



**The President’s Dilemma
 Deficits, Debt, and US Defense Spending**

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The Obama administration’s DoD budget plans lock into place the unprecedented rise in defense spending – 90% – that began in the late-1990s, consolidating a return to Reagan-era budget levels (when corrected for inflation).

**Table 1. From Reagan to Obama:
 Average DOD Budget Authority
 (Billions 2010 USD)**

Reagan	516.7
GHW Bush	452.7
Clinton	380.3
GW Bush	582.4
Obama planned 2010-2017	601.9

Sources: see *Data Sources*, pp. 7-8.

Although the administration foresees a DoD budget that in 2017 will dip 3.8% below the highest of the GW Bush budgets, President Obama plans over eight years to allocate more money to the Pentagon in real terms than did his predecessor – perhaps much more.

The administration’s blueprint sets aside \$4.8 trillion for DOD (in 2010 US dollars) during the period 2010-2017. The GW Bush administration allocated \$4.66 trillion (2010 USD). But current plans use only a “place-keeper” figure for war funding after 2011: \$50 billion annually (current dollar). In light of developments in both Afghanistan and Iraq, this seems unrealistic. More realistically, the Obama administration will have to allocate the Pentagon well over \$5 trillion (2010 USD) during 2010-2017, assuming it stays its current course. And, in real terms, this would significantly surpass not only George W. Bush, but also Ronald Reagan.

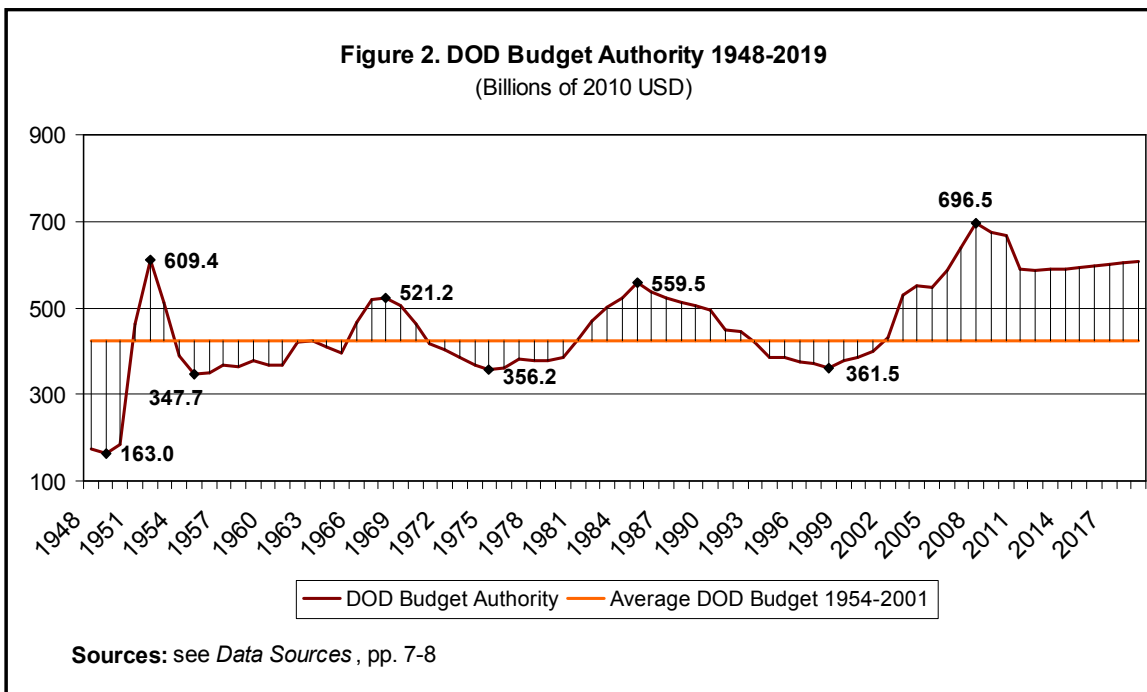
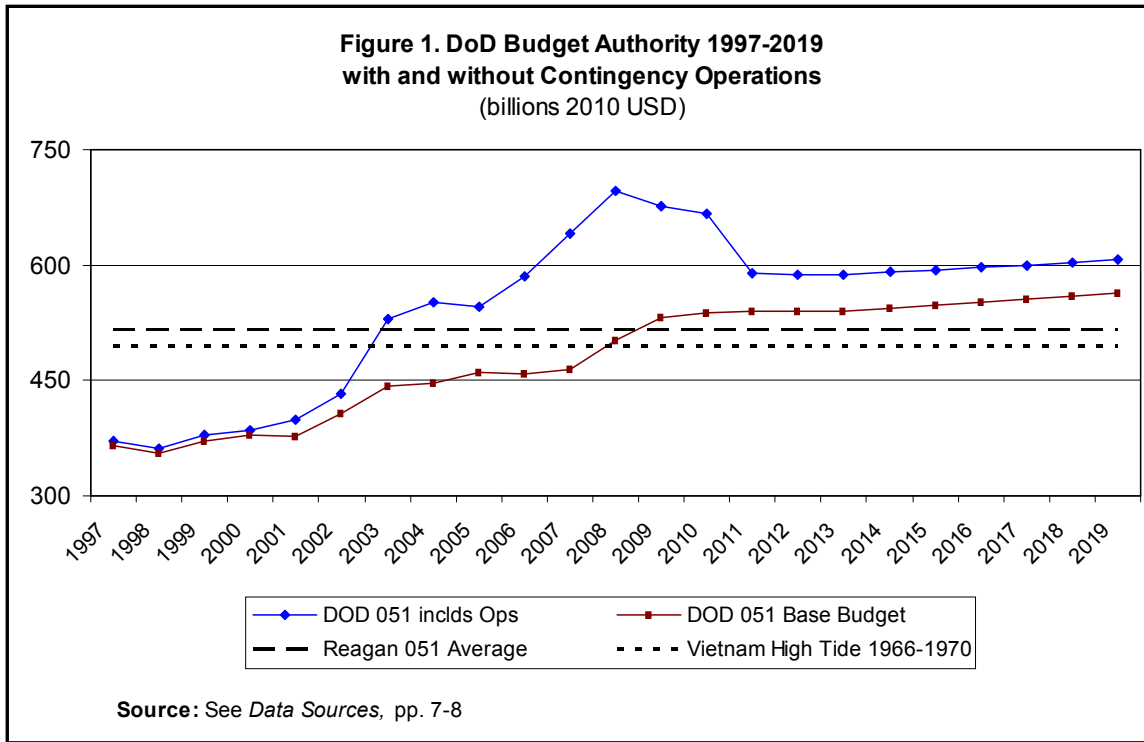
**Table 2. Change in DOD Budget Authority
 (Billions 2010 USD)**

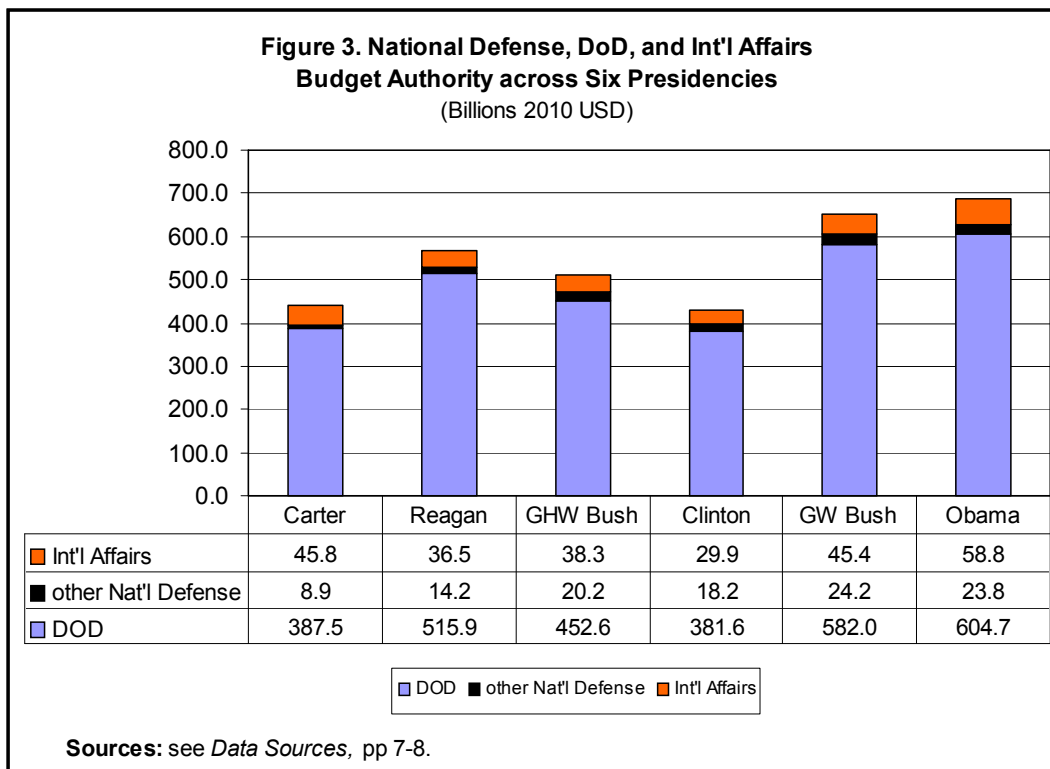
FY 2009	675.8
FY 2001	398.8
Post-Cold War ebb (1998)	361.5
Reagan average	516.7
Vietnam-era high-tide average (1966-1970)	494.7
% Change 1998-2009	+87 %
% Change 2001-2009	+69.5 %
Total DOD Authority 1998-2009	6180
Total over 1998 baseline	1850
1998-2009 contingency operations	987

Sources: see *Data Sources*, pp. 7-8

Indeed, by a substantial margin, it would represent the greatest amount allotted the Pentagon in any eight years since 1946 – a period encompassing the Korean, Vietnam, and Cold Wars.

Looking at the budgets for DoD, other National Defense functions, and International Affairs, and comparing these across six presidencies, shows that the Obama administration plans during





its first four years to allot a greater share to International Affairs than any administration since President Jimmy Carter's. Still, the overall impression is that the levels of planned Obama spending cluster most closely with those of his immediate predecessor, George W. Bush.

Reagan-era levels of deficit spending with a liberal twist

Another respect in which the Obama budget plan calls to mind Ronald Reagan is its distinct dependence on deficit financing – even after the current economic crisis subsides.

The current plan implies deficits for the period 2012-2017 that are as large a portion of the GDP – approximately 4.3% – as that run by both Presidents Reagan and GHW Bush. No other presidential administrations since 1947 are comparable to these. (Although the deficits run

in the period 2008-2011 are much larger, these are excluded in this accounting because they reflect the unique exigencies of the current crisis.)

Table 3. Bush and Obama DoD Budget Authority
(Billions 2010 USD)

Total GW Bush DoD BA 02-09	4660
of which for wars	946
GWB DoD BA over 1998 baseline	1770
Total Obama DoD BA 2010-2017	4800
of which for wars*	458 *
Obama DoD BA over 1998 baseline	1920 *

* For 2011-2017, \$50 billion (current USD) is allotted yearly for overseas operations as a "place-keeper". Actual authority is likely to be significantly higher.

Sources: see *Data Sources*, pp. 7-8.

**Table 4. Deficits as % of GDP
by Administration 1947-2017**

1947-1953	0.7%
Eisenhower	-0.4%
Kennedy	-0.8%
Johnson	-1.1%
Nixon	-1.4%
Ford	-2.7%
Carter	-2.4%
Reagan	-4.3%
Bush	-4.3%
Clinton	-0.1%
Bush	-2.4%
2008-2011 Crisis	-8.1%
Obama 2012-2017	-4.3%

Sources: see *Data Sources*, pp. 7-8.

Of course, the Reagan budgets and the Obama plan differ markedly in terms of priorities. Although both show increased spending for both defense and non-defense accounts, Reagan increased the former more than the latter, while the Obama plan reverses this priority. Also, the Obama administration plans

tax increases – albeit too modest to arrest deficit spending within the 2010-2019 time frame.

Comparing the planned 2017 budget with the one set out in 2008 shows (in inflation adjusted terms):

- A 3.8% reduction in national defense spending,
- A 55.9% increase in spending on Social Security, Medicare, and Medicaid,
- A 131.5% increase in interest payments, and
- An increase of approximately 17% in other accounts, mandatory and discretionary.

Notably, the rise in the budget share allotted to interest payments and medical entitlements, and the shrinking of the Social Security surplus, put pressure on the other components of federal spending, whether defense or non-defense. There will be less and less room to practice a strategy of buying consensus by increasing or sustaining allotments to all or most accounts.

Table 5. Federal Expenditures, 2008 and planned 2017
(Billions 2010 USD)

	2008	2017	Change %
National Defense 050	631	608	-3.8%
Other discretionary	524	611	16.6%
Social Security, Medicare, Medicaid	1237	1928	55.9%
Other mandatory	424	496	17.0%
Net Interest	261	604	131.5%
TOTAL	3078	4273	38.8%
GDP	14718	18872	28.2%

Sources: see *Data Sources*, pp. 7-8.

Table 6. Federal Receipts, Outlays, Deficit, and Debt 2008 and 2017
(current dollars)

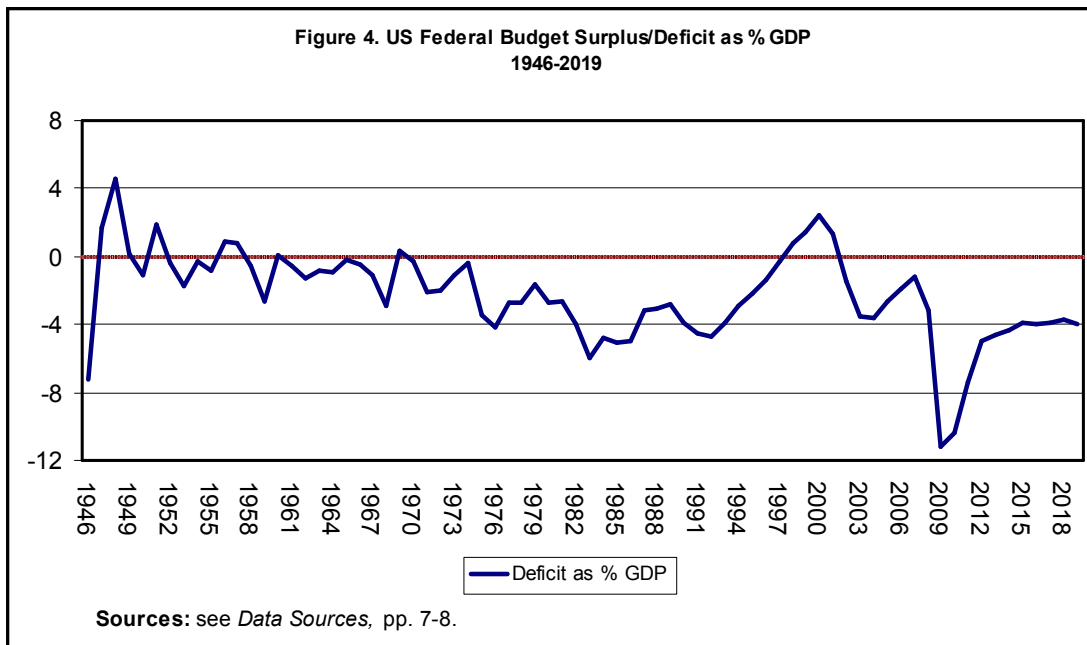
	2008	2017
GDP	14265 bn.	21178 bn.
Federal Receipts		
Total	2524 bn.	3985 bn.
as percent of GDP	18%	19%
% revenue from Income Taxes	45%	48%
% revenue from Corporate Taxes	12%	11%
Federal Outlays		
Total	2983 bn.	4795 bn.
Net Interest	253 bn.	678 bn.
Interest payments as % of outlays	8%	14%
Social Security, outlays vs receipts	46 bn.	-37 bn.
Medicare, outlays vs receipts	-192 bn.	-486 bn.
Deficit		
On-budget deficit	642 bn.	1008 bn.
Off-budget surplus	183 bn.	198 bn.
Net Unified budget Deficit	459 bn.	810 bn.
Net Unified Budget Deficit as % of GDP	32%	38.2%
Debt		
Debt held by public	5803 bn.	15651 bn.
Public debt as % of GDP	40.7%	73.9%
Gross federal debt	9986 bn.	22095 bn.
Gross federal debt as % of GDP	70.0%	104.3%

Sources: see *Data Sources*, pp. 7-8.

The steep increase in interest payments points to a projected surge in national debt, which will be due largely to the current economic crisis and the efforts to rectify it:

- Between 2008 and 2017 the public debt will grow from about 41% of GDP to 74%.
- The gross federal debt – which adds borrowing from Social Security and other government trust funds – will grow from 70% to more than 104% of GDP.

Along the lines set out in the budget, the nation's debt burden will grow during the next 10 years to a level nearly as high as that during the World War II (when gross debt peaked at 122% of GDP) – but will persist at a high level for a longer time that did the WWII debt. If 1943-1947 is the “Mt. Everest” of debt accumulation, then 2008-2019 is the “Tibetan Plateau” (granted that debt accumulation does not quite “plateau” during this period).



Is it sustainable economically? Politically?

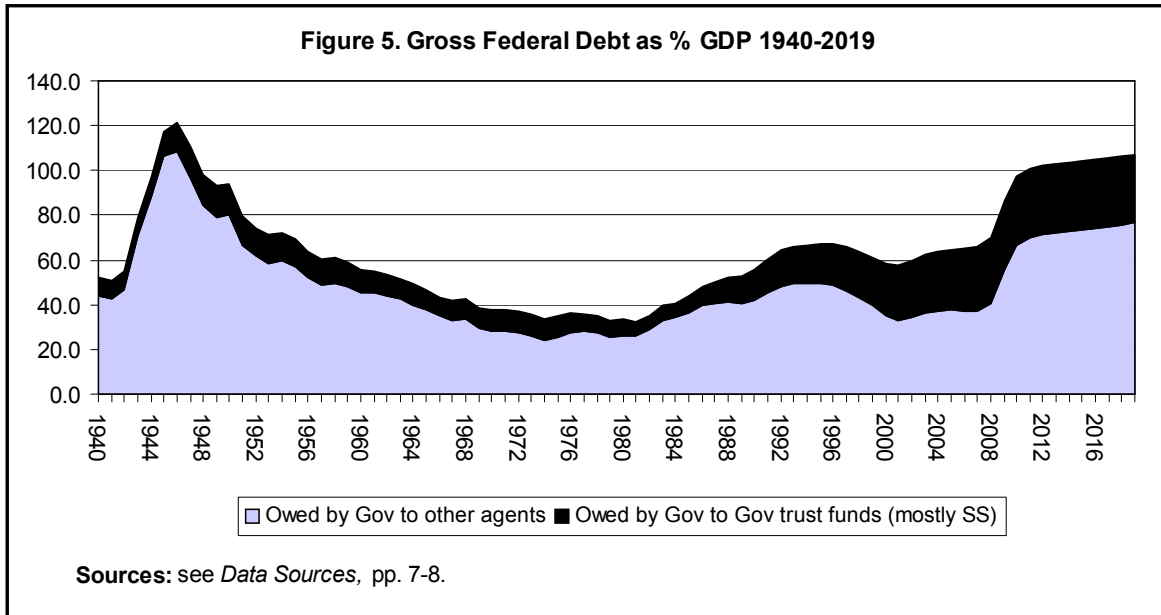
The economic effects of federal debt and deficit spending are controversial. Size, trend, duration, and international context clearly matter. What is the overall level of debt in a society? How are borrowed funds being put to use? How close is the subject country to full employment? How attractive to foreign investors are the alternatives to dollar investments? Complicating our predictions and the prospects for reaching a consensus view is the fact that different instances of debt accumulation are seldom, if ever, entirely comparable. The effects of tomorrow's debt will not likely be the same as today's or yesterday's.

What can be said reliably is that:

First, the level and duration of debt forecast by the administration, when taken together, constitute a historically unprecedented situation for the United States. Similarly, our global context is new and changing rapidly. We are entering *terra incognita*.

Second, some of the assumptions and inputs on which the administration bases its plans and forecast are either bound to change or are contested. As noted earlier, a key component of its defense plan – the cost of foreign operations – is merely a “place marker” today. Perceived requirements due to the wars could easily add \$250 billion in spending for 2011-2017. Moreover, the Congressional Budget Office analysis of the plan forecasts that it will yield larger deficits and more debt due to lower revenues and increased expenditures.^{1} It forecasts higher interest rates and, therefore, higher interest payments.

Finally, regardless of the actual determinable effects of the government's debt burden in the longer-run, the sudden growth of that burden and its persistence at a higher-level is bound to intensify political contention around budget and fiscal issues. The Obama administration will face intense pressure to economize in some areas.



Notes

1. *An Analysis of the President's Budgetary Proposals for Fiscal Year 2010* (Washington DC, Congressional Budget Office, June 2009).

Data sources

Tables

Table 1. From Reagan to Obama: Average DoD Budget Authority

US DoD, *National Defense Budget Estimates for FY 2010* (Washington DC: US Department of Defense, June 2009), Table 6-8 DoD BA by Appropriation Title, FY 1948 to FY 2010; US DoD, *FY 2010 Budget Request Summary Justification* (Washington DC: US Department of Defense, May 2009), Figure 1.1 Historical DoD Funding, p. 1-6; US Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government: Fiscal Year 2010* (Washington: GPO, May 2009), Table 26-1 Budget Authority and Outlays by Function, Category, and Program; Nina M. Serafino, *Peacekeeping and Related Stability Operations: Issues of U.S. Military Involvement* (Washington DC: Congressional Research Service, 4 October 2004).

Table 2. Change in DoD Budget Authority. See sources for Table 1.

Table 3. Bush and Obama DoD Budget Authority. See sources for Table 1.

Table 4. Deficits as % of GDP by Administration 1947-2017

Mid-Session Review, Budget of the US Government, Fiscal Year 2010 (Washington DC: GPO, August 2009), Table S-15. Federal Government Financing and Debt; OMB, *Historical Tables, US Budget Fiscal Year 2010* (Washington: GPO, 2009), Table 1.1 Summary of Receipts, Outlays, and Surpluses or Deficits 1789-2014; Table 1.2 Summary of Receipts, Outlays, and Surpluses or Deficits as Percentages of GDP 1930-2014; Table 1.3 Summary of Receipts, Outlays, and Surpluses or Deficits in Current Dollars, Constant Dollars, and as Percentages of GDP 1940-2014.

Table 5. Federal Expenditures, 2008 and planned 2017

Mid-Session Review, Budget of the US Government, Fiscal Year 2010 (Washington DC: US Government Printing Office, August 2009), Table S–1 Budget Totals; Table S–4 Proposed Budget by Category; Table S–15 Federal Government Financing and Debt.

Table 6. Federal Receipts, Outlays, Deficit, and Debt, 2008 and 2017. See sources for Table 5.

Table 7. DOD Budget Authority, 1997-2017: Base Budget, War Budget, and Total. See Table 1.

Figures

Figure 1. DoD Budget Authority with and without contingency operations. See sources for Table 1.

Figure 2. DoD Budget Authority 1948-2019. See sources for Table 1.

Figure 3: National Defense, DoD, and Intl Affairs Budget Authority Across Six Presidencies

OMB, *Historical Tables, US Budget Fiscal Year 2010* (Washington: GPO, 2009), Table 5.1 Budget Authority by Function and Subfunction, 1976-2014.

Figure 4. US Federal Budget Surplus/Deficit as % of GDP 1946-2019. See sources for Table 4.

Figure 5. Gross Federal Debt as % GDP, 1940-2019. See sources for Table 4.

Inflation estimates

OMB, *Mid-session Review, US Budget Fiscal Year 2010* (Washington: GPO, August 2009), Table 3. Comparison of Economic Assumptions; OMB, *Historical Tables, US Budget Fiscal Year 2010* (Washington: GPO, May 2009), Table 10.1 Gross Domestic Product and Deflators Used in the Historical Tables: 1940–2014; *National Defense Budget Estimates for FY2010*, Table 5-6 DoD Deflators, BA by Appropriation Title.

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