

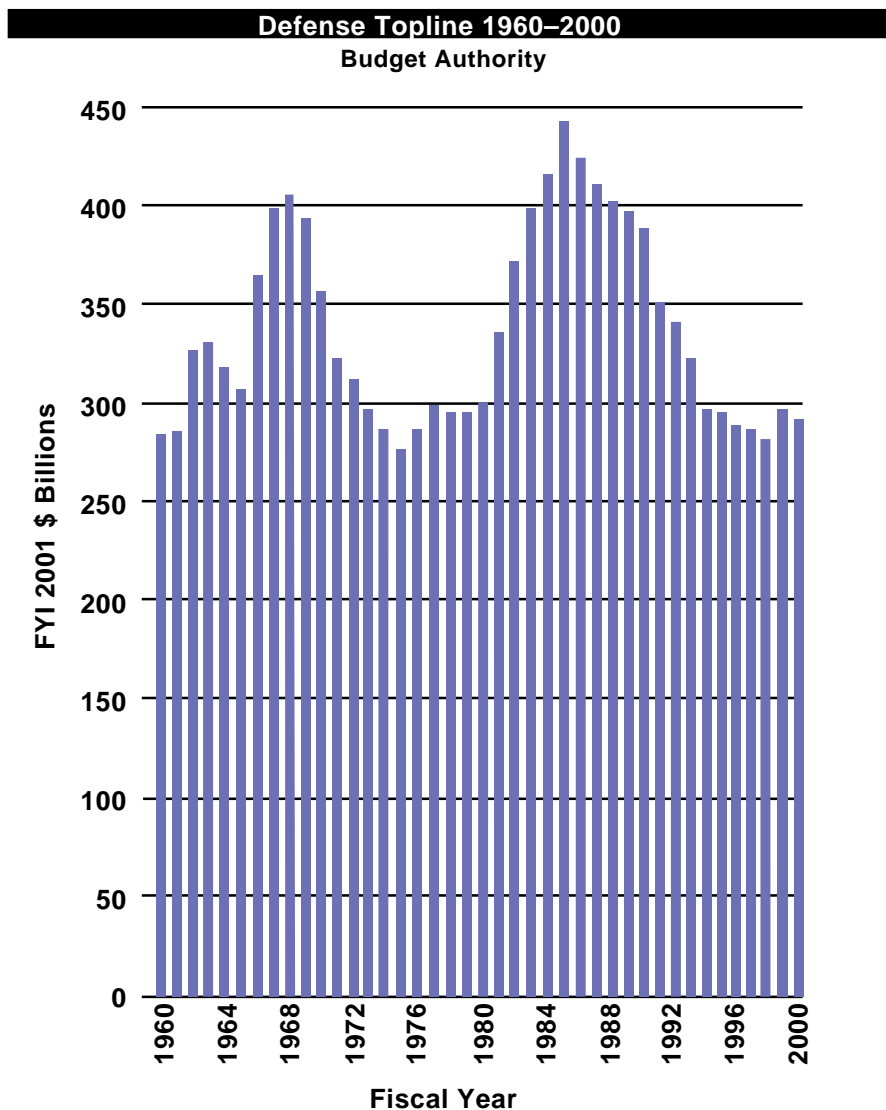
Defense Spending: Illusions and Realities

By Robert S. Dudley, Executive Editor

THE Pentagon budget—specifically, whether and by how much it should be raised—has once again become a hot political topic in Washington. According to the Congressional Budget Office, the federal government in the next decade will run a surplus of \$838 billion (not counting Social Security surpluses). Defense-minded lawmakers and others want to use part of that windfall to beef up the armed services. They seek major budget increases to make up for years of slack funding in the 1990s.

As the charts on these pages show, DoD has just been through its longest year-to-year decline in four decades. Budget reductions resulted, in part, from the collapse of the Soviet threat, but it is now apparent that the cuts went too deep for too long.

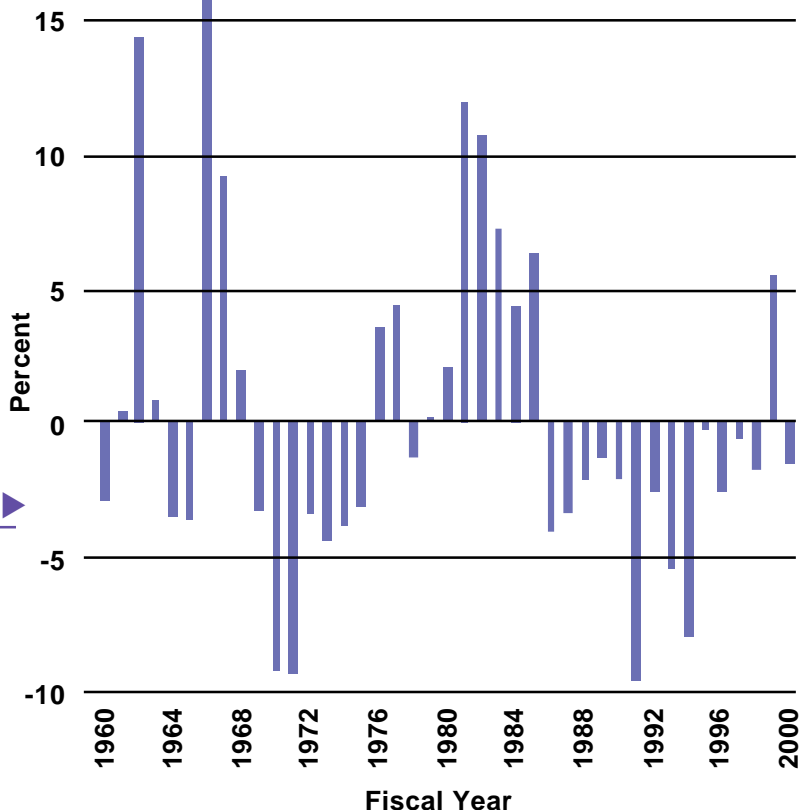
These charts present an array of quantitative measurements of defense spending, its role in the larger fiscal equation, and how the money has been allocated. The financial charts represent new budget authority (value of new DoD obligations) and are expressed as constant Fiscal 2001 dollars, which permits legitimate year-to-year comparisons. (Detailed explanation on p. 64).



Defense Topline

Defense spending has fluctuated greatly over 40 years, ranging from a low of \$272.8 billion in 1975 to a high of \$436.4 billion in 1985. During the past four decades, the US financed two major buildups—one for the Vietnam War under President Lyndon B. Johnson and one for the latter Cold War under President Ronald Reagan. There have also been two major busts—the post-Vietnam defense collapse of the 1970s and the post-Cold War drawdown of the 1990s. As the chart shows, current spending today is again at a low ebb. The most recently enacted defense budget—for Fiscal 2000—is lower than all but eight of the previous 40 budgets.

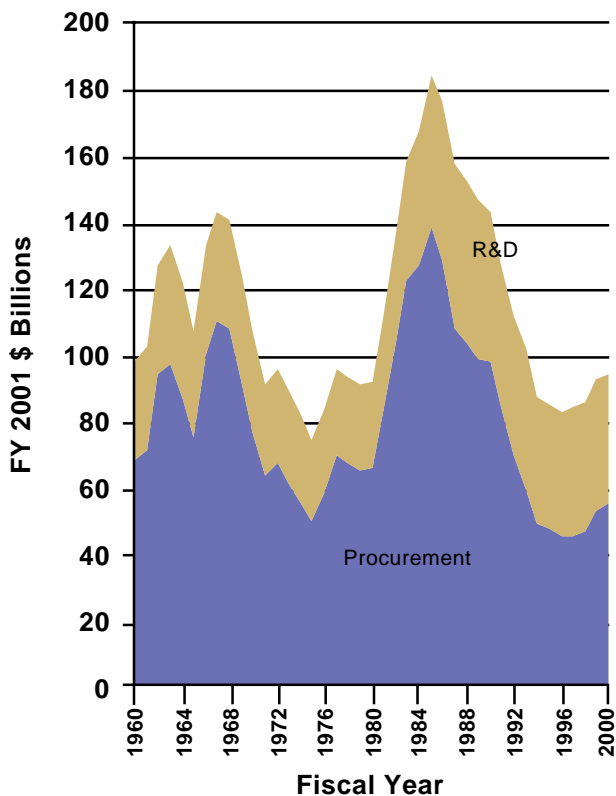
Ups and Downs 1960–2000
Percent Annual Real Growth or Decline



Ups and Downs

The need to pay for the Kosovo air operation generated a real increase in the 1999 program. Before that, however, DoD's budget had fallen every year for 13 straight years. That was the longest decline in the postwar era. Even the post-Vietnam decline of the 1970s lasted only seven years.

Defense Investment 1960–2000
Budget Authority



Defense Investment

Defense investment—that is, provision for the future force—comprises procurement and research and development spending. Ever since 1985, the peak of the Reagan buildup, investment has been plummeting, falling even more rapidly than the budget as a whole. US military power today stems largely from investments made in the Reagan era, and those systems are now reaching advanced age. CBO estimates that it will take \$90 billion a year to maintain a “steady state” in weapon systems. DoD's latest budget proposal provides only \$60 billion.

Illusion vs. Reality

Inflation erodes the purchasing power of the dollar over time. When funding is expressed in current dollars, no adjustment for inflation has been made. This has a distorting effect.

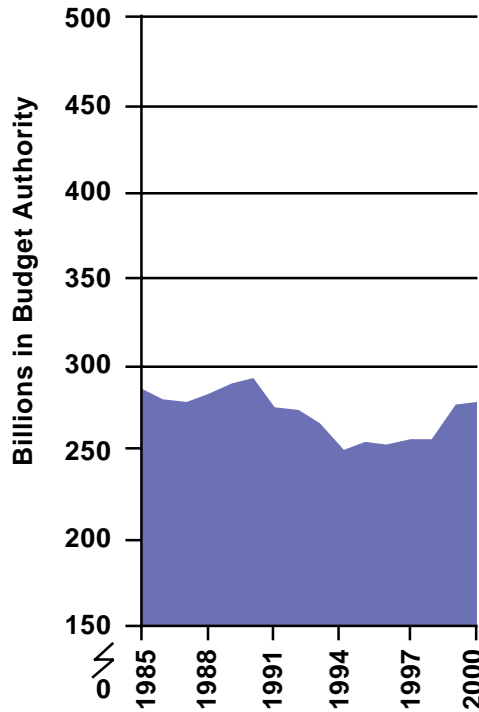
Spending in the past seems less impressive than it really was. The reverse is true of spending in the present or future; though a budget has less real purchasing power, it contains more actual dollars.

Some analysts—including officials at the Pentagon—frequently present data in this way.

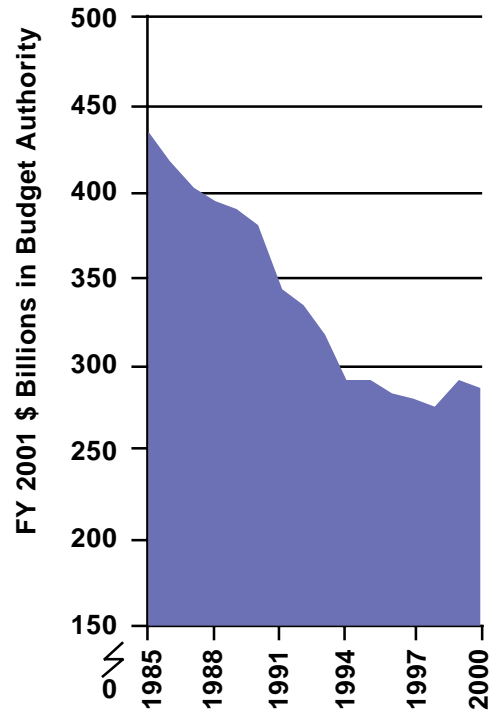
To overcome current-dollar distortion, one must recalculate all defense spending into constant dollars, choosing a single year as a basis for all budgets in a series. Then, true year-to-year comparisons can be made. The differences are readily apparent in the examples on this page.

Total Budget

Current Dollar Illusion

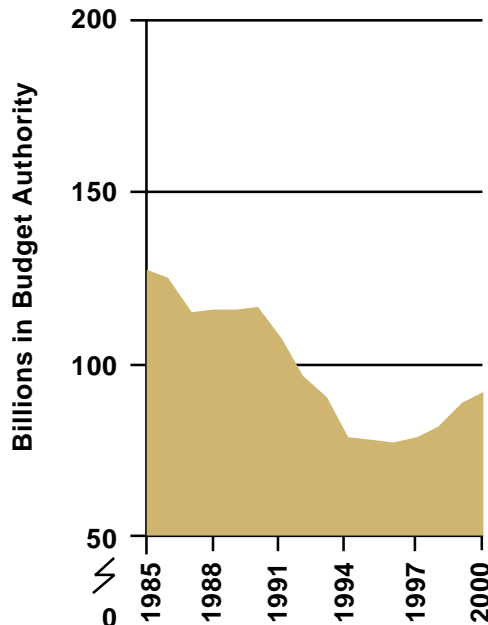


Constant Dollar Reality

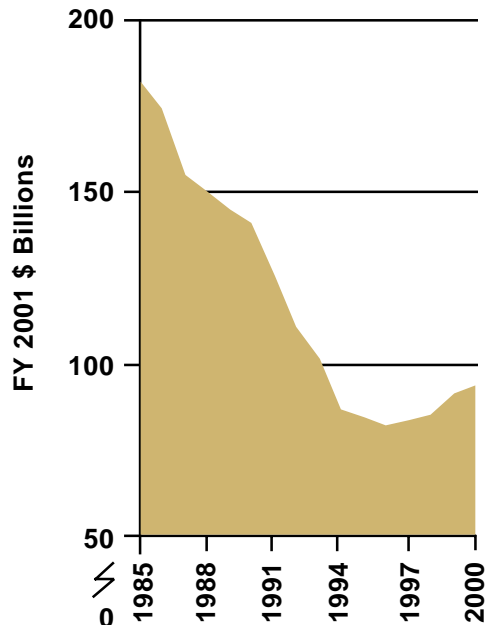


Investment

Current Dollar Illusion

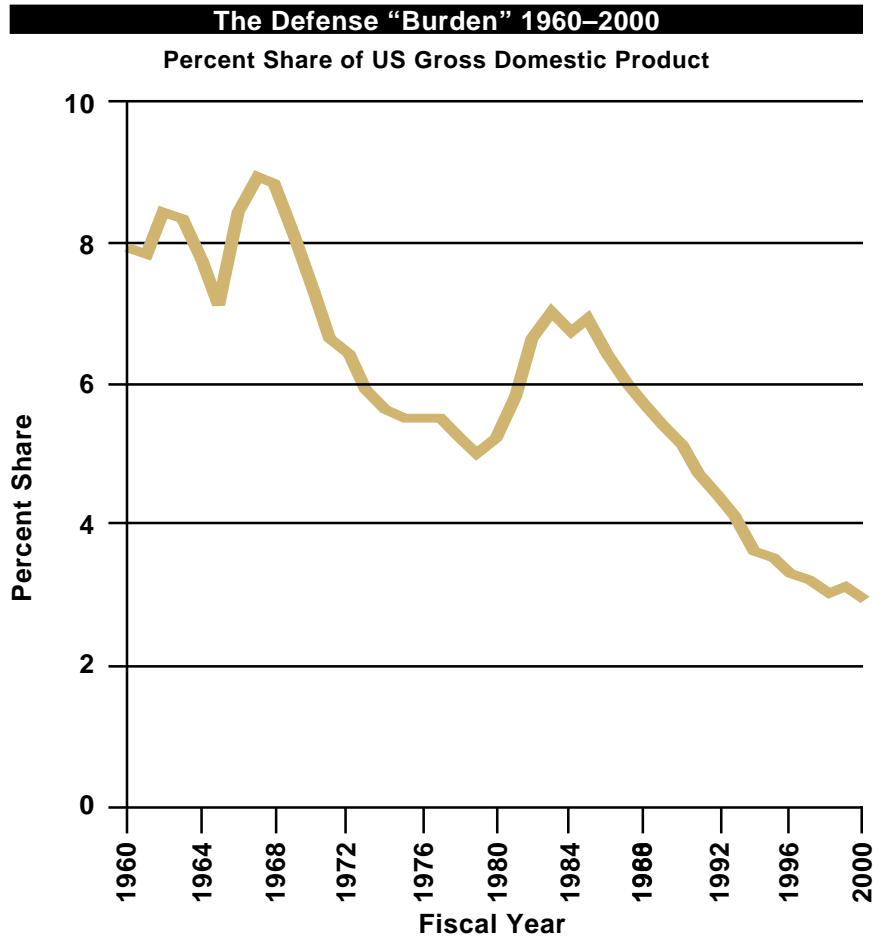


Constant Dollar Reality



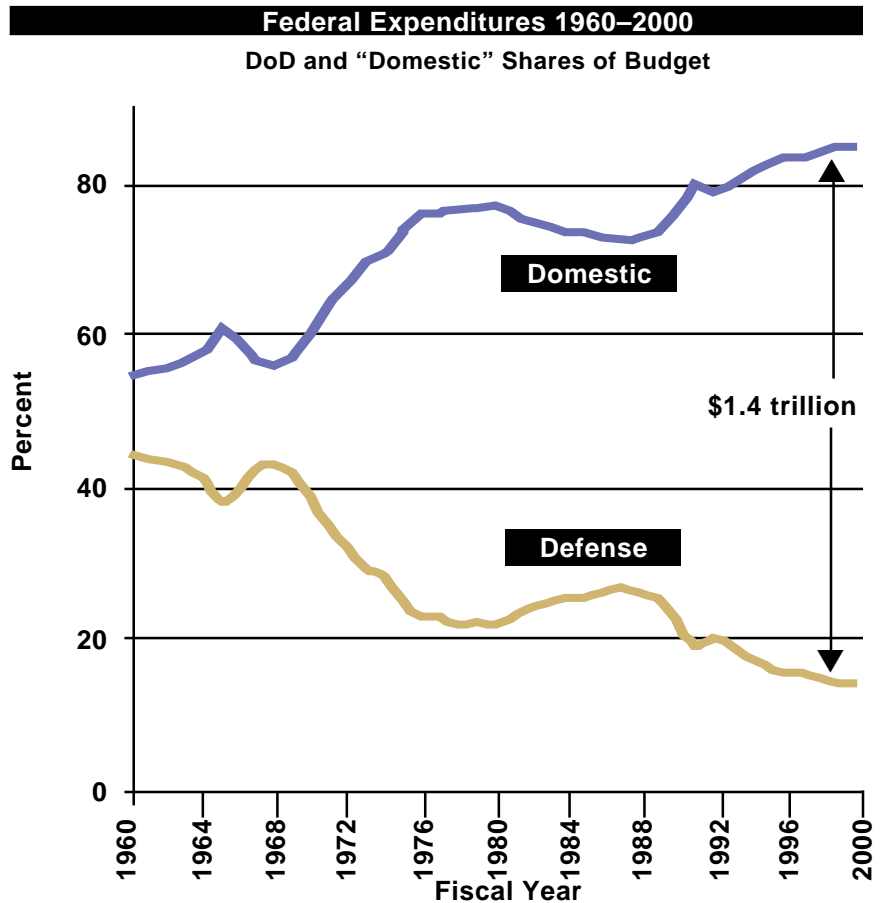
The Defense "Burden"

Critics often speak of the "burden" defense spending places on the US civilian economy, asserting that such expenditures rob the economy of the flexibility and vitality needed to fuel growth. As can be seen, this burden, if it exists at all, has declined dramatically in modern times. During the Kennedy and Johnson Administrations, Pentagon spending exceeded 8 percent of US Gross Domestic Product. Today, the figure stands at about 3 percent and is still going down.

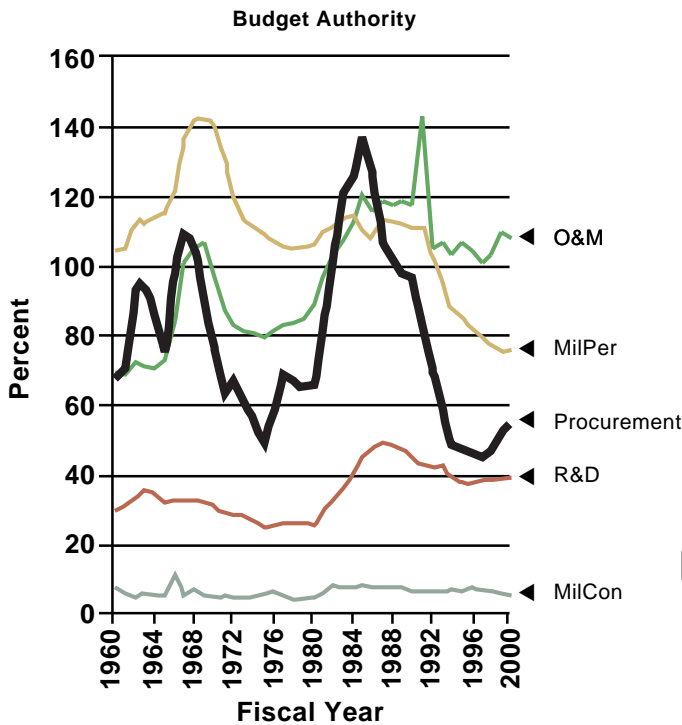


Federal Expenditures

In 1960, the Pentagon consumed 45 percent of the federal budget. Except for brief periods in the 1960s and 1980s, DoD's share has been declining ever since. Today, the figure stands at about 15 percent, a historically low level. This reflects not only cuts in defense but also increases in other forms of federal spending, particularly entitlements such as Medicare and Medicaid. After 40 years of divergence, spending on non-defense "domestic" items this year exceeds defense spending by more than \$1.4 trillion.



Major Categories 1960–2000



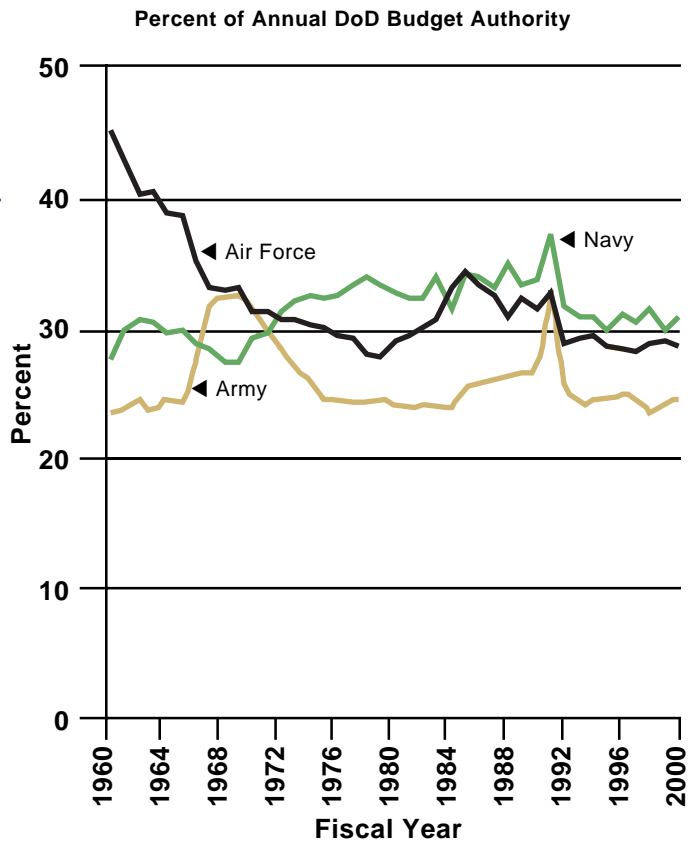
Major Spending Categories

Procurement fell off dramatically in the post-Vietnam War 1970s, picked up again in the 1980s, then fell to near all-time lows in the Clinton era. In contrast, the military has seen real increases in Operations and Maintenance spending—for repairs, consumables, and the like. (The O&M spike in 1991 correlates to the Gulf War, financed largely by coalition allies). The rise in O&M reflects to some extent more robust readiness funding, but also the higher optempo in the 1990s and higher cost of maintaining older weapon systems. Military personnel outlays dropped in the post-Vietnam and post-Cold War force reductions.

Service Shares

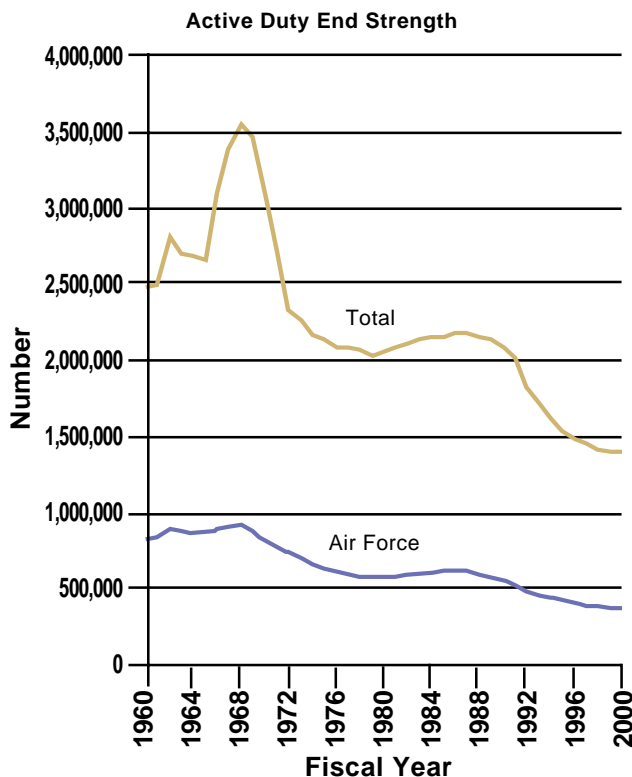
The Air Force's share of the budget relative to the other services fell precipitately in the 1960s. In 1972, the Navy-Marine Corps surpassed it and has held the lead ever since, with the exception of two years in the mid-1980s.

Service Shares* 1960–2000



*Defense agencies line (not shown) averaged \$9.8 billion over the 40-year period.

Troop Levels 1960–2000



Troop Levels

Over four decades, the budget reductions have been mirrored by force reductions—from more than 3.5 million troops at the height of the Vietnam War to fewer than 1.4 million today.