NEW DEBATE

November 15, 2012: Should the United States increase or decrease its spending for defense?

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- **Mr. Carl Conetta, Mr. Charles Knight, and Mr. Ethan Rosenkranz**, *Project on Defense Alternatives*

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The word "sequestration" is on everyone's lips this election season, at least those connected with the defense apparatus. Sequestration raises larger issues regarding the appropriate amount to spend on defense. Two issues stand in the foreground: America's growing debt and a multipolar world of evolving threats. Currently, President Barack Obama plans to reduce discretionary funding by 1 percent with $525.4 billion for FY 2013. Is this too much? Is this not enough?

Ms. Mackenzie Eaglen of the American Enterprise Institute (AEI), the Project on Defense Altneratives, and Mr.Christopher Preble of the CATO Institute debate below whether the U.S. should increase or decrease its spending for defense.

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Mr. Carl Conetta, Mr. Charles Knight, and Mr. Ethan Rosenkranz*, Project on Defense Alternatives*

The U. S. national security budget has experienced massive growth over the past decade, more than doubling in size since 1998. While some in Washington have bemoaned recent "cuts to defense", in fact real cuts have been trivial since 2010 - and not much is planned for future years. The oft-cited $487 billion reduction in the Pentagon budget is derived from past aspirational planning, not current reality. President Barack Obama's FY13 budget request sets a 10-year "base budget" spending level that is only a couple of percentage points below the Fiscal Year 2012 enacted spending levels, projected for ten years and adjusted for inflation.

To put today's defense spending in context, analysis conducted by the Project on Defense Alternatives shows that the United States spends 42 percent of the world total. Moreover, the United States and its allies have a four-to-one spending edge on potential adversaries. During the Cold War, this ratio was much closer to parity.

Despite the heated rhetoric in this election year, there is broad bipartisan support for cutting the deficit by more than $2 trillion as demonstrated by the passage of the Budget Control Act in 2011. Unfortunately, the current panic about the pending "sequester" discourages clear thinking. A 2013 sequester of $55 billion in security spending will be a precipitous reduction for the Pentagon – bringing the base defense budget back down to the size it was in 2007.

The new Congress will face the challenge of enacting long-term deficit reduction legislation that avoids both institutional disruption and the economic pain associated with deep cuts to government spending – a matter of real concern while the economy remains weak.

In order to achieve budget savings and set the Pentagon's budget on a sustainable path forward, America's defense posture must reset in light of new strategic challenges and circumstances to achieve a better balance between military power and other elements of national strength.

Due to current economic and fiscal realities, we must take a more cooperative approach to achieving security goals – one in which responsibilities, burdens, and authorities are proportionately shared among allies and the broader community of nations. It is imperative that the United States prioritize those threats that pose the greatest danger, tailor war capabilities, and force modernization efforts to a more realistic assessment of current and emerging military challenges.

President Obama's FY13 budget plan proposes spending $5.76 trillion on national security over the next ten years. The Project on Defense Alternatives recommends spending $5.2 trillion over ten years for savings of $560 billion or nearly 10%.

Under this plan, the size of the active-component military would be reduced from more than 1.4 million troops today to 1.15 million by the end of 2016 – a 19 percent reduction in military personnel. Combat troops and units would be reduced by only 17 percent, however – more for the ground forces, less for the air forces. The reduction in National Guard and Reserve personnel would also be less: only 11 percent. Once this drawdown is complete, the annual Defense Department base budget would stabilize at approximately $455 billion (2012 dollars), which is 14 percent below the Fiscal Year 2012 budget.

While the prospects for long-term deficit reduction remain tenuous, real savings can be achieved in the national security budget this year: in fact, the Project on Defense Alternatives has identified at least 18 programs in the Pentagon's budget that could be safely reduced or eliminated for $17-20 billion in savings this year. For example, by doubling the proposed reduction in U.S. troops stationed in Europe, and enacting commensurate reductions in end strength, the United States could save $500 million in Fiscal Year 2013. By reducing investments in strategic nuclear systems and missile defense, the Pentagon could achieve almost $6 billion in savings.

Short-term and long-term savings options outlined above would bring defense expenditures down to a level close to that required by the sequestration provisions of the Budget Control Act. However, unlike the cuts mandated by sequestration, the proposed reductions would be introduced gradually over a period of five years, thus mitigating the near-term stress on both the armed services and the American economy. And, notably, these options would achieve substantial savings without reducing military personnel wages or benefits. The additional savings realized by adopting the defense posture outlined above can be used to bolster non-military security accounts, revitalize the American economy, and reinvest in international diplomacy and development. In this way, our military efforts can be reconciled with the long-term preservation of national strength and global influence.

Ms. Mackenzie Eaglen, *The American Enterprise Institute (AEI) (Twitter: @MEaglen)*

Determining what our defense capabilities can do for the nation, our allies and peace and stability around the world is the lens through which our military budget should be evaluated. Like all federal spending, military investment must be analyzed both quantitatively and qualitatively.

While numbers tell an important story, they are but a part of the whole picture. Consequently, any analysis of the defense budget must answer the question of what is the return on that spending.

Cashing a 'peace dividend' without the peace

America's defense budget is set to decline by every metric: in real terms, as a percentage of the federal budget and relative to the size of our economy. In nominal terms, defense spending in 2017 is projected at $567 billion, a little over 12% of the federal budget and 2.8% of America's expected GDP. Since 1940, America has spent only 2.8% of its GDP on defense twice: in FY 1999, and FY 2001. When those budgets were constructed, the world looked far different than it does today.

This would place defense spending at a post-WWII historic low by both of these metrics. The U.S. is already ranked 23rd in the world for the size of our defense budget relative to our economy. Worse, the decline in defense spending is based on projections that do not include sequestration, which would cut another half trillion dollars from the military over the next decade. In FY 2021, the final year of sequestration, defense spending would be a little more than 2.3% of GDP—close to the NATO floor of 2% of GDP.

In real terms, the military's budget is losing ground to inflation and falling faster in purchasing power than numbers alone indicate. All of these trends are worrisome because this is not your grandfather's defense budget, demands on U.S. forces are not falling significantly alongside mission reductions in Iraq and Afghanistan, and the world is increasingly unsettled.

Budget growth consumed by consumables

Much of the current debate about the size of the defense budget is driven by the perception that the post-9/11 era's large military spending increases mirrored previous build-ups. But defense budget growth after 2001 generated little cushion. The increases have largely been consumed by current operations, not on future preparedness.

Adding to the budget strain was the fact that combat operations in Iraq and Afghanistan were undertaken without any prior mobilization. Much of the corresponding growth in military spending over the last decade was largely hollow as increased health care costs and urgent war-related priorities took precedence over longer-term priorities like modernization.

This year, the cost of people now comprises a full 50 percent of the defense budget. As health care costs continue to rise, this share will only grow in the coming years. For instance, DoD health care costs were $17.4 billion in 2000. Since then, health care costs have ballooned by 144% to $42.5 billion in FY 2013.

One illustrative way to look at the problem are the fourteen programs—representing just 1% of line items—that constitute 21% of procurement spending. Collectively, these programs represent most of each services' key procurement objectives from the past decade of spending.

Unsurprisingly, the wars in Iraq and Afghanistan meant that ground forces and related systems received priority funding. Examples include the Bradley and Stryker fighting vehicles, mine resistant ambush protected vehicles (MRAPs), Abrams tank upgrades, Predator and Reaper RPVs, as well as the Global Hawk system. Yet an emphasis on these programs meant that systems designed for other contingencies fell as priorities. Navy and Air Force money went largely to existing programs of record like the DDG-51, C-17, and F/A-18E/F.

The reality is that many of the services' most critical next-generation programs were terminated, deferred or trimmed over the past decade—putting the U.S. military further out of reach from an upgraded arsenal after ten years of budget growth.

The "next generation" is now here

America's decade of largely hollow defense increases unfortunately has left the military unready for the multitude of challenges of the 21st century. The arsenal of new equipment acquired for counterinsurgency operations over the past decade would be critical in a future land engagement but is poorly suited for many other threats that may emerge in maritime or air-dominated domains.

As advanced technologies proliferate to other states and entities, America's military edge is shrinking as many high-tech modernization programs are continuously foregone. As senior Air Force leaders have testified, "Legacy fourth-generation aircraft simply cannot survive to operate and achieve the effects necessary to win in an integrated, anti-access environment."

The services need new and innovative solutions to defeat enemy air defenses and anti-access and area-denial technologies. Part of the solution is stealth, including the Air Force's nascent new bomber and the fleet of F-22 fighters. Another part of the solution includes the integration of electronic, sensor, space and cyber attack capabilities. But whatever the solution or, more likely, the basket of solutions—it is wholly unaffordable under current budget projections.

The level of investment needed in order to finance a credible deterrent posture, maintain robust overseas presence, and at the same time invest in new capabilities that can survive in contested environments is incompatible with ongoing and projected cuts to defense spending. The U.S. simply cannot sustain a global military and superpower posture under current plans.

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The Bottom Line on Sequestration

There is bipartisan opposition in Washington to sequestration, the automatic spending cuts mandated by last year's Budget Control Act -- passed, inconveniently enough, by many of the same people who now rail against it. But the cuts are modest: over the next decade, the federal government will spend about $44 trillion with sequestration, $45 trillion without. And few people are considering the beneficial effects that even those modest cuts could have, both in reducing the nation's debt, and in stimulating economic activity.

In truth, however, neither Democrats nor Republicans are committed to reducing government spending, and both sides have chosen to focus on possible cuts in the military to score political points. President Obama's party hopes to convince Republicans to agree to higher taxes to spare the Pentagon's budget. Such cuts, Secretary of Defense Leon Panetta has said, would be akin to "shooting ourselves in the head." Members of the GOP, for their part, have attempted to protect the Pentagon by appealing for more cuts in domestic spending, although some have signaled a willingness to abandon the "no new taxes" pledge in order to keep the money flowing.

But the most persistent line of argument against sequestration, beyond whether the cuts will undermine the nation's security, is the contention that they will wreck the economy and cast hundreds of thousand into the ranks of the unemployed. In his speech to the Republican National Convention, Mitt Romney claimed that "trillion dollar cuts to our military will eliminate hundreds of thousands of jobs," while the GOP platform predicts that sequestration would accelerate "the decline of our nation's defense industrial base..., resulting in the layoff of more than 1 million skilled workers."

Where do Romney and the GOP get their statistics? From the Aerospace Industries Association (AIA), the trade group representing some of the nation's largest defense contractors. According to the AIA's studies, authored by George Mason University Professor Stephen Fuller, defense cuts under sequestration would result in a decline of about $86.5 billion in GDP in 2013, and the loss of 1,006,315 full-time, year-round equivalent jobs. Fuller even broke the job losses down state by state, providing convenient talking points for politicians in the heat of an election year. Virginia will lose 122,800; Florida will shed 39,200. And so it goes.

Several scholars have challenged the AIA's conclusions. The Brookings Institution's Peter Singer noted that only 1 out of every 70 American workers were involved in aerospace and defense, and no more than 3.53 million jobs -- direct, indirect, and induced -- were sustained by that industry. How then, he asked, could a 10 percent reduction in defense spending result in the loss of one third of all defense-related jobs? The Mercatus Center's Veronique de Rugy was equally skeptical that sequestration would upend the fragile economy. "I understand that catastrophic job losses make a convenient case against sequestration," she wrote at the blog for the conservative *National Review*, "but that doesn't make them true."

Economist Benjamin Zycher showed why they weren't. In a study published by the Cato Institute, Zycher documented how Fuller's study (and others like it) grossly exaggerated the harmful economic effects of spending cuts. Military spending has historically contributed very little to GDP growth, and Zycher therefore concluded that cuts would have little long-term impact on GDP in the future.

But the AIA's approach to spending cuts, and particularly to Pentagon cuts, reveal a deeper conceptual flaw: they ignore the beneficial effects that would result from shifting resources from the military to more productive sectors of the economy. Pentagon spending cuts can be expected -- all other factors being equal -- to generate greater economic activity elsewhere.

Such transitions are certainly difficult for the workers directly affected. But that applies equally to booksellers or music stores as to jet fighter machinists. Competition from Amazon and Kindle drove Borders out of business. The iPod killed Tower Records. In a similar vein, unmanned aerial vehicles and improvements in radar and missile technology may be most responsible for the obsolescence of the F-22 fighter.

The bottom line on sequestration? The Pentagon cuts currently under consideration are small relative to its gargantuan budget, and consistent with those of past post-war draw downs. The United States will maintain a substantial margin of military superiority over any conceivable combination of rivals even if it spends far less than it does today. And cuts in military spending should pay dividends for the economy over the long run.