
An Undisciplined Defense: Understanding the \$2 Trillion Surge in US Defense Spending

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PRINCIPAL FINDINGS

1. An unprecedented rise in DoD spending

The rise in defense spending since 1998, which this year may surpass 100% in real terms, is unprecedented over a 48-year period. In real percentage term, it is nearly as large as the Kennedy-Johnson and Reagan surges combined. Whether one looks at the entire DoD budget or just that part not related to the wars, current spending is above the peak years of the Vietnam era and the Reagan years. Looking forward, the Obama administration plans over eight years to spend more on the Pentagon than any administration since World War II.

2. Current wars are only partly to blame

The wars consume only 20 percent of the 2011 budget. For the period 1998-2011, overseas contingency operations have consumed about 17% of all funding. Take the wars out of the picture and the rise since 1998 is still 54% in real terms, which surpasses the Reagan surge.

3. Current wars are unusually expensive – for several reasons

Today's wars are inordinately expensive in their own right. Measured in 2010 dollars, the Korean war cost \$393,000 per person/year invested and Vietnam cost \$256,000. By contrast, the Iraq and Afghanistan commitments have cost \$792,000 per person/year. The exceptional cost of recent wars is due partly to America's reliance on high-cost "volunteer" (professional) military labor, which began after the Vietnam war. This type of military is susceptible to steep increases in personnel costs if it gets bogged down in large-scale, protracted, labor-intensive wars of occupation and counter-insurgency. Combat

pay, retention bonuses, and recruitment costs soar. Overall, military personnel costs rose 50% in real terms between 2001 and 2010, although the military labor pool grew by less than 2%. This cost dynamic casts into question any inclination to expand the practice of large-scale counter-insurgency operations in the future.

Also contributing to excessive war costs was the fact that force modernization efforts during the decade prior to the wars were not geared to the needs of operations other than conventional war. Thus, the Iraq and Afghan wars required a new wave of force modernization.

4. Several additional factors have been driving DoD costs upward

Apart from the wars, several other factors have driven DoD costs upward: (i) Poor integration and weak prioritization in force modernization efforts affecting research, development, and acquisition; (ii) The adoption of more ambitious goals and missions for a smaller US military since the end of the Cold War; and (iii) The relative weakness of defense reform efforts during the post-Cold War period.

5. Military modernization efforts lack discipline and are poorly integrated

Between 1990 and today, force modernization has reflected three different imperatives or directions, and these have been poorly integrated. The three were: (i) "legacy" programs conceived during the Cold War that came forward with considerable institutional momentum; (ii) New programs, like Predator drones, reflecting the potential of information and other emerging technologies; and (iii) "Adaptive" programs – like mine-resistant

armored vehicles – that correspond to new mission requirements (counter-insurgency). DoD and the services have failed to adequately integrate these trends or prioritize among them. Instead, they have all gone forward in parallel, leading to higher costs. Legacy programs, which tend to be “backward looking”, have predominated. Thus, despite spending \$2.5 trillion on modernization between 1989 and 2003, there was a lack of preparedness for counter-insurgency and counter-terrorism tasks after 2001.

6. Goal inflation: US policy leaders have set more ambitious goals and missions for the post-Cold War military

Following the collapse of Soviet power, successive US administrations set more ambitious goals for the US military, despite its smaller size. This entailed requiring the armed services to sustain and extend their continuous global presence, improve their readiness and deployability, increase peacetime engagement activities, and prepare to conduct more types of missions, faster, across a greater portion of the earth. Recent strategies have looked beyond the traditional goals of defense and deterrence, seeking to use military power to actually prevent the emergence of threats and to “shape” the international environment. US defense planners also elevated the importance of lesser and hypothetical threats, thus requiring the military to prepare for many more, lower-probability contingencies. These ambitions have registered in budgets mostly as a sharp rise in Operations and Maintenance expenditures and as higher requirements for equipment acquisition.

7. Efforts at defense reform have fallen far short of what is needed and possible

A series of reforms were supposed to make it possible for the post-Cold War military to “do more for less”. Structural reform also was necessary because the military suffered a decrease in efficiency when it got smaller. This was due to some loss in economies of scale in support and acquisition activities. Options for reform included reducing service redundancies,

streamlining command structures, and consolidating a range of support and training functions. Other worthwhile targets of reform were DoD’s acquisition, logistics, and financial management systems. But reform efforts fell short of their promise, due to institutional resistance and bureaucratic inertia. Only two initiatives – competitive sourcing and military base closures – were pursued far enough to yield significant annual savings. And these savings have not amounted to more than 4% of the current defense budget.

8. DoD’s workforce has been re-inflated, but with contract labor

Despite high levels of activity (even before the current wars), DoD has been reluctant to permanently increase the number of full-time military personnel, due to the costs involved. Instead, it has turned increasingly to private contractors, whose employees have assumed many support functions previously performed by DoD personnel. Since 1989, the pool of DoD military and civilian employees has shrunk by more than 30%, while the number of contract workers has probably grown by 40%. As a result, the total DoD workforce may have been re-inflated to its Cold War size, but also fundamentally restructured. The re-inflation of the workforce partly registers in the budget as an unusually steep increase in Operations and Maintenance spending. Calculated in per person terms, O&M expenditures are 2.5 times higher today than in 1989. In absolute terms (and corrected for inflation), O&M spending has risen 75%.

9. The road not taken: restraint and reform

The road not taken during the past fifteen years - at a cost of some trillions of dollars - would have involved a combination of: (i) A more forceful and thorough-going approach to defense reform, (ii) An integrated or “joint” service approach to force modernization that also closely tailored equipment acquisition to new era conditions, and (iii) Greater restraint and greater specificity in setting post-Cold War military goals and missions.
