

Past and Future Change in US National Defense Spending & Budget Share

President Obama's 2012 budget plan maps out a future of steady increases for the National Defense account apart from war costs (which are presumed to decline). As shown in Figure 1-1, National defense *sans* war is set to rise from \$551.9 billion in 2010 to \$627.6 billion in 2016 – a boost of about 15.5%. This increase exceeds the expected rate of inflation for the period by about seven-tenths of one percent annually. Although small by recent standards, the increase is not insignificant in the context of deficit-reduction efforts.

The 2012-2016 plan indicates a reduction in war expenditures that seems quite dramatic, but this is an accounting artifact. The plan treats war costs as unsettled and uncertain for the years after 2012. Thus, it uses a “place-keeper” sum of \$50 billion per year for the period 2013-2016. This is neither a goal nor a forecast, but instead an effort to lessen the planning distortion caused by uncertainty. Actual war expenditures are likely to exceed \$50 billion per year – perhaps by a very substantial margin for 2013 and 2014. The low “place keeper” figure for Overseas Contingency Operations after 2012 also lends to the impression that overall defense spending will decline by 3.7% over the course of the plan.

Figure 1-1. Planned National Defense Spending and Budget Share, 2010-2016
(dollars current billions)

	2010	2012	2013	2014	2015	2016	% Change 2010 > 2016
National Defense Discretionary (050) w/o OCO	551.9	578.4	595.9	612.1	624.5	637.6	15.5%
Overseas Contingency Operations (OCO)	162.3	117.6	50	50	50	50	-69.2%
National Defense (050) Discretionary	714.2	696	645.9	662.1	674.5	687.6	-3.7%
Non-defense Discretionary Spending	543.4	546.7	542.2	546	553.1	566.4	4%
Total Discretionary Spending	1257.6	1242.7	1188.1	1208.1	1227.6	1254	-0.3%
Total Discretionary Spending w/o OCO	1095.3	1125.1	1138.1	1158.1	1177.6	1204	9.9%
National Defense w/o OCO as % of Discretionary Spending w/o OCO	50.4%	51.4	52.4	52.9	53	53	

Sources: *Budget of the US Government, Fiscal Years 2012*; Undersecretary of Defense (Comptroller), *Fiscal Year 2012 Budget Request*.

Turning to non-defense discretionary spending: It is set to grow by 4% in “then year” dollars over the period 2010-2016, which equates to a real *reduction* of about one percent per year. Comparing this to base defense spending – that is, defense spending minus war costs – shows the two categories of expenditure to be moving in opposite direction in real terms. This means that most of the putative savings from the presumed reduction in war costs are reinvested in the non-war portion of defense. As a result, National Defense spending *sans* war costs grows as a proportion of discretionary spending, while the share allotted to non-defense spending declines. Put simply, apart from war costs, the plan re-balances spending in favor of defense.

Figures 1-2 and 1-3 review budget shares in historical perspective, looking at the period 1998-2016 in four clusters. Those years with similar allotments of funds among the various accounts have been grouped together. Each cluster is represented by an average annual expenditure for the years that the cluster encompasses.

In Figure 1-2, the defense share of discretionary spending is shown to grow successively across the first three clusters before being scheduled to decline slightly during 2012-2016. However, the apparent decline is an artifact of assuming low war costs during most of this period. This assumption does

Figure 1-2. National Defense as a Share of Discretionary Spending, 1998-2016

(dollars current billions)

	1998-2002	2003-2006	2007-2011	2012-2016
Total Discretionary Spending	617.7	934.7	1249.6	1224.1
Non-defense Discretionary	309.1	435.4	559.5	550.9
National Defense Discretionary	308.6	499.2	690.1	673.2
– Overseas Contingency Operations (OCO)	10.3	88.9	163.2	63.6
– National Defense w/o OCO	298.3	410.3	526.9	609.6
Non-defense	50.0%	46.6%	44.4%	45.0%
National Defense	50.0%	53.4%	55.6%	55.0%
National Defense w/o OCO	48.5%	43.9%	42.3%	49.8%
OCO	1.5%	9.5%	13.3%	5.2%

Sources: *Budget of the US Government, Fiscal Years 2002-2012*

not affect the calculation of defense spending minus war costs, however, and these are shown to grow steadily in absolute terms. Base defense spending as a percentage of overall discretionary spending slips slightly in the third period due to increased non-defense expenditures for economic recovery. It is then set to rebound and, indeed, rise to new heights in the final period, 2012-2016. As a consequence of deficit-reduction efforts, total discretionary spending is set to decline during the final period. However, the share allotted to the base defense account increases to compensate. As noted above, base defense spending actually continues to grow at a rate greater than inflation.

The next table, Figure 1-3, looks at National Defense spending as part of total federal spending, discretionary and mandatory. Commensurate with this, the figures for National Defense include both the discretionary and mandatory portions of that account. The denominator used for calculating defense share in the table is total federal spending minus interest payments on the national debt.

Figure 1-3. National Defense as a Share of Total Federal Spending, 1998-2016
(dollars current billions)

	1998-2002	2003-2006	2007-2011	2012-2016
Total Federal Spending	1868.7	2524.5	3480.6	4036.5
National Defense	312.8	502.2	696.1	679.9
Interest on Debt	214.7	181	215.9	407.3
National Defense as % of Total Spending minus Interest Payments	18.9%	21.4%	21.3%	18.7%

Sources: *Budget of the US Government, Fiscal Years 2002-2012*

The table indicates that, during the 2012-2016 period, defense's share of total federal spending will return to the balance prevailing during the years 1998-2002. Again, this is partly an artifact of assuming low future costs for war. However, most important in reducing the defense share of total spending is the growth in mandatory accounts, especially health care. Again, base defense spending does not actually decline in absolute terms. As pointed out above, it grows at a rate greater than inflation. The overall budgetary dynamic is one in which health care consumes more of the total federal dollar, while base defense spending is maintained and given room to grow by allocating to it a greater share of discretionary spending.

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