



# Defense & Deficits: How to Trim the Pentagon's Budget—Carefully

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BY JIM ARKEDIS

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## INTRODUCTION

Getting America's exploding deficits and debt under control isn't just an economic and political imperative, it's also vital for U.S. national security. America's military strength and leading role in international affairs rest on the foundation of a dynamic, growing economy. To the extent that runaway public debt undermines prospects for growth and compromises America's economic sovereignty, it also endangers American security.

Let's be clear at the outset: defense spending is not driving the fiscal crisis. True, the wars in Iraq and Afghanistan have contributed to the debt, but that's because President Bush, in a break with wartime precedent, declined to raise taxes to pay for them. The good news is that as the overseas deployments wind down, future military spending is set to naturally shrink.

The structural causes of America's escalating national debt are the unsustainable cost growth of federal entitlements—Social Security, Medicare

and Medicaid—and historically low tax revenues (which reflect both subpar economic growth and the Bush tax cuts). But it has become apparent that as America's political leaders shirk tackling tax and entitlement reform, the burden of debt reduction threatens to fall disproportionately on domestic discretionary spending, including defense.

The first shoe has already dropped. On August 2, President Obama and Congressional Republicans struck a deal that would cut spending by \$2.1 trillion over ten years in exchange for raising the debt ceiling. Among other cuts, the compromise takes an initial bite of \$350 billion from defense spending.<sup>1</sup> The deal also created a Joint Select Committee on Deficit Reduction or “supercommittee” to come up with an additional \$1.2 to \$1.5 trillion in federal savings by the end of the year. If the committee fails, it will trigger a “sequester” that automatically cuts domestic and defense spending across the board. That could mean an additional \$500 billion—if not more—cut from the military.

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## About the author

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All told, defense spending could be reduced from \$850 billion to \$1 trillion over the next decade. Cuts of this magnitude are simply too large. They would jeopardize America's ability to successfully conclude the wars in Afghanistan and Iraq, conduct global counterterrorism operations, and hedge against the rise of new threats—both state and non-state actors—to U.S. security and international order. Absent corresponding reductions in America's global commitments, such large cuts portend exactly what Walter Lippman warned against—foreign policy “insolvency,” in the sense that America's commitments far exceed its means.

The post-Cold War benchmark of three percent of GDP constitutes a floor beneath which defense spending should not be allowed to sink. This decade, a range of 3.0–3.5 of GDP is more realistic. This suggests that the military's budget should be cut by no more than \$600–650 billion—or about 10 percent—by 2021.

Nor would deep cuts in national defense solve the country's fiscal problems. America's national debt now exceeds \$14 trillion and is growing rapidly. Since 2004, it has zoomed from 40 percent to about 70 percent of gross domestic product (GDP), and is on course to exceed 100 percent in the coming decade. There is wide agreement among fiscal experts that policymakers need to cut at least \$4 trillion over ten years just to stabilize the debt at 60 percent of GDP.<sup>2</sup> So even if the new “supercommittee” succeeds in cutting \$2.1 trillion, there's still a long way to go.

Yet the Pentagon should not escape scrutiny, either. The fiscal task before the country is monumental,

and President Obama has rightly called for “shared sacrifice” in crafting a bipartisan solution. This means everything—entitlements, tax revenues, domestic spending and defense—must be on the table.

The military must contribute its fair share to deficit reduction, but it must not be made to pay for America's leaders' inability to grapple with the country's fundamental fiscal challenges. Beyond marginal adjustments, the basic level of defense spending should be set by America's strategic needs, not by a game of fiscal chicken.

Moreover, how defense spending is cut matters almost as much as the cut's size. Across-the-board caps or freezes—as proposed by some leading bipartisan groups—are convenient for political budget cutters, but they are a bad way to wring savings out of national defense. The fact is that not all Pentagon programs are created equally: To ensure that reductions in the military's budget don't disrupt current missions or impair the U.S. military's ability to sustain qualitative technological superiority over the long term, policy makers need to make strategic trade-offs among competing security priorities.

That's because while keeping Americans safe is the federal government's first responsibility, America's military power also underpins its diplomacy and anchors strategic alliances in Europe, the Middle East and Asia. The military cements America's position of world leadership, which rests on the United States' will and capacity to defend liberal democratic values and strengthen global institutions for collective problem solving. I see no evidence that the American people are clamoring for a retreat from these responsibilities.

For all these reasons, heedless cuts in military spending have no place in a progressive strategy for restoring fiscal discipline. In this Policy Brief, I offer pragmatic answers to these questions:

- How much should the Pentagon contribute to defense spending reductions?
- And how do policymakers realize these savings?

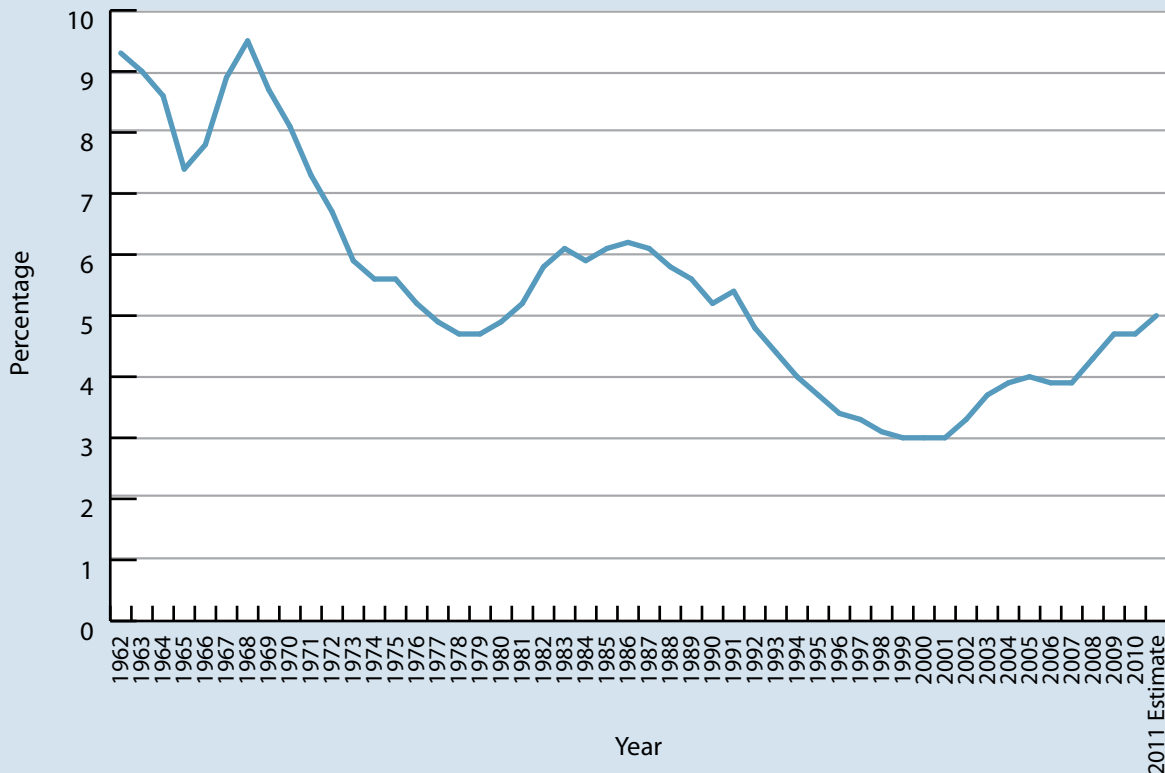
I answer those questions by examining defense spending in an historic and current budget context, break down Pentagon spending by category, distinguish between one-off war spending and on-going military missions, and contrast spending proposals from the political left, right and center. I conclude with a series of strategic guidelines for *how much* and *where* to trim the defense budget.

Based on this analysis, I believe military spending can safely be reduced over the next decade towards the “post-Cold War benchmark” achieved in the late 1990s: After a series of exhaustive strategic reviews, military spending slowly declined throughout the decade and eventually settled at around three percent of GDP by 1998.<sup>3</sup> During peacetime and absent a major nation-state military competitor, this range was deemed sufficient to handle two regional conflicts while maintaining the U.S. military’s high-tech edge and global reach.

Of course, this formula cannot be applied mechanically because the United States is not at peace and faces a different slate of threats than in the 1990s. Therefore, budgeteers must build in some leeway above three percent of GDP to accommodate the following realities: America must conclude the wars in Iraq and Afghanistan; maintain a vigorous, global counterterrorism campaign; assure its qualitative military superiority over potential rivals, such as China; continue to invest robustly in advanced technology; and be prepared for unanticipated contingencies.

That’s why the post-Cold War benchmark of three percent of GDP constitutes a floor beneath which defense spending should not be allowed to sink. This decade, a range of 3.0–3.5 of GDP is more realistic. This suggests that the military’s budget should be cut by no more than \$600–650 billion—or about 10 percent—by 2021.

Chart 1: Defense Spending as a Percentage of GDP, 1962–present



Source: Office of Management and Budget, Historical tables available at [WhiteHouse.gov/omb/budget/Historicals](http://WhiteHouse.gov/omb/budget/Historicals)

In achieving these savings, policymakers should be guided by five rules:

1. Don't let fiscal politics trump U.S. strategy.
2. Cut over time.
3. Focus on personnel costs.
4. Avoid radical surgery to military procurement and research & development.
5. Set a floor beneath defense cuts.

### DEFENSE SPENDING IN PERSPECTIVE

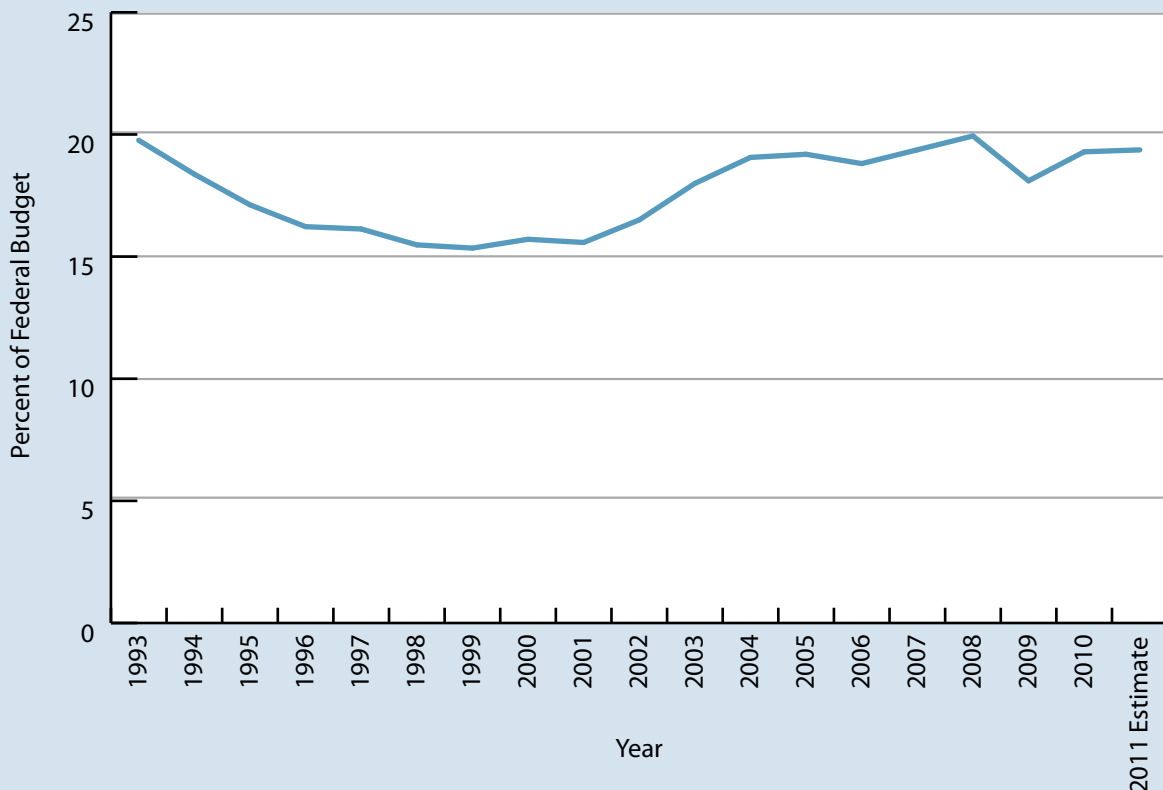
Including the wars in Iraq and Afghanistan, the defense budget is just shy of five percent of GDP today, which includes a \$553 billion baseline budget and a \$117 billion supplemental war spending bill, totaling \$670 billion in 2011. Because of the concluding deployments in Iraq and Afghanistan,

that's a decrease of \$41.5 billion from last year's request.<sup>4</sup> [Chart 1 shows defense spending as a percentage of GDP from 1962.]

The amount is just shy of last year's apex in defense spending authority of over \$700 billion, which has nearly doubled military outlays since 2001.<sup>5</sup> In addition, war spending bills alone have added about \$1.3 trillion to the national debt since late 2001.<sup>6</sup>

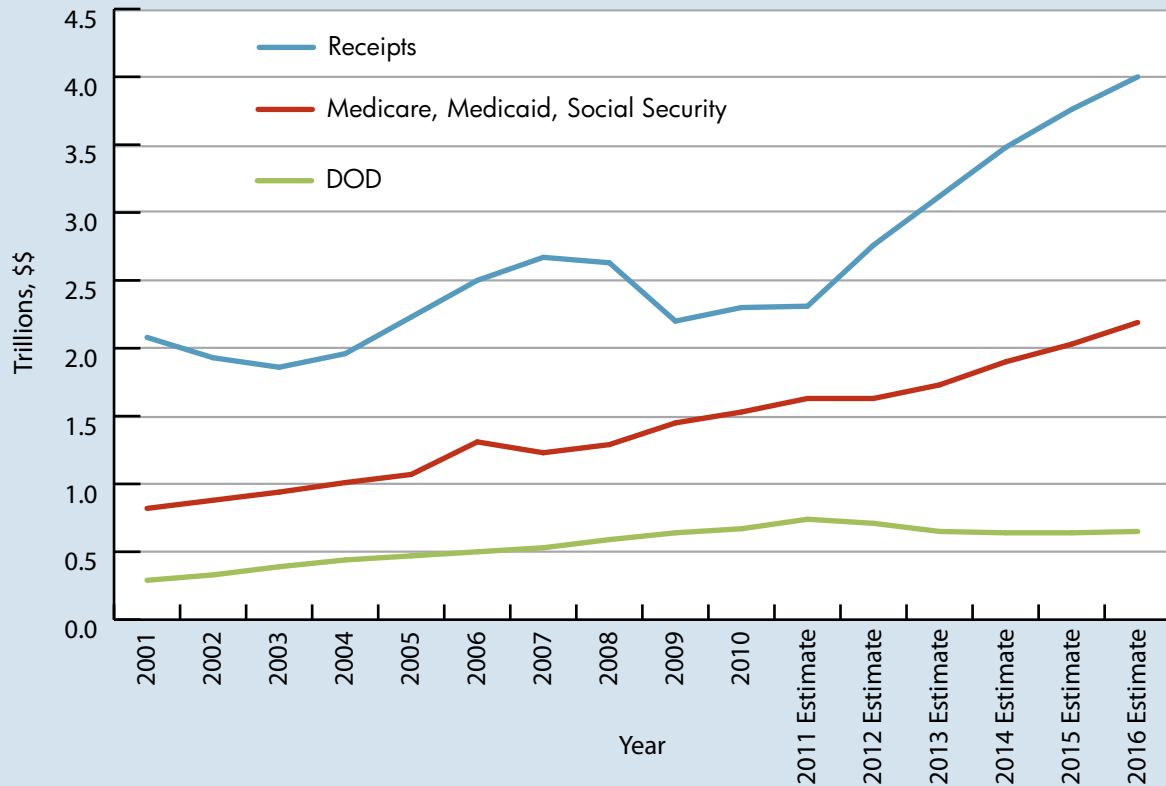
As a percentage of the total federal budget, Pentagon spending today is no higher than at the end of the Cold War, or some 19 percent. That's at the high end, but still within the range, of post-Cold War military budgets as a percentage of total federal spending. Further, as spending for Iraq and Afghanistan recedes with the deployments' conclusion, the defense budget will naturally drop well within the normal 15–20 percent range of the federal budget. [See Chart 2.]

Chart 2: Defense Spending as Percent of Annual Federal Spending



Source: Office of Management and Budget, Historical tables available at [WhiteHouse.gov/omb/budget/Historicals](http://WhiteHouse.gov/omb/budget/Historicals)

Chart 3: Revenues vs. Entitlements vs. Defense



Source: Office of Management and Budget, Historical tables available at [WhiteHouse.gov/omb/budget/Historicals](http://WhiteHouse.gov/omb/budget/Historicals)

While base defense spending remains within recent norms, entitlement programs and tax revenues do not.

Chart 3 compares the trajectory of entitlement programs (Medicare, Medicaid, and Social Security), government revenues, and defense spending from 2001 through 2011.

The recent history of these programs is telling. Entitlements have nearly doubled since 2001, from \$822 billion to over \$1.6 trillion annually in 2011, and the Office of Management and Budget (OMB) believes they will continue growing another 35 percent by 2016 to almost \$2.2 trillion per year. While total military spending has grown almost twofold, in absolute levels, the Pentagon's budget

is only 45 percent of entitlement spending and will decrease as the wars conclude.<sup>7</sup>

Meanwhile, federal revenues languish at pathetic rates. They've only risen 11 percent between 2001–2011 even though the United States' GDP has grown by approximately 47 percent.<sup>8</sup> Estimates of future revenues in Chart 3 are based on the prospect of bipartisan compromise to raise them, which is hardly guaranteed in this political climate.

Todd Harrison of the Center for Strategic and Budgetary Analysis (CSBA) summarizes the situation:<sup>9</sup>

[T]he costs of Social Security, Medicare, and net interest on the national debt are expected to grow faster than the defense budget, making

defense a relatively smaller share of the budget over time. Together, these three metrics indicate that defense spending is at a high level by historical standards but is affordable given the size of the U.S. economy and is consistent with modern-day norms as a portion of overall federal spending.

### STARTING POINTS FOR DEBATE

Based on current Pentagon spending plans, the Congressional Budget Office estimates that by 2021, the military will spend a total of approximately \$6 trillion in its baseline budget.<sup>10</sup> Including, by my estimate, \$465 billion in residual war costs,<sup>11</sup> it's reasonable to assume that the next decade will see \$6.465 trillion of defense spending, or 3.7 percent of United States' GDP over that period.<sup>12</sup>

Former Defense Secretary Robert Gates waged highly public battles with the military brass and Capitol Hill to kill programs he believed ill-suited for America's current wars. He curtailed funding for the F-22, a next generation tactical air fighter, called for reductions in contractors, thinned the ranks of senior officers, and closed down unnecessary commands. He posed "heretical" questions about such service favorites as aircraft carriers, and he raised alarms about exorbitant military healthcare costs.

Late in 2010, Gates announced \$178 billion in future Pentagon savings, colloquially known as the "Gates efficiencies." Seventy-eight billion dollars of that sum is destined for deficit reduction, while \$100 billion is supposed to be reinvested in the Pentagon's modernization plans. At this level, the Gates efficiencies slow the rate of growth of future budgets, but would not save money in absolute terms. On the contrary, Gates argued that defense spending needed to grow one percent above the rate of inflation to meet military needs.<sup>13</sup>

Going further, in an April address at The George Washington University, President Obama called for a defense cut of \$400 billion over the next twelve years.<sup>14</sup> This would mean holding defense spending growth to the rate of inflation,<sup>15</sup> rather than achieving absolute savings.<sup>16</sup>

With the summer debt ceiling deal and creation of the debt reduction supercommittee, these efforts have been overtaken by events: Clearly Congress is headed toward absolute cuts in military spending, rather than slowing its growth. The key now is to avoid the worst—triggering the "sequester" option that indiscriminately slashes defense—and to trim the Pentagon's budget absolute terms, but in ways that do not undermine vital security goals.

### DEFENSE SPENDING: LEFT, RIGHT, AND CENTER

To get a better feel for the contours of the defense spending debate, I offer a brief survey of leading proposals for the future of Pentagon budgets from across the ideological spectrum. Below, I examine military spending proposals from left, right, and center organizations, all of whom have forwarded plans within the past year. With the exception of the Progressive Caucus, all these plans exclude war costs.

The left's plans cut too deeply and too quickly, in a manner that could jeopardize the country's ability to successfully conclude its military deployments or project power on a global scale....The right's tendency to issue blank checks is problematic at any time, virtually inviting Pentagon waste and bloat.

### VIEWS FROM THE LEFT

Several left-leaning organizations call for slashing the defense budget below the three percent threshold, which would force big changes in U.S. security and foreign policy.

The **House Progressive Caucus**,<sup>17</sup> which best reflects the views of anti-war Democrats, calls for the deepest reductions in defense spending. Its plan

would cut off war funding immediately, saving \$1.6 trillion over ten years from DOD’s projected \$6.465 trillion in military spending. Defense spending would shrink to around \$4.8 trillion, or about 2.8 percent of GDP.<sup>18</sup>

In addition to ending war funding, the Progressive Caucus calls for “[D]ecreasing routine deployment of U.S. troops overseas, reducing the size of the Army and Marine Corps, reducing the fleet size of the U.S. Navy, reducing the number of Air Force squadrons, and canceling outdated Cold War weapon systems.”

This blueprint ignores rising military welfare costs, boasting that its plan “does not touch Tri-Care,” a reference to Tri-Care For Life, the military’s health insurance policy for military retirees and their families that has grown increasingly costly over the last decade.

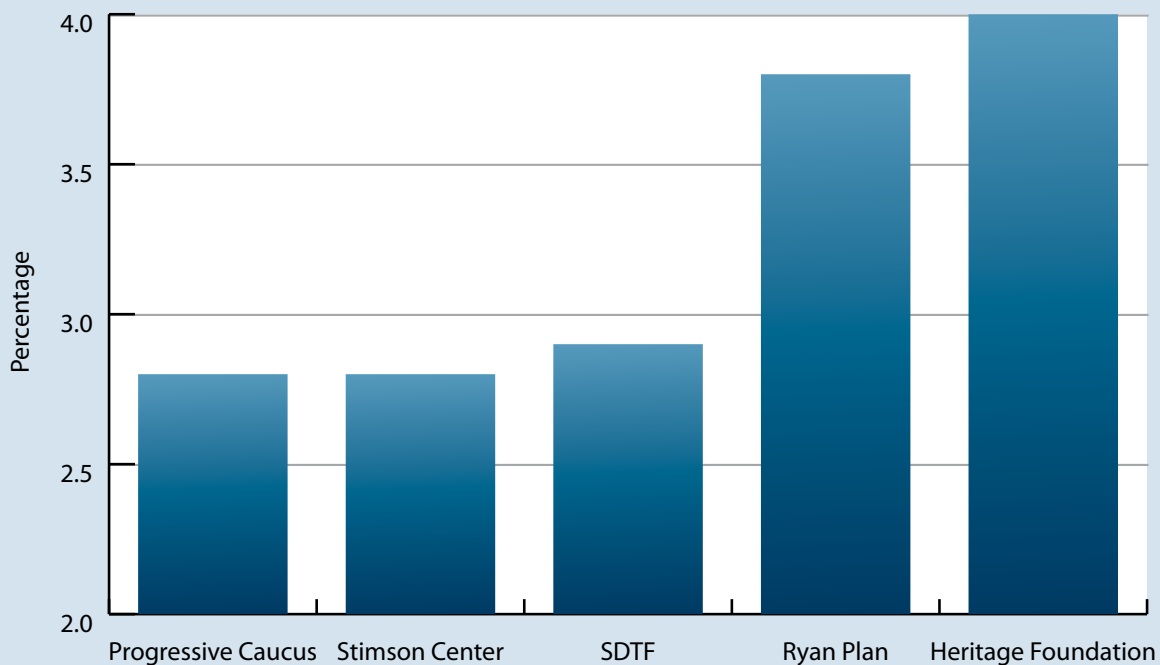
The **Stimson Center** calls for cutting defense’s baseline budget by \$788 billion in just seven years.

Extrapolating that level of cuts through to 2021 at the same spending pace and taken against DOD’s \$6 trillion in baseline spending over that period, Stimson’s plan would allocate approximately \$4.8 trillion to defense, or 2.8 percent of GDP.<sup>19</sup>

“Spending less means doing fewer things,” note Stimson Center colleagues Gordon Adams and Matthew Leatherman in an intellectually rigorous plan proposed in an early 2011 article in *Foreign Affairs*.<sup>20</sup> They call for the United States to shed mission capabilities in counterinsurgency, stabilization operations, and training local security forces.

They envision the military could achieve further savings by: “[R]educing the active-duty force by 275,000 troops, to 1.21 million; cutting programs that are redundant, underperforming, or linked to low-priority missions; restraining military compensation, health-care, and retirement costs; and reforming the intelligence community.”

Chart 4: Spending of DOD Budget Proposals as Percentage of GDP



Source: Various; author’s calculations

The **Sustainable Defense Task Force** (SDTF)<sup>21</sup> unites liberal Rep. Barney Frank (D-Mass.) and GOP libertarian Rep. Ron Paul (R-Texas) in cutting \$960 billion below projected military budgets by 2021. The Task Force offers a hodgepodge of options for slashing defense spending, but no strategic rationale for such changes. Under its approach, the Pentagon would spend just over \$5 trillion, or 2.9 percent of GDP in the next decade.

### VIEWS FROM THE RIGHT

In the August 2 debt ceiling deal, many Republicans voted to cut \$350 billion from defense. Notwithstanding this vote—as well as a decidedly atypical plan by Sen. Tom Colburn (R-Okla.) to cut more than \$1 trillion from DOD’s budget<sup>22</sup>—conservatives generally favor spending more on defense, not less. Here is a glimpse of some representative proposals:

In early 2011, House Republicans voted enthusiastically for a budget drafted by **Rep. Paul Ryan** (R-Wisc.), House Budget Committee chairman.<sup>23</sup> Little noted amid the controversy over Ryan’s ideas for reforming Medicare was the fact that his budget would increase defense spending over current DOD plans by 2021. Ryan’s baseline defense expenditure will equal nearly \$6.6 trillion, or approximately 3.8 percent of GDP over the next decade. There’s no mention of specific spending priorities.

The **Heritage Foundation’s** budget, “Saving the American Dream,”<sup>24</sup> calls for defense spending of approximately four percent of GDP “for the foreseeable future.” Based on Congressional Budget Office GDP projections, the Heritage approach would cost nearly \$7 trillion by 2021, excluding war costs.

Heritage envisions the military budget falling to four percent by 2017 and maintaining that level in perpetuity. To be sure, the Heritage plan urges DOD to address “significant levels of wasteful spending” and find “efficiencies in logistics and acquisition processes.” It also advocates reforms in compensation and benefits so long as they do not affect future recruitment and retention efforts.<sup>25</sup>

Republican presidential contender **Mitt Romney** has supported the 4-percent-rule for defense spending in his book *No Apology*.<sup>26</sup> Texas Governor **Rick Perry**, another leading candidate for the GOP nomination, has not endorsed a defense spending plan.

### THE CENTRIST APPROACH

Falling between the ideological poles are several defense blueprints that strike more reasonable balances between the twin imperatives of reducing America’s debts and preserving a full-spectrum military.

In 2010, the president established the **National Committee on Fiscal Responsibility and Reform** (known also as the **Bowles/Simpson Deficit Reduction Committee**) to forge a bipartisan compromise on deficit reduction. Their report, released in December 2010, advocates a cap on discretionary spending, which would be frozen in 2012 before being brought down to pre-crisis (2008) levels in 2013. After 2013, budgets will be capped to rise at about half the rate of inflation until 2020.

This plan lumps the DOD, intelligence, Homeland Security and international affairs budgets under the banner of “security” spending. When defense is split out from the rest of security spending, Bowles/Simpson would cut approximately \$700 billion from the military by 2021, equal to some \$5.3 trillion in baseline defense spending and 3.0–3.1 percent of GDP.<sup>27</sup>

The **Rivlin/Domenici plan** (published by the **Bipartisan Policy Center**) freezes the Pentagon’s budget for five years, before capping its growth at the inflation rate thereafter. This plan would save just shy of \$650 billion against currently scheduled spending of \$6 trillion, approaching nearly \$5.35 trillion in military expenses by 2020, roughly the same range as the Bowles/Simpson plan.<sup>28</sup>

The Rivlin/Domenici report achieves savings by “[S]ubstantially shrinking personnel by 275,000 and redeploying some 80,000 troops home from Europe and Asia; reducing R&D funding; can-

celling hardware programs like theater missile defense, the V-22 Osprey, an Army surveillance blimp, and the F-35 fighter; deferring the Virginia-class attack submarines; reducing DOD's intelligence budget; reforming Tri-Care; and applying Secretary Gates' \$100 billion efficiency savings to deficit reduction."

## SUMMARY OF IDEOLOGICAL PROPOSALS

The left's plans cut too deeply and too quickly, in a manner that could jeopardize the country's ability to successfully conclude its military deployments and project power on a global scale. This would likely make the world less stable, and make America less secure as a result.

Furthermore, it's not in conservatives' DNA to advocate for fiscal responsibility where Pentagon spending is concerned. The right's tendency to issue blank checks is problematic at any time, virtually inviting Pentagon waste and bloat. But it is particularly so now, when the country's exploding debts may undercut future growth and threaten to compromise America's economic sovereignty. Moreover, exempting the military from cuts—coupled with conservative anti-tax absolutism—can only mean unacceptably large budget cuts in progressive programs, whether discretionary or entitlements. Not only is this stance morally untenable, it also guarantees political gridlock.

The centrist plans get the scale of military spending reductions about right, but suffer from two drawbacks: First, they generally advocate a freeze in spending, rather than offering strategic guidance as to which military accounts should be cut and which must be protected. If Congress is going to sensibly reduce the defense budget, reductions must be tied to a strategic rationale that allows the Pentagon to shrink while concluding the wars, planning for contingencies, and guarding against future threats.

Second, while the centrist plans implicitly allow war spending to continue, they offer little guidance as to the timeframe for cuts from the Pentagon's baseline, which could effect successful conclusions in Iraq and Afghanistan. Deep cuts must be deferred until the wars conclude.

## FIVE RULES FOR RESPONSIBLE CUTS IN DEFENSE

The bottom line is that cutting the defense budget is an enormous and complex task, and policymakers need clear guidelines to help them strike a responsible balance between America's fiscal needs and strategic imperatives. Based on the review above, here are five simple rules aimed at achieving this delicate result.

### Rule 1: Don't let fiscal politics trump U.S. strategy.

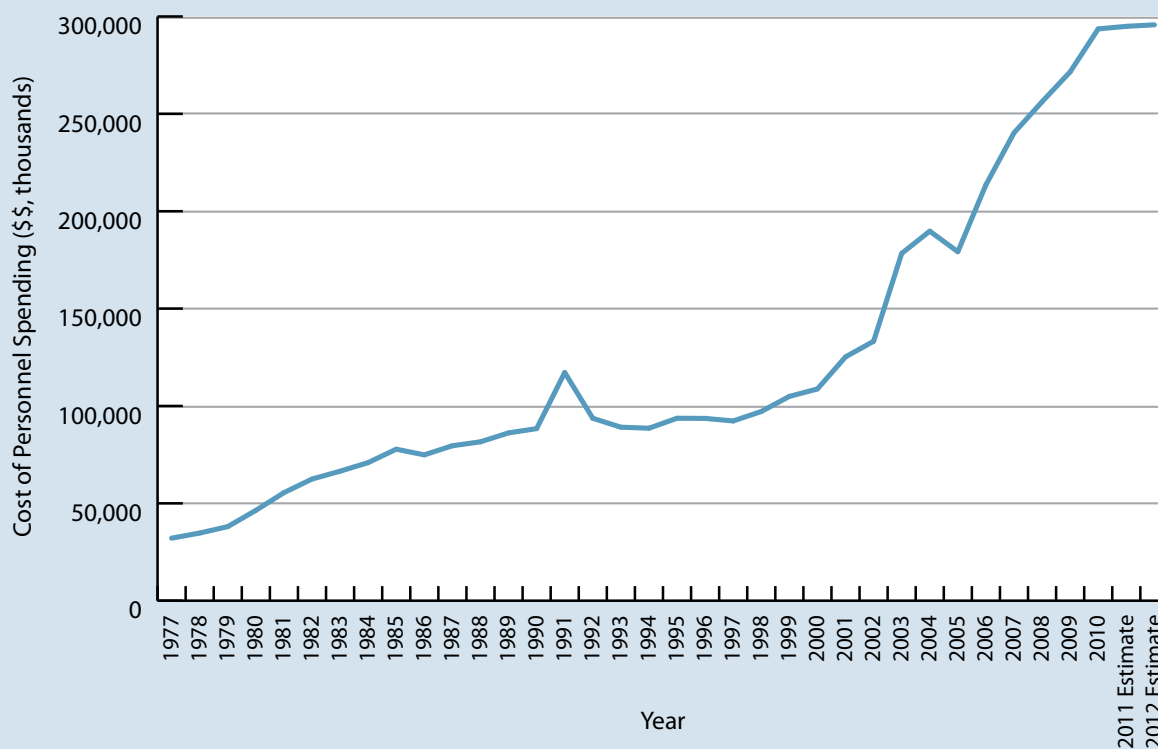
Reductions in defense spending can't be made in a strategic vacuum. As President Obama said in his April 2011 speech at The George Washington University,<sup>29</sup> spending cuts and a strategic review must go hand-in-hand. He was probably referring to the Pentagon's Roles & Missions Review, which must be completed this year to have an effect on the 2013 budget.<sup>30</sup>

In any event, substantial cuts in defense mean real reductions in capability. It's always possible to find inefficiencies and redundancies in the labyrinthine military budget, but the Pentagon doesn't keep accounts marked "waste, fraud, and abuse" that can be painlessly eliminated for major budget savings. While some waste—like \$60 billion as recently discovered by the Commission on Wartime Contracting<sup>31</sup>—can be eliminated, the truth is that the deeper the cut, the more likely it reduces military muscle. That's why decisions that might jeopardize the military's mission performance shouldn't be made in a frenzy of horse-trading on Capitol Hill.

America cannot maintain a robust internationalist foreign and security policy on the cheap. It's frequently noted that the United States spends more on defense than the next ten biggest spenders combined. Some critics regard this as slam dunk proof that Washington spends "too much" on security. In fact, this statistic tells us very little.

The United States spends so much on its military because its political leaders made a strategic decision after World War II: America could draw on its unique combination of size, burgeoning economic might, and the broad appeal of its liberal democratic institutions to fill the post-war power vacuum and assume a role of global leadership. In other words, America decided not only to defend

Chart 5: Personnel Spending



Source: Office of Management and Budget, Historical tables available at [WhiteHouse.gov/omb/budget/Historicals](http://WhiteHouse.gov/omb/budget/Historicals)

itself but to use its might to maintain regional balances of power, to underpin alliances with liberal democracies in mutual defense pacts, and, crucially, to build international institutions for collective security and problem-solving.

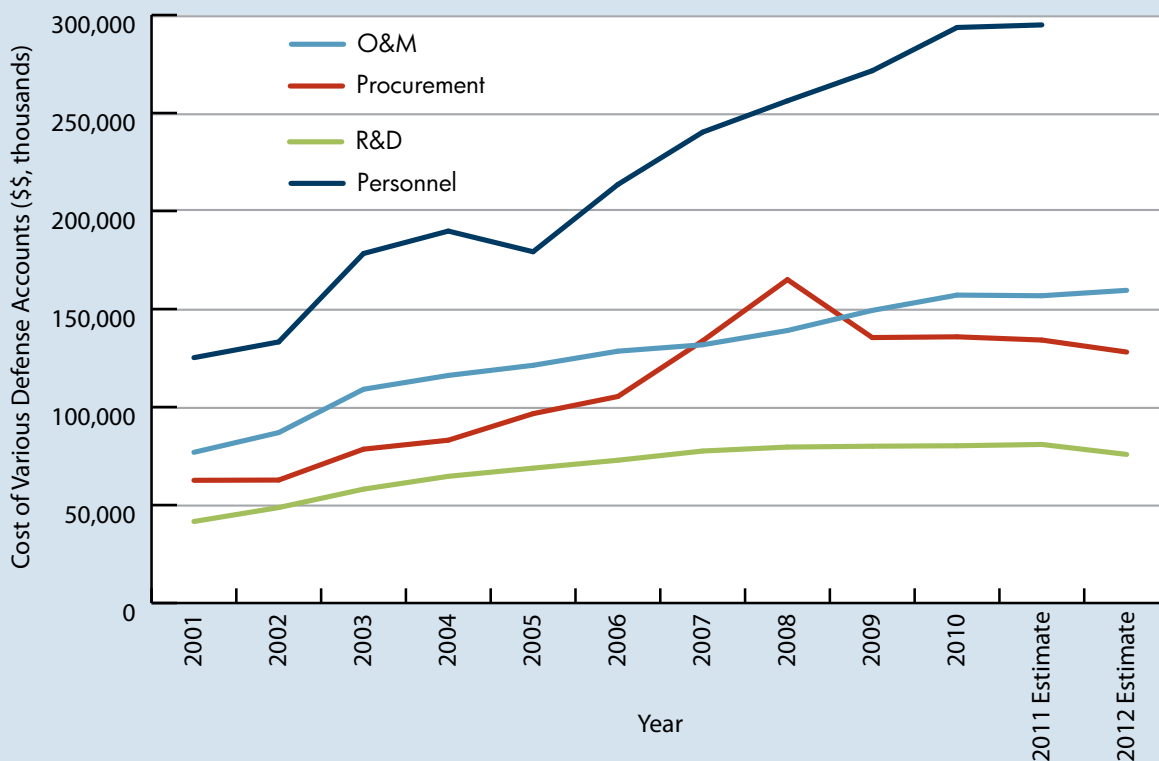
America's national commitment to global leadership has advanced the United States' vital interests by creating a safer, more prosperous and freer world. Yes, America's leaders have made mistakes, and will undoubtedly make more. But notwithstanding much glib talk of a "post-American world," there is no nation or combination of nations willing or capable of taking America's place as the prime catalyst for global cooperation. American power will remain the main ballast for international stability for decades to come, and no country is likely to duplicate the mix of strengths that prompts the world to look to the United States for leadership. Both the left's plans for reducing

America's role in the world and the right's drive for an implicitly military-lead foreign policy jeopardize the successful internationalist role that American administrations have claimed for decades.

**Rule 2: Cut over time.** Whatever the size of the military's contribution to debt reduction, spending cuts must be phased in gradually. Plans from across the ideological spectrum, even including the centrist ones, err by imposing immediate spending freezes. This could provide Pentagon with insufficient time and flexibility to manage America's disengagement from the wars in Iraq and Afghanistan effectively, or could prompt overly severe cuts elsewhere.

U.S. troops are slated to withdraw fully from Iraq in 2012—though the possibility exists of keeping residual forces there upon request from the Iraqi

Chart 6: Defense Accounts Since 2001



Source: Office of Management and Budget, Historical tables available at [WhiteHouse.gov/omb/budget/Historicals](http://WhiteHouse.gov/omb/budget/Historicals)

government—and from Afghanistan in 2014. The lion share of cuts in force end-strength therefore will not occur until after 2014 at the earliest. In any event, the United States will eventually reap significant savings in personnel, and in personnel-associated operations and maintenance (O&M) costs.

**Rule 3: Focus budget cuts on personnel costs.**

Since 2001, the military has fought magnificently to protect the country and advance its foreign policy aims. The United States owes a tremendous debt of gratitude to the men and women who have put life and limb on the line.

But policymakers must acknowledge a simple truth: people are by far the military’s most expensive weapon.<sup>32</sup> The size of the armed forces is the single most important variable in determining how much America spends on defense.

The Center for Strategic and Budgetary Analysis (CSBA) estimates in an analysis of the 2012 budget that the Pentagon spends \$250 billion on personnel, drawing from accounts beyond the one officially bearing the “personnel” title:<sup>33</sup>

This funding supports the direct costs of 1.5 million active-duty troops and 784,000 DOD civilian employees. Some \$148 billion of this total is in the military personnel title of the budget, which funds pay, allowances, and some of the benefits for active and reserve members of the military. An additional \$32 billion for the Defense Health Program is included in the operations and maintenance title of the budget. The remaining \$70 billion for DOD civilian personnel is spread across various accounts in the defense budget, mostly in O&M.

Other personnel-related statistics are just as striking: In 2009, the Government Accountability Office estimated that pay, benefits, and compensation for Army personnel had risen 23 percent between 2001-2007.<sup>34</sup> This is nothing new: steadily rising per-capita personnel costs have been a trend since the mid-1970s, when the military became an all-volunteer force. [See Chart 5.]

Moreover, in March 2011 congressional testimony, Secretary Gates noted that health care costs have risen sharply, increasing from \$19 billion in 2001 to \$52 billion last year,<sup>35</sup> and are “eating the Defense Department alive.”<sup>36</sup> Left unchecked, personnel spending will begin to crowd out other areas of necessary spending to keep the military up-to-date.

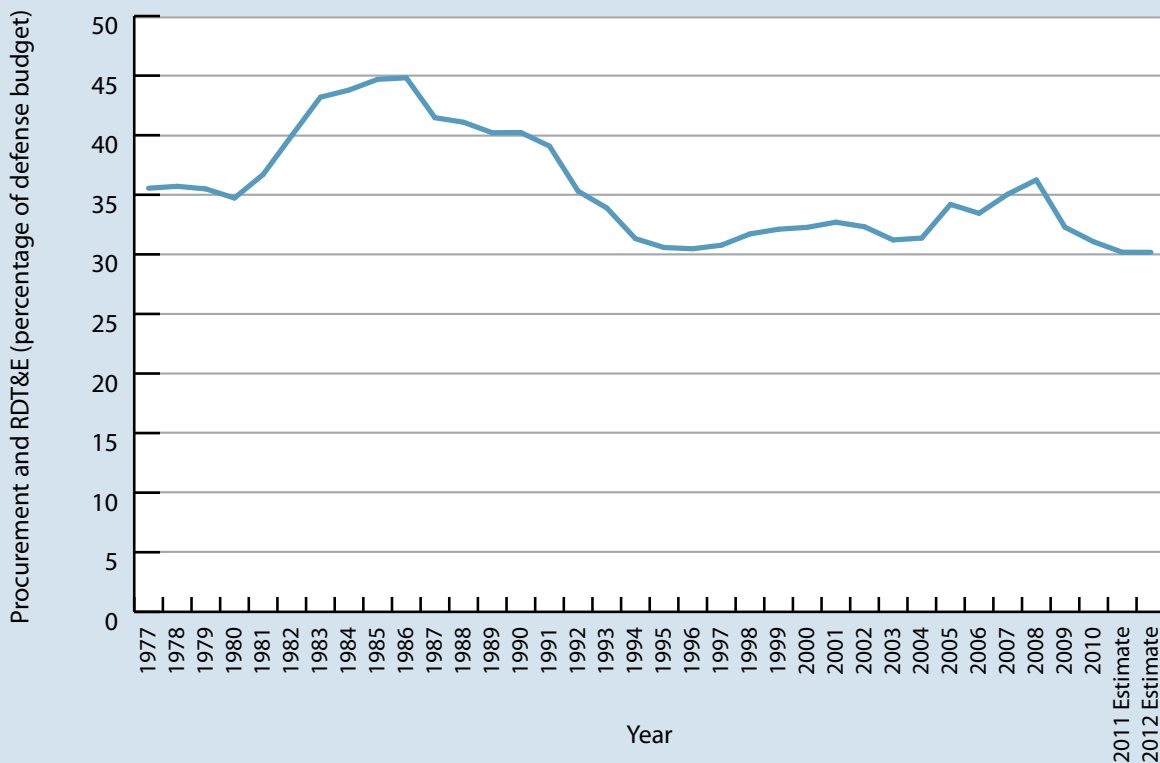
Reductions in personnel accounts will come, in part, naturally: Currently, the Army and Marine

Corps are planning to maintain end-strength numbers through 2014 and 2016, respectively, before cutting five percent of active duty troops once Iraq and Afghanistan have been concluded.<sup>37</sup> Separately, the Congressional Budget Office estimates that simply returning the Army and Marine Corps to pre-2007 levels over ten years would yield savings of \$93 billion.<sup>38</sup>

But additional reforms in the personnel accounts are necessary, namely larger reductions in end-strength of the Army and Marine Corps more (particularly the inflated number of support troops), consolidating bases abroad, reforming Tri-Care, reducing the number of DOD civilian employees and contractors, and freezing pay and retention benefits.

**Rule 4: Avoid radical surgery to military procurement and research & development.** These accounts

Chart 7: Percent of Defense Budget Composed of Procurement and RDT&E Accounts



Source: Office of Management and Budget, Historical tables available at [WhiteHouse.gov/omb/budget/Historicals](http://WhiteHouse.gov/omb/budget/Historicals)

are essential to maintaining a robust defense industrial base as well as the U.S. military's comparative advantages in high-tech systems and weapons.

As Iraq and Afghanistan have begun to wind down, spending in procurement and Research, Development, Testing and Evaluation (RDT&E) has begun to level off in absolute terms.

[See Chart 6, which compares Operations & Maintenance (O&M), procurement, RDT&E and personnel accounts from 2001-2011.] Congress and the administration must be wary of further cuts to these accounts.

The relatively tranquil 1990s saw a "procurement holiday," which ended abruptly as the Bush administration ramped up for the "Global War on Terrorism," in addition to the Afghanistan and Iraq deployments. Both the procurement and RDT&E budgets have flattened recently, though the O&M budget, which includes major costs for the military personnel, continues to increase along with the personnel account.

Not every weapons system is sacrosanct, of course, and like Secretary Gates before him, Defense Secretary Leon Panetta must continue to scrub service wish lists of weapons systems ill-suited to day's conflicts or tomorrow's strategic challenges and continue to scrutinize those with massive cost overruns. For example, cutting new ground vehicle designs slated for the Army and Marine Corps—both of which have been criticized as of dubious strategic value—could save some \$16 billion over ten years, according to the Congressional Budget Office.<sup>39</sup>

Robust spending on procurement and RDT&E is critical to maintaining America's technological lead in everything from pilotless drone aircraft now deployed against al Qaeda's leadership to Mine-Resistant Ambush-Protected vehicles that saved thousands of service members' lives in Iraq. And some products, like radar, the Internet, and GPS, began life as military projects before being scaled-up for widespread civilian benefit.

Moreover, these accounts sustain America's defense industrial base, a key strategic asset whose health is crucial to the ability to surge production

in future crises. Major defense contractors have decreased in number from 30 to 5 over the course of the last 15 years, as they have acquired one another in a bid to remain competitive as military procurement underwent drastic realignment after the end of the Cold War.<sup>40</sup> Such a highly-specialized, monopsonistic industry requires sustainable demand from its customer so as to plan future investments in production capacities.

In short, as the military's end-strength shrinks, more of its striking power must be maintained in the weapons, logistics, and high-tech platforms. In the National Defense University's *Joint Forces Quarterly*,<sup>41</sup> Thomas Davis and Nathaniel Fick explain the trade-off between force end-strength and technological innovation as it pertains to defense manufacturing:

The modern (defense industrial base) is not only much smaller in size, but it also produces a much smaller and enormously more sophisticated product line. ... One major reason for this change is clear: with the abandonment of conscription and the transition to the all-volunteer force in the early 1970s, smaller numbers of volunteer service members had to be much better and more elaborately equipped than their predecessors.... Given these requirements for success in modern conflicts, it is not surprising that even as the numbers of men and women in the Armed Forces have fallen, the costs of equipping them on a per capita basis have increased significantly.

Since 1977—the first year for which the OMB provides records—the combined level of procurement and RDT&E spending has never dipped below 30 percent of the total defense budget. This is true even during the Clinton era's "peace dividend" when defense spending fell towards three percent of GDP. Today, the combined percentage of procurement and RDT&E spending hovers around 30 percent of the defense budget, a 35 year low: Procurement consumed just over 20 percent of defense dollars, at \$107 billion, and the RDT&E budget stood at \$70 billion, just under ten percent of the budget. [See Chart 6.]

As the size of the military forces shrinks, they must compensate by investing more in technology. At 30 percent of the defense budget, current spending levels of procurement and RDT&E are already at rock bottom. [See Chart 7.]

By 2021, the Congressional Budget Office estimates that the combined procurement and RDT&E budgets will be approximately 33 percent of the baseline budget.<sup>42</sup> It should not sink lower.

**Rule 5: Set a floor beneath defense cuts.** Attempts to peg Pentagon spending at any particular level are arbitrary and artificial. But recent history suggests a prudent “ballpark” range for military spending in peacetime.

During the Clinton administration, as the Cold War receded further into history, baseline defense spending gradually fell to about three percent of GDP by 1998. This “peace dividend” was a major factor in the Clinton administration’s achievement of a balanced federal budget and projected surpluses. While U.S. strategic planners should not be handcuffed to an arbitrary spending target, this level of spending represents a reasonable floor below which the military budget should not be allowed to sink in peacetime.

America’s defense leaders must set priorities. Top priority must go to concluding the wars in Iraq and Afghanistan on terms consistent with U.S. security. Once that’s been done, Congress should reduce the size of the armed forces in favor of investments in technology and capital stock.

Upon his retirement in August 2011, General David Petraeus warned that the coming defense cuts must not impair the military’s ability to field a “full-spectrum” fighting force.<sup>43</sup> Three percent of GDP is the minimum amount of defense spending

that would continue to permit the United States military to meet those demands.

Today the defense budget stands at 4.9 percent of GDP, including war spending. Three percent is achievable following the end of combat operations in Iraq and Afghanistan, not before, which means the military budget should remain between 3.0–3.5 percent throughout this decade. Moreover, it is often forgotten that Clinton’s Pentagon took its time getting there, eventually reaching it only in the last two years of his term. Scaling back of America’s defense budget must happen at a measured pace under President Obama as well.

Absent major military deployments, trimming spending towards that range by the end of this decade would allow America to do the following:

1. Conclude deployments in Iraq and Afghanistan.
2. Meet the China challenge. China is rapidly increasing its defense budget and continues to develop military strategies specifically designed to decrease the American military’s effectiveness in the Asia-Pacific region.
3. Engage in a vigorous counterterrorism campaign.
4. Meet small-scale military contingencies and carry out humanitarian and disaster relief operations.
5. Maintain a healthy and innovative defense industrial base.

Of course, should the United States be drawn into conflicts abroad, it will obviously spend what is necessary to prevail. That’s why the post Cold War benchmark is a target spending range, not a strait-jacket, and enough to ensure that America continues to play its vital role in a still dangerous world.

#### **THE BOTTOM LINE**

Total spending—including the wars—is scheduled to be \$6.465 trillion over the next ten years. That number can and should be reduced, so that defense makes a substantial, but absorbable, contribution to deficit reduction.

Over the coming decade, Congress can safely reduce the baseline defense budget, in tandem with disappearing war appropriations, to aim between 3.0–3.5 percent of GDP. To do so means reducing the total of the Congressional Budget Office’s \$6 trillion of baseline DOD spending in the Future Years Defense Projection by some \$600–650 billion over the decade, or to approximately 3.1 percent of GDP. Once \$465 billion in residual war costs are added to this baseline, total defense spending through 2010 would be approximately \$5.8 trillion, or 3.3–3.4 percent of GDP. This is the maximum amount that should be cut from the Pentagon, and deep cuts should not begin prior to 2014.

While the administration proposes to cut defense by \$400 billion, that would merely slow the rate of growth of Pentagon spending. My bottom line figure of \$600–650 billion would mean an absolute reduction in the Pentagon’s budget. This amount is in line with other centrist plans, such as the president’s Deficit Reduction Commission and the Rivlin/Domenici proposal, but differs from them by providing slightly more breathing room to conclude the wars in Iraq and Afghanistan and by providing distinct guidelines, rather than an across-the-board spending freeze and a vague menu of options, for prioritizing cuts.

America’s defense leaders must set priorities. Top priority must go to concluding the wars in Iraq and Afghanistan on terms consistent with U.S. security. Once that’s been done, Congress should reduce the size of the armed forces in favor of investments in technology and capital stock.

Up to \$650 billion over ten years is a solid contribution to deficit reduction. It is fully a quarter less than the cut that would kick in automatically if the “sequester” in the current deficit reduction package is triggered. Applied strategically according to the rules I’ve set forth in this report, it is an amount sufficient to keep America strong and secure, project power around the world, and lend weight to U.S. global diplomacy.

## ENDNOTES

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## About the Progressive Policy Institute



The Progressive Policy Institute (PPI) is an independent research institution that seeks to define and promote a new progressive politics in the 21st century. Through research, policy analysis and dialogue, PPI challenges the status quo and advocates for radical policy solutions.

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