Pressures on the Federal Budget and Economy

These issues need more explicit review and debate as part of the annual defense budget cycle. Covid-19 spending is only part of the story. The steady past and projected rises in mandatory civil spending as well as the rises in the debt and deficit need to be explicitly addressed in the annual defense budget cycle, in the proposal the President sends forward, and in the review by both chambers of Congress.

The CBO estimates dated October 2020 in this section of the supporting PowerPoint show that the pressures on federal spending could be serious even if one only considers the impact of the initial \$2.0 trillion in Covid-19 aid spending the Congress approved in 2020. At the same time, the projections in the CBO analysis made in February 2021 were far more favorable in spite of the fact they include \$900 billion more in Covid-19 aid, although they did not include deficit and debt data or any effort to reflect the additional \$1.9 trillion in aid proposed by Present Biden.

The updated estimates the CBO issued in mid-February 2021 also could not include estimates for this additional spending, but noted that,¹⁰

- Deficits. CBO projects a federal budget deficit of \$2.3 trillion in 2021, nearly \$900 billion less than the shortfall recorded in 2020. At 10.3 percent of gross domestic product (GDP), the deficit in 2021 would be the second largest since 1945, exceeded only by the 14.9 percent shortfall recorded last year. Those deficits, which were already projected to be large by historical standards before the onset of the 2020–2021 coronavirus pandemic, have widened significantly as a result of the economic disruption caused by the pandemic and the enactment of legislation in response.

In CBO's projections, annual deficits average \$1.2 trillion a year from 2022 to 2031 and exceed their 50-year average of 3.3 percent of GDP in each of those years. They decline to 4.0 percent of GDP or less from 2023 to 2027 before increasing again, reaching 5.7 percent of GDP in 2031. By the end of the period, both primary deficits (which exclude net outlays for interest) and interest outlays are rising.

- Debt. Federal debt held by the public—which stood at 100 percent of GDP at the end of fiscal year 2020—is projected to reach 102 percent of GDP at the end of 2021, dip slightly for a few years, and then rise further. By 2031, debt would equal 107 percent of GDP, the highest in the nation's history.

...Because of the unusual size and nature of the emergency funding provided in response to the 2020–2021 coronavirus pandemic, the agency did not extrapolate the \$184 billion in discretionary budget authority that has been provided for such purposes so far in 2021. Emergency funding provided for purposes unrelated to the pandemic was projected to continue in the future with increases for inflation each year after 2021.

CBO's baseline is not intended to provide a forecast of future budgetary outcomes; rather, it provides a benchmark that policymakers can use to assess the potential effects of future policy decisions. Future legislative action could lead to markedly different outcomes. Even if federal laws remained unaltered for the next decade, though, actual budgetary outcomes would probably differ from CBO's baseline—not only because of unanticipated economic developments, but also as a result of the many other factors that affect federal revenues and outlays.

This presentation of CBO's budget projections is much shorter than usual. The information is less detailed so that CBO can provide it to lawmakers as quickly as possible as they continue to address the consequences of the pandemic. CBO will publish more detailed information about these projections and supplementary information later this year.

The CBO projections did, however, project a rise in the public debt from \$21.0 trillion dollars and 100.1% of the GDP at the end of 2020, to \$22.5 trillion dollars and 102.3% of the GDP at the end of 2021. The total rose to 35.3 trillion dollars and 107.2% of the GDP at the end of 2021.¹¹ They also projected a deficit of \$3.1 trillion (14.9% of the GDP) in FY2020 and \$2.6 trillion (10.3% of GDP) in FY2021 even without an estimate of future Covid-19 spending.¹²

These examples show the need for parametric (high, low, and best case) estimates of the economic impact of major changes in federal spending. They also show that present estimates can lag months behind Congressional action, and the use of single lines of future estimates can both understate or overstate the pressures on other aspects of federal spending.

It may be months before the final shape of the Biden proposal and other efforts to deal with the impact of Covid-19 become clear. Such spending will almost certainly change sharply in scale and action as the Congress acts to create actual legislation. If the end result approaches or exceeds \$1.9 trillion, it will create added pressure to reduce other areas of spending. Moreover, there is no current capability to predict either how soon the Covid-19 virus will be contained, the domestic economic result, or the impact of the disease on the global economy.

A casual look at the projections that OMB and the CBO make of the total federal budget beyond FY2021 show that they are largely projections of the existing spending trends in the budget, and they seem to assume that no major change will occur in the recent patterns in most federal programs and spending. They are necessarily dependent on guesswork as to how serious and lasting the economic impact of sudden needs like the Covid-19 crisis will be. Once again, no parametric effort is made to describe a best, worst, and nominal range of estimates.

They do reflect important practical limitations to any budget projection. The future is inherently unpredictable, particularly when predicting the kind of crises that do most to force fundamental changes in total federal spending and revenues as well as spending by the Department of Defense.

Such projections can be surprisingly accurate over a near-term period like the five years in the Department of Defense's Future Year Defense Plan if there are no major sudden changes in force plans or contingency needs. Many aspects of broader budget and economic forecasts also remain relatively accurate even if a crisis or another event changes a portion of federal spending, and forecasts some ten to twenty years into the future can serve as important warning of the longer-term effects of poor planning and decisions in past and current years.

Nevertheless, the ability to predict the future clearly becomes steadily more uncertain over time. The uncertainties in estimating the future of the U.S. economy are serious even at the best of times, and these are scarcely the best of times. In drafting the FY2022 budget, key uncertainties include the domestic and international impact of Covid-19 over at least the next three years; the impact of the deep, domestic political divisions over many aspects of federal mandatory and discretionary spending; and the outcome of growing U.S. competition with other major powers.

Moreover the OMB and CBO budget projections for national security spending since 2001 have not been based on any clear assumptions about the future of America's ongoing wars, and the current projections assume that the U.S. will not deploy any new uses of force through periods ranging as far into the future as 2030 to 2050. Such assumptions are problematic to the point where the probability of major unpredictable events actually occurring becomes far higher over time than the probability of any estimates – based on today's most likely assumptions – are of being correct.

Addressing the Overall Mix of Pressures on the Federal Budget on a Quick Reaction Basis

The level of recent uncertainty is illustrated in this section of the PowerPoint brief, and it is becoming steadily more clear as the CBO updates its budget projections and economy forecasts. What is also clear is that the massive increases are taking place in federal spending, the debt, and the deficit – combined with the efforts to provide major increases in Covid-19 spending and political pressures to increase other areas of entitlement spending – which could put critical pressure on reducing defense and other national security spending.

These uncertainties make it critical to tie each major budget decision – including those affecting defense and national security spending – to its impact on the economy, total federal spending, as well as the deficit and debt before major legislation is passed. It also makes it critical to clearly distinguish between civil and national security spending – not simply mandatory and discretionary spending – which are categories that often hide the true level of spending by actual function.

Accordingly, one key reform needed in the defense budget process – and any effort to create a full national security budget – is the need to explicitly address the near-term impact of defense spending on the overall budget in terms of the trends in total federal spending, its impact on the economy, and its impact on the longer-term trends in the deficit and federal debt. This need becomes even more clear when the total cost of national security expenditures is considered – including for Veterans Affairs, the Department of Homeland Security, the Department of State, and all intelligence agencies.

A second reform is to address the impact of major shifts on other categories in federal spending and to do so on a quick reaction basis. Key decisions in areas like defense budgeting cannot wait until estimates can be based on the normal scoring and analysis process. The administration and the Congress need immediate parametric estimates, and they should address both short-term needs

and long-term impacts at the same time – placing what will inevitably be deep partisan differences in some kind of broader fiscal and economic context.

The Limited Impact of Defense Spending on the Budget and Economy (GDP)

At the same time, no assumptions should be made that cutting defense and military security spending will automatically benefit the civil side of the economy or can be used to fund the civil sector without also adding a major cost to that sector.

Defense and other national security spending tend to polarize public policy along ideological lines. Some advocates of defense spending exaggerate the threat and the need for defense spending. Advocates of more civil spending – or major reductions in the federal budget – target cuts in defense and national security spending as a way of funding more civil spending or reducing the impact of all federal spending on the economy.

This creates a clear need to fully understand the impact of the current levels of defense spending on both the total federal budget and the U.S. economy. The charts in this section of the PowerPoint analysis show that the increases in the federal budget have long been driven by civil entitlement spending and not by defense and national security spending. Even at peak spending periods during the Afghan and Iraq Wars, one graph shows that direct annual defense spending was only around 4.5% of the American economy or gross domestic product (GDP).

The charts and graphs in this section of the PowerPoint also show that defense spending has been a far lower percent of the GDP and total federal spending in most years since FY2000, and the increases in total federal spending – since long before FY2000 – have been driven by mandatory spending on civil entitlement programs and by increases in discretionary non-defense spending that have equaled the much lower rates of the increases in defense spending.

One table shows that the OMB discretionary budget request for FY2021 estimated that that total defense spending in FY2020 – the most recent year for which reasonably firm pre-Covid-19 data were available – totaled \$713 billion in outlays or 3.2% of the GDP. In contrast, total federal spending totaled \$4,790 billion or 21.6% of the GDP, and mandatory civil programs – such as Medicare, Social Security, and Medicaid – totaled \$2,975 billion or 13.4% of the GDP.

The massive new levels of spending in civil programs to deal with the Covid-19 crisis have now sharply raised the percent of federal spending on civil programs, and the Biden administration plans to spend \$1.9 trillion more on civil programs, which would raise these percentages again. However, even in FY2020, total civil mandatory and discretionary spending amounted to some \$4,076 billion in outlays or 18.4% of the GDP – some six times the impact of defense spending.

Some caveats must be applied to such a summary analysis. The other charts and graphs in the PowerPoint do show that estimates of the past size of defense spending as a percent of the total budget and the GDP differ in detail – a problem that affects all categories of federal budget reporting. However, these differences are too small to have an impact on these trends and key policy decisions.

Put simply, credible cuts in defense spending to fund civil programs can only have a minor impact in reducing the impact of civil federal spending on the economy, and much of that impact will increase the risk of new forms of conflict or have a negative impact on the U.S. civil sector – it

will cut spending on high quality jobs, on advances in the U.S. manufacturing sector, and on advances in high technology.

Two more factors that are discussed later in this analysis and the supporting PowerPoint do, however, need to be considered:

- First, shifting from a focus on defense spending to the additional costs of total national security spending would raise the percentages of federal spending and GDP significantly above the percentages for defense spending alone.

As discussed earlier, estimates of defense spending only include spending by the Department of Defense (DoD), nuclear weapons spending by the Department of Energy (DoE), and very limited amount of the spending by other federal departments and agencies. They do not include major additional national security spending in areas like Veterans Affairs, the Department of Homeland Security (DHS), the State Department, and civil intelligence agencies outside DoD.

- Second, the DoD, OMB, CBO, and other estimates in the PowerPoint show that the sudden impact of past wars has contributed a major impact on the past cost of defense and national budgets. The current forecasts assume no future wars or major contingency spending through 2030-2050 – a highly unlikely assumption. At the same time, the cost of past wars is also a warning that a future failure to properly fund effective deterrence and strategic partnerships is likely to have a far higher cost over-time than sustaining peace.

Estimating the Civil Benefits of Defense Spending

At the same time, the following sections of this analysis show that the ability to use cuts in even the total national security budget to benefit the civil sector is sharply limited by other factors. Most defense and national security spending have major civil benefits. The actual spending occurs inside the U.S. economy, creates real employment, and provides major benefits in technology and manufacturing capabilities with civil benefits.

As the charts in the PowerPoint presentation show, only a relatively small portion of defense spending is actually spent outside the United States. This is clear from the patterns in the deployment of U.S. military personnel and civilians. Only 12.2% of active U.S. military and 4.4% of defense civilians are deployed outside the United States – a record postwar low.

Most defense spending goes to creating jobs and to civil spending for the U.S. military, civil servants, contractors, and businesses while much goes to supporting U.S. manufacturing and levels of advanced technology. However, some estimates of the trends in employment rely on the exaggeration of job creation outside the defense sector, and estimates of the impact that defense spending has on manufacturing and technology often seem to be ideologically biased in favor of defense spending – but the basic trends are still clear.

As a result, another key budget reform is the need for immediate analysis of the civil economic benefits of defense and other national security spending. Far too many budget estimates today separate defense and civil spending without looking at these economic benefits. These are areas where OMB and Congressional Research Service estimates of these benefits would be of great value in focusing on real issues and limiting the scale of partisan and ideological debate.

The Need for a Real National Security Budget: Planning, Programing, and Budgeting as well as Costing *All* National Security Spending

There is an equal need for budget reforms that goes much further than the defense budget and military spending.

The present defense budget is only part of U.S. national security spending, and an effective national strategy must address all of the different elements of national security spending – including key areas like Veterans Affairs, the Department of Homeland Security, the State Department, and the civil elements of the intelligence community (as well as including the cost of Veterans Affairs, unfunded military liabilities, and defense related tax expenditures).

A national strategy must address all spending and create a suitable program budget to cover the civil sectors of national security.

Adding the Cost of Veterans Affairs

Today, virtually all official estimates of defense spending ignore the steadily rising costs of Veteran Affairs. The charts and tables in the PowerPoint brief show these costs are now equal to roughly one-third of the total defense budget.

The Department of Veterans Affairs reports that the final cost in the VA budget authority – after the Congressional markup – was \$243.3 billion. This reflects a long-standing tendency to raise the request to gain political visibility and show that Congress is “pro-Veteran.” The VA budget brief also states that,

The VA budget has soared nearly five-fold in the past 20 years. In fiscal 2001, the VA budget totaled \$45 billion. Ten years ago, it was about \$125 billion, a little more than half of the House-passed plan for fiscal 2021.

There are good reasons that Veterans spending in an all-volunteer force, which has been involved in continuous fighting since 2001, should increase – including the increased survival from serious wounds, growth in risk, and repeated cycles of long deployments away from family and businesses in the case of reserves.

Asking a tiny percentage of Americans to bear these risks means that they deserve suitable compensation. Furthermore, even if the high estimate of Veterans Affairs costs is used, the total cost of a revised defense budget would still be under 5% of the GDP and 20% of the federal budget – far smaller percentages than the time of the Cold War.

However, such costs still need to be managed, and such spending needs to be as efficient and limited in cost growth as possible. And, the change in the cost of this aspect of defense-related spending is striking. The tables in this section of the PowerPoint show that OMB reported the total cost in the budget authority of the President’s request for mandatory Veterans benefits and services to be \$238.809 billion. The table showing the Harrison and Daniels’ estimate of total defense spending – that includes this figure but also adds \$107.8 billion more for the Amortization of Unfunded Requirements Liabilities and \$22.4 billion for Defense Related Tax Expenditures – show the full request is actually increased by a total of \$363.0 billion.

This raises serious question about just how large direct defense spending really is. If one uses the Harrison and Daniels’ estimates,

- The Defense Department portion of the budget in FY2021 is \$716.2 billion.
- If one only adds Department of Energy nuclear weapons costs and other defense-related costs to this figure, the total rises to \$753.5 billion.
- Adding all mandatory and discretionary Veterans Affairs spending would add \$238.8 billion to \$753.5 billion. This would raise the total FY2021 direct cost of defense spending to \$992.3 billion, and it would raise the total for the revised defense 050 account by 32%.
- If one uses the total of \$753.5 for the defense 050 account – and adds \$238.8 billion for Veterans Affairs, \$101.7 billion for Amortization of Unfunded Requirements Liabilities, and \$22.5 billion for defense tax amortization – the total cost of the defense portion of the national security budget rises from \$753.5 billion for the 050 account alone to \$1,116.5 billion, a rise of 48%.

The steady rises in the costs of Veterans Affairs alone seems to demand a need for full review as part of the defense budget. Harrison and Daniels note,¹³

Beyond the national defense budget function, other funding in the budget that is related to defense or is a consequence of defense includes veterans' benefits and services (700 budget function), the amortization of unfunded liabilities in the military retirement and health care funds, and tax expenditures for military personnel and veterans. These other defense-related items total \$363 billion in PB21. Notably, funding for veterans' benefits and services is 9.2 percent higher than the current fiscal year, adjusting for inflation, and is projected to continue growing in future years, making it one of the fastest growing areas in the overall federal budget, not including emergency supplemental funding.

The percentage differences in such cost estimates have risen from 41.9% in FY2018, and they are projected to rise to 52.0% in FY2025. This reflects a long standing tendency within the Congress to raise the request to gain political visibility and show that members are "pro-Veteran."

After providing an accurate picture of total U.S. defense budget – and its impact on federal spending and the U.S. economy – there seems to be good reasons to add Veterans Affairs spending to the total force defense alone. Certainly Veterans spending is a critical part of total national security spending. This is particularly true because the Harrison and Daniels' table shows the VA's spending rose from \$125.5 billion in FY2011 to \$243.3 billion in FY2021 – nearly doubling over a decade.

The Impact of Spending by the Department of Homeland Security

The next section of the PowerPoint summarizes the trends in direct spending by the Department of Homeland Security. This is one of the most diverse departments in the U.S. federal government and includes elements as diverse as the Coast Guard as well as the Cybersecurity and Infrastructure Security Agency (CISA). It's budget is well written, in spite of this diversity, and it is one of the only federal departments or agencies that actually has an annual performance report.

The first chart in the PowerPoint shows a total budget request for \$75.9 billion in budget authority in FY2021, a request for \$60.7 billion in gross discretionary budget authority and for \$49.7 billion in adjusted net budget authority.

The second raises more uncertainties about the total real cost of such activity. It displays an OMB estimate of related spending in other federal departments and agencies. OMB issues an annual analytical perspective entitled *Homeland Security Funding Analysis* that includes a wide range of related spending outside DHS.

The total government-wide cost in budget authority – minus the activities in the Department of Defense – increases from \$57.0 billion in FY2016 to \$61.3 billion in FY2021. The Net Non-Defense Discretionary cost of the Department of Homeland Security rises from \$45.2 billion in FY2016 to \$50.7 billion in FY2021.

Strikingly, the same OMB chart shows an FY2021 budget of only \$41.8 billion for the actual defense budget in the budget authority of the Department of Homeland Defense. This is a clear warning about the lack of any official reporting on total national security expenditures and activities.

Once again, there is no agreed way to cost the impact of this aspect of national security. For example,

- If the \$49.7 billion in adjusted net budget authority for DHS is added to the request for \$753.5 billion for the total 050 defense account, the total rises to \$803.2 billion (or by 7%).
- If the \$49.7 billion is added to the FY2021 total for both the direct cost of defense spending and Veterans Affairs, it raises the total from \$992.3 billion to 1,042.0 billion (or by 4.1%).
- If the \$49.7 billion for DHS is added to the total of \$1,116.5 billion for defense, Veterans Affairs, Amortization of Unfunded Requirements Liabilities and defense tax amortization – estimated by Harrison and Daniels – the total request rises from \$1,116.5 billion to \$1,170.7 billion (or by 4.8%).

These figures only cover the FY2021 estimate by Harrison and Daniels and do not reflect the final defense bill. The full range of charts and tables in the PowerPoint show that there are many other ways such totals can be calculated, but all are far higher than \$740.5 billion often used for the final funding for the Department of Defense alone, and they help illustrate the need for some agreed estimate of total U.S. national security spending that provides a meaningful subtotal for homeland security.

The Impact of Spending by the Department of State

The Department of State is sometimes seen as spending large amounts on foreign aid and as somehow decoupled from the U.S. national security community. Some small part of this isolationist criticism may be driven by the fact that it is a leading contestant for issuing the most boring and dysfunctional budget justification in the U.S. government. Its justification is even more strategy free than the Department of Defense budget, has no regional summaries of its overall policies and actions, and has the same interest as reading the annual tax return of a high-volume mortician.

In practice, however, it is an essential part of U.S. national security efforts, and it is a partner of the Department of Defense – and one with a relatively low budget request of some \$44.1 billion a year for all international affairs activity and \$40.8 billion for the State Department and U.S. aid. In FY2021, a total of \$7.7 billion was formally allocated to security assistance and direct roles in supporting U.S. defense and aid to partner and friendly states. The PowerPoint shows that the final enacted totals for FY2021 were \$44.22 billion for foreign operations, of which \$9.0 billion went to security assistance.

Seen more broadly from the growing emphasis on all-domain operations and civil military competition with China and Russia, most of its budget plays a direct role in national security. Civil foreign aid is critical to limiting the rise of extremism and terrorism, reducing the need for U.S.

military intervention, reaching stable diplomatic solutions and peace agreements, as well as substituting security assistance and arms control for expenditures on military forces.

The final table and chart in this section of the PowerPoint is drawn from CRS work that does a considerably better job of justifying the existence of the State Department than the State Department actually makes for itself. It shows that the top 10 aid recipients are all key targets for aid to their civil security in order to support U.S. strategic partnerships or limit/end internal conflicts. It also warns that the Trump administration's proposed cuts in aid spending made it hard to fund effective civil-military security efforts in key regions.

Once again, serious question emerge as to spending in other departments and agencies. These include key aspects of the competition with China, Iran, Korea, and Russia in trade, sanctions, technology, manufacturing, and other key aspects of civil competition. Put bluntly, there is no effort within the federal government as of yet to develop a coherent picture of U.S. strategy for such competition, the plans and programs involved, or its cost. Meanwhile, many statements by senior officials seem to exaggerate the levels of success in both military and civil competition without providing any reliable analytic support for their statements.

The PowerPoint does, however, show how small of a percentage the State Department, Foreign Operations, and related programs' expenditures are of the total federal budget – only roughly 1%. Adding the State and USAID budgets to the total national security budget has only a limited impact.

- If the \$44.2 billion in the State/USAID request is added to the \$753.8 billion request for the 050 defense account and the previous net budget authority of \$49.7 billion for DHS alone, the total rises from \$803.2 billion to \$847.7 billion (or by 12.5% over the 050 defense account).
- If \$44.2 billion is added to the FY2021 total direct cost of defense spending, Veterans Affairs, and DHS, it raises the total from \$1,042.0 billion to \$1,086.2 billion (or by 4.2%).
- If \$44.2 billion is added to full total of \$1,116.5 billion for defense and Veterans Affairs – suggested by Harrison and Daniels – plus \$49.7 billion for DHS, the total rises from \$1,188.7 billion to \$1,232.9 billion (or by 3.7%).

Here, the problem is not spending too much but too little. Regardless of which approach one chooses, the percentages for State seem too low to effectively implement the National Security Strategy announced under the Trump Administration, and it seem even less able to implement the focus on diplomacy that Present Biden announced shortly after taking office. The balance between the military and civil sector favors the military and counterterrorism to the point where an effective whole of government approach – one that properly blends civil-military security efforts – has little more than “hole in government” funding.

The Impact of Spending by the Intelligence Community

The intelligence community is the final part of the federal budget that clearly needs to be included in any total of direct national security expenditures. Here, a long history of gross over-classification still limits the data available. Progress has been made in reducing the classification of intelligence data to the point where given agencies are clearly identified, but no official data are available on their individual budgets – although the chance of zero leakage to major hostile powers

is zero, and the broad total budgets/gross functional cost breakouts by agency do not represent a credible classification issue.

This lack of detail may have been harmless in the past, but it will make it even more difficult to assess civil spending on national security or to know whether funding for cyber, all-domain warfare, artificial intelligence, space, and strategic partners is adequate. The U.S. should not risk critical data on intelligence sources and means, but no one can dismiss Alain Einthoven's comment on intelligence back in the early 1960s: after a long battle to fully examine all the data that DIA then held on Russian forces: "We lifted up the fig leaf and there was nothing there."

Today, the problem often seems to be far more a lack of leadership at the White House level; a lack of focus on a real strategy; a failure to produce an updated, unclassified threat assessment; and a lack of willingness to use net assessments to support strategy, plans, programs, and budgets. Nevertheless, intelligence is a key aspect of national security, and it deserves as much transparency and examination of its funding needs just as much as the other elements of the U.S. national security effort.

This means that the total cost of the intelligence community's activities, and not just the Military Intelligence Program (MIP), should be added to the national security total:

- If the \$38.8 billion in the non-defense parts of the intelligence community budget is added to the \$753.8 billion request for the 050 defense account along with the net budget authority of \$49.7 billion for DHS as well as the \$44.2 billion in the State/USAID request, the total rises from \$847.7 billion to \$886.5 billion (or by 4.5%).
- If \$38.8 billion is added to the FY2021 total direct cost of defense spending and Veterans Affairs – plus DHS and State – it raises the total to \$1,086.2 billion (or by 4.2%). It would be 18% higher than the defense 050 account alone.
- If \$38.8 billion is added to the full total of \$1,116.5 billion for defense, Veterans Affairs, and other related defense spending – suggested by Harrison and Daniels – along with the \$49.7 billion for DHS and \$44.7 billion for State, the total rises from \$1,188.7 billion to \$1,232.9 billion (or by 3.7%).

Guessing the Total Cost of National Security

These are very rough numbers and they do not include a wide range of national security costs in other federal spending like the Department of the Treasury, Department of Commerce, and Department of the Interior. They do, however, show that the full 050 Department of Defense account probably only accounts for less than 60% of the real cost of national security and that the "civil" side of national security is as important as the military one.

The U.S. simply cannot develop effective civil-military strategies, plan, programs, and budgets without some agreed way to define total national security spending. Fixing the defense budget is of critical importance, but it cannot be enough. No one can assess national security efforts without some agreed data on their past, current, and future costs.

Moreover, civil economic competition with powers like China, using activities like gray area sanctions and trade policies – as well as the need to use diplomacy and aid more effectively – all emphasize the need to end the present lack of any overall analysis on national security spending. The world is not becoming a nicer place. History is not ending. The combined forces of extremism,

authoritarianism, Covid-19, population pressure, and the instability of weak and failed states are all too clear.

Following the money is only part of the story, but the ability to manage resources effectively and to work more effectively with strategic partners and other states is critical.

The OMB and CBO should be charged with providing a full analysis of the entire U.S. national security budgets, and each Department and Agency should report and justify its own efforts in national security – adapting to the fact that the cost of great power economic competition will be an increasingly important aspect of such efforts, as will federal investment in high technology science, technology, engineering, math research, development, and manufacturing.

Estimating the Real Costs of War: A Case Study

The need to tie all major national security spending activity to real strategies with real plans, programs, and budgets – and to include all of the military and civil costs involved – is illustrated in the final part of this analysis. It provides a case study on the scale of U.S. inability to effectively manage the resources it has allocated to its wars in Afghanistan and Iraq. Both have been wars where the management of resources has been critical and where the integration of civil/military efforts has served to be critical in defeating the threat; winning popular support; and creating some form of unity and basis for a stable, local force.

In practice, however, the U.S. has never been able to provide convincing official estimates of the full cost of either war, and the level of the reporting has declined steadily over time. The supporting PowerPoint provides a range of largely official estimates tracing the cost of U.S. wars.

- **Figure Sixty-Seven** provides a CRS estimate of total defense spending dating back to the Korean conflict, and it shows their cost in constant dollars. It is a warning of how suddenly wars can change all the content and dynamics of the defense budget and national security programs. It also demonstrates just how costly the estimates of the peak years of the Afghan and Iraq wars have been relative to past wars and peacetime defense spending. It also serves as a grim lesson in the extent to which war exceeds the cost of effective levels of deterrence, arms control, and negotiation.
- **Figure Sixty-Eight** shows the impact of personnel and of the overall deployments of U.S. forces overseas. It provides many of the same lessons regarding the value of effective deterrence and negotiation.
- **Figure Sixty-Nine** and **Figure Seventy** provide estimates for the cost of both wars from FY2001 to FY2019. In spite of the fact that they come from the same document and from the Department of Defense, a close look at the totals shows that the totals are never the same for any given year. They also are typical in that they deal with wars that had massive civil, political, and economic dimensions alongside the fact they were driven by internal divisions – but they do not include the cost of civil aid programs or reflect any integrated whole of government approach.
- **Figure Seventy-One** also comes from the Department of Defense. Once again, most of the totals do not track with other charts, and here it is clear that Congress cheated extensively on its Budget Control Act, using the exemption for war spending to hide increases in baseline spending.
- **Figure Seventy-Two** illustrates the same patterns by major spending category for FY2019 through the FY2021 budget request.
- **Figure Seventy-Three** is part of a CRS estimate published in 2014. It is one of the few estimates that attempt to show the relative levels of military and civil spending, and it is clear how few resources were put into civil efforts in spite of the fact that both conflicts were highly political – and that economic and political development and stability were critical to any real change of lasting victory and stability.

This chart is particularly striking because the State Department and USAID began to sharply cut back on all war-related spending reports and on inputs to Congressional reports

during FY2011-FY2015. Current reports – even joint reports by the Inspector Generals of the DoD, State, and USAID – provide no civil spending estimates at all.

- **Figure Seventy-Four** draws on work by the Special Inspector General for Afghan Reconstruction (The case study of Afghanistan shows how incredibly unstable and irregular the patterns were in all forms of aid spending for the Afghan war). This kind of turbulence in spending as well as the sudden rise and fall in trends are a classic warning of terrible consistency in planning and program execution – as well as an indication of waste and incompetence.
- **Figure Seventy-Five** has excerpts of the latest full DoD breakout of wartime spending by category. It lumps together the cost of all wars and military operations, and it is essentially useless in providing any insight into a given conflict.
- **Figure Seventy-Six** summarizes an academic effort to cost operations in major war zones from 2001-2020. It raises all of the same previous issues dealing with the need to have accurate estimates of total national security spending. It should be noted, however, that the estimate of total cost is \$6.4 trillion, while the Department of Defense and the Executive Branch's estimates would only be a fraction of this total.

These failures to report effectively on planning, programming, and budgeting for either war provide classic case examples of the deep flaws in the entire national security budget process.

Avoiding Any Future Budget Caps and Ceilings as well as Categories like Overseas Contingency Operations

Two caveats to the previous analysis should be mentioned in passing. First, no serious effort at shaping a defense and total national security budget that focuses on the nation's actual needs can survive the kind of arbitrary limits or "caps" on spending that were part of the Budget Control Act. There are some mistakes that Congress must not repeat.

Second, it may make sense to cost major conflicts in separate, special categories for their duration. There is no excuse, however, for repeating largely unmeaningful categories like Overseas Contingency Operations (OCO).

Avoiding Another Budget Cap and Sequestration Farce

Any effort to address the proper balance between civil spending and spending on defense (as well as the rest of national security) must assume that Congress will not return to the absurdities of the Budget Control Act of 2011. This act attempted to set budget caps on all federal spending for a 10-year period ending in FY2021, with separate caps for the defense and non-defense parts of the discretionary budget.

In practice, the Budget Control Act set arbitrary caps on defense and other spending in a partisan Congressional effort that made effective defense budget and planning nearly impossible. It led to the creation of unrealistic estimates of defense baseline and Overseas Contingency Operations (OCO) spending where the Congress deliberately avoided its own legislated caps on the defense budget and forced some earlier budget cuts under conditions that made them largely arbitrary.

Limiting federal spending to what is actually necessary is a critical priority. As a summary analysis by Todd Harrison of CSIS shows, however, the end result of the Budget Control Act was destructive even by the low standards set by worst partisan wrangling in Congress.¹⁴

Setting fixed ceilings for future spending – without any regard for the constant needs to adjust to the future – virtually forces the Congress to make the wrong cuts in federal spending by spreading caps throughout the entire federal budget, to find creative ways to bypass its budget act, or to do both. This kind of legislation is a mistake that should never be repeated. All aspects of U.S. federal budgeting must be adapted annually to actual needs and events, and it should focus on the most effective use of spending to meet those needs – instead of being dictated by caps set arbitrarily in the past.

Creating Rules for Emergency Activities and Overseas Contingency Operations (OCO) Funding

The very use of Overseas Contingency Operations was little more than absurd. It lumped together radically different national security efforts as a tool the Congress could use to bypass its own budget legislation, and it changed constantly in scope and definition. The end result was to misstate the actually cost of given wars and to turn parts of the baseline budget into the equivalent of a pinball game.

Since the budget caps do not apply to funding for emergency activities or Overseas Contingency Operations, this funding remains available for temporary wartime activities, regardless of the force size deployed. The Trump administration responded to this in its own version of the FY2022 defense budget, which attempted to cut OCO funding after withdrawing troops from Afghanistan

and then transferring those costs back to the base budget in order to support other activities, such as shipbuilding.¹⁵

However, slashing OCO funding is not the answer. Just as rules were needed to ensure that the administration or Congress was not disguising base operations as OCO funding, rules are needed now to transform the current OCO funds so they can be used more effectively for the purposes of actually supporting enduring operations in Afghanistan and Iraq.

¹ “Pentagon’s Director, Operational Test & Evaluation 2020 Annual Report,” *USNI News*, January 21, 2021, <https://news.usni.org/2021/01/21/pentagons-director-operational-test-evaluation-2020-annual-report>; see also, The Office of the Director, Operational Test and Evaluation (DOT&E), *DOT&E FY 2020 Annual Report*, 2021, <https://www.dote.osd.mil/annualreport/>.

² DIA stated that, “The 2016 budget, which was initially to decrease defense spending, was amended late in the year to increase defense spending to \$61 billion, a 4.5% defense burden on GDP... By contrast, in 2006 defense spending was \$27 billion, and the defense burden was 2.4%...

Moscow’s ambitious rearmament program has driven the increase in defense spending. The Strategic Armament Program (SAP) called for spending 19.4 trillion rubles (equivalent to \$285 billion) to rearm Ministry of Defense forces from 2011 through 2020. Each year the SAP is implemented through the State Defense Order (SDO), Moscow’s purchase of new weaponry, investment in weapons-related research and design, and expenditure on modernization and repair of existing weaponry... Funding for the 10 year program was heavily back-loaded such that just 31% was to be spent in the first 5 years (2011–2015) and nearly 70% was to be spent from 2016 to 2020... In order for Moscow to meet its original target for SAP spending and maintain its operational spending at current levels, defense spending from 2016 through 2020 will have to increase substantially over 2011–2015 levels.

Russian defense spending, however, is poised to decrease in 2017... The 2017 budget calls for 2.8 trillion rubles to be spent on national defense, equivalent to \$42 billion... This constitutes a 30% real cut in defense spending from 2016 levels, and if it is not amended to increase funds mid-year, it would be the lowest budget for national defense since 2013... According to Russian press and Ministry of Finance announcements, from 2017 through 2019 Russian defense spending will be essentially frozen in nominal terms—and therefore declining in real terms...

Russian government revenues are highly dependent on oil prices, and Moscow’s decision to base its budget for 2017–2019 on low projected oil prices in 2017–2019 is largely responsible for the glum outlook for government revenue and low projected GDP growth rates... According to the International Monetary Fund and a number of prominent economists, Russia faces a growth ceiling; absent structural reforms, Russian GDP growth would probably reach only 1 to 2 percent per year, even were oil prices to increase significantly.”

See, Defense Intelligence Agency, *Russia Military Power*, 2017, pp. 20-21, <https://www.dia.mil/Portals/27/Documents/News/Military%20Power%20Publications/Russia%20Military%20Power%20Report%202017.pdf>.

³ Office of the Secretary of Defense, *Military and Security Developments Involving the People’s Republic of China 2020: Annual Report to Congress*, pp.139-140, <https://media.defense.gov/2020/Sep/01/2002488689/-1/-1/1/2020-DOD-CHINA-MILITARY-POWER-REPORT-FINAL.PDF>.

⁴ North Atlantic Treaty Organization, *Defence Expenditure of NATO Countries (2013-2020)*, October 21, 2020, pp. 4, 6, https://www.nato.int/cps/en/natohq/news_178975.htm.

⁵ SIPRI, *Defense Expenditure Data Base*, 2020, <https://www.sipri.org/sites/default/files/Data%20for%20all%20countries%20from%201988%E2%80%932019%20in%20constant%20%282018%29%20USD.pdf>.

⁶ Office of the Secretary of Defense, *Military and Security Developments Involving the People’s Republic of China 2020: Annual Report to Congress*, pp.139-140, <https://media.defense.gov/2020/Sep/01/2002488689/-1/-1/1/2020-DOD-CHINA-MILITARY-POWER-REPORT-FINAL.PDF>.

⁷ Nan Tian and Fei Su, “A New Estimate of China’s Military Expenditure,” SIPRI, pp. 18-20, https://sipri.org/sites/default/files/2021-01/2101_sipri_report_a_new_estimate_of_chinas_military_expenditure.pdf.

⁸ SIPRI, *Defense Expenditure Data Base*, 2020, <https://www.sipri.org/sites/default/files/Data%20for%20all%20countries%20from%201988%E2%80%932019%20in%20constant%20%282018%29%20USD.pdf>.

⁹ SIPRI, *Defense Expenditure Data Base*, 2020, <https://www.sipri.org/sites/default/files/Data%20for%20all%20countries%20from%201988%E2%80%932019%20in%20constant%20%282018%29%20USD.pdf>.

¹⁰ Congressional Budget Office, *The Budget and Economic Outlook: 2021 to 2031*, February 11, 2021, p. 2, <https://www.cbo.gov/publication/56991>.

¹¹ Congressional Budget Office, *The Budget and Economic Outlook: 2021 to 2031*, February 11, 2021, pp. 4-5, <https://www.cbo.gov/publication/56991>.

¹² Congressional Budget Office, *The Budget and Economic Outlook: 2021 to 2031*, February 11, 2021, pp. 4-5, <https://www.cbo.gov/publication/56991>.

¹³ Todd Harrison and Seamus P. Daniels, “An Analysis of the FY2021 Defense Budget,” *Defense360*, CSIS, August 20, 2020, <https://defense360.csis.org/analysis-of-the-fy-2021-defense-budget/>.

¹⁴ Todd Harrison, “What Has the Budget Control Act of 2011 Meant for Defense?,” CSIS, August 1, 2016, <https://www.csis.org/analysis/what-has-budget-control-act-2011-meant-defense>.

¹⁵ Paul Mcleary, “Trump 2022 DoD Budget Would Kill OCO Account; Huge Navy Boost,” *Breaking Defense*, December 11, 2020, <https://breakingdefense.com/2020/12/trump-2022-dod-budget-would-kill-oco-account-huge-navy-boost/>.