Four Great American Problems

How Much Defense Can We Afford?

David Gold

For much of the post–World War II era, defense spending as a proportion of the total economy was even higher than it is today. For this reason, some defense analysts say we can afford to raise spending. This economist says we can't ignore the costs.

The next president will be faced with critical decisions regarding the size and distribution of resources devoted to national defense. Demands for funding military activities will continue to grow at a rapid rate, for personnel, health care, research and development, military bases, new weapons, and replacement equipment, and those are just the demands that we know about now. Similarly, budgetary needs for nondefense programs in such areas as health care, education, veterans' benefits, infrastructure, and homeland security are also growing; those, too, are just the demands we know about now.

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And with a recession looming and global financial pressures a reality, both the federal budget deficit and the future of the Bush tax cuts will be highly contentious issues.

Obviously, this situation cannot continue and, as the late Herb Stein has been widely quoted as saying, "If something cannot go on forever, it will stop!" The question facing the next president is, how will it stop? Budgetary outlays for the defense function have expanded considerably since 1998, from $268 billion in FY98 to $553 billion in FY 2007, with a projected total of $607 billion in FY08, all in current dollars. In constant (FY2000) dollars, the growth has been from $282 billion to $426 billion over the same period, with a projection of $464 billion in FY08. The FY07 amount means that spending on the defense function in inflation-adjusted dollars is at its highest point since the end of World War II, and it will continue to rise, with supplementary appropriations for the wars in Afghanistan and Iraq likely to push the constant dollar figure over $600 billion by FY09.

Yet, over the same period, the economy as a whole, along with government spending, has grown substantially. Thus, the defense burden, widely cited as the share of total output devoted to national defense, has dropped from almost 14 percent of gross domestic product (GDP) during the Korean War, to 9.5 percent during the second Eisenhower administration, to over 6 percent during the Reagan administration, and to 4 percent in FY07, even with the extensive buildup after 9/11 (see Figure 1). To some, this is a sign that the United States can readily afford to spend considerably more on defense.

Admiral Michael Mullen, chairman of the Joint Chiefs of Staff, has made this argument, although, as Winslow Wheeler of the Center for Defense Information has pointed out, the admiral's focus appears to be entirely on spending more for weaponry. Defense Secretary Robert Gates sees today's 4 percent as a floor, implying the need for further growth in the military's share. Marine Commandant General James Conway was quoted in the *Wall Street Journal* as saying that "we're making do" at the 4 percent level but "we do see some needs on the horizon."

Economist Martin Feldstein, who chaired the Council of Economic

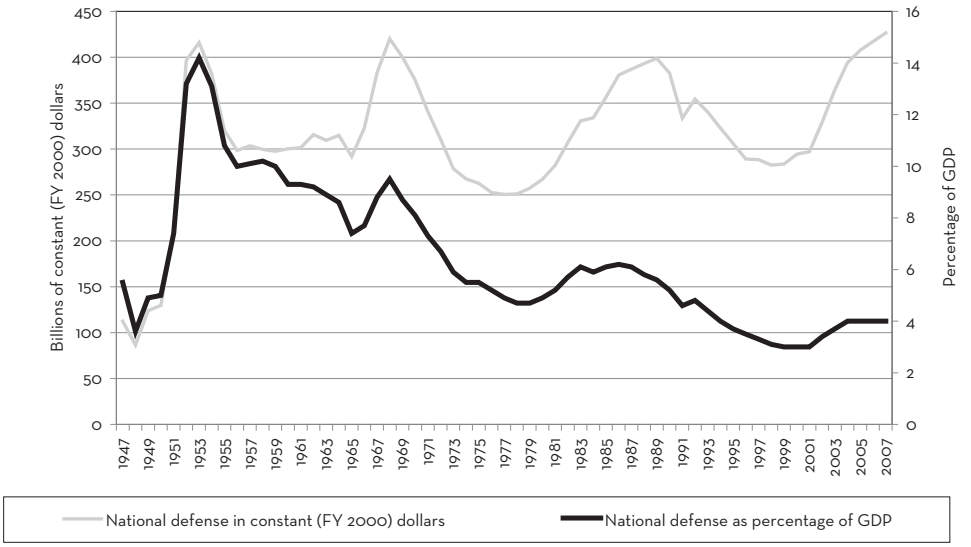

Figure 1. National Defense Outlays in Constant Dollars and National Defense as a Percentage of GDP, FY1947–FY2007

Source: Office of Management and Budget, Historical Tables, Budget of the United States Government, FY2009, table 6.1, www.whitehouse.gov/omb/budget/fy2009/pdf/hist.pdf.

Advisers during the first Reagan administration, has, as an illustrative example, suggested returning the defense share to Reagan-era levels of 6 percent of GDP to meet a variety of future defense needs. According to Feldstein, the decline in the military burden from its pre-Vietnam levels occurred to make room for the growth of social spending. He suggests that the United States could hold nondefense discretionary spending constant, in real terms, at the levels reached in 2000, and allocate all increases in federal revenues solely to defense. That way, we can regain the Reagan-era 6 percent in less than a decade, and while the nondefense share of GDP would fall, the real level of such spending would not.

Holding discretionary spending constant in real terms is portrayed as not "cutting" the federal government's nondefense programs. But this argument assumes that real needs in these nondefense programs will not grow, an assumption invalidated by the experience of the last few decades. Indeed, spending on health care is the most rapidly

growing component of GDP, and this is the case for many countries, not just the United States. By advocating a cap on real non-defense government spending, Feldstein is arguing that growth in such spending can be postponed, while growth in real defense spending cannot. This is a classic guns-versus-butter argument, in which consumption—"butter"—is postponable without serious long-term consequences, while defense spending—"guns"—and spending on capital investment by business are not. Postponing such spending would have serious consequences for the security of the nation and for its future standard of living.

But recent history provides ample evidence that this particular narrative is misleading. For one thing, increasing the real growth of the defense budget does not necessarily buy the country greater security. Much defense spending is wasted, on weapons designed to fight the last war, on projects that are essentially "pork," on mismanagement and corruption, on strategies and tactics that are counterproductive, on infrastructure that is likely to have a short life span, etc. Indeed, most of the massive buildup since 9/11 has gone into fighting the war in Iraq, which informed observers both inside and outside the national security establishment have concluded has resulted in an increased threat from global terrorism. Planning the allocation of resources through budget targets is a likely route to the continuation of past failures. Ironically, if the economy continues to weaken, slower GDP growth combined with increased outlays for Afghanistan and Iraq will boost the defense share of GDP without changing anything fundamental in U.S. security.

A second reason the standard narrative is misleading is that the primary components of discretionary nondefense spending are not just postponable items of consumption ("butter"), but rather are increasingly important as contributors to productivity growth and to higher future levels of GDP. One such example is physical infrastructure, which has been a function of government since the early days of the republic: rivers and harbors, canals and railroads, highways, airports, waste disposal, water purification and distribution, power systems, etc. The contribution of such activities to living standards is frequently taken

for granted, until they fail, as with the collapse of the I-35 bridge connecting Minneapolis and St. Paul in 2007 and the failure of the levees in New Orleans in 2005. Infrastructure is also a significant source of employment, and it can be seen as a countercyclical device.

The guns/butter argument, however, often focuses on government social spending, the largest components of which are health and education. Treating these activities as postponable consumption ignores their contribution to productivity and long-term growth. It is often stated, somewhat glibly, that we live in an information age, where knowledge is a key to future prosperity. But knowledge does not just fall from the heavens; it is created by human activities, with education from preschool through advanced university-based research being this society's primary source of knowledge.

Similarly, improved health care contributes to productivity both in the short term and over time. This is the major reason that companies, nonprofit organizations, and government agencies are increasingly subsidizing such simple measures as flu shots, to reduce absenteeism and the spread of flu viruses among employees. Improved prenatal and infant nutrition and health care reduce the incidence of birth defects and childhood diseases, leading to improved health and therefore improved ability to learn. Perhaps even more important, improved health technology has been shown to have a truly massive positive impact on life expectancy, on the quality of life, on measurable GDP, and on nonmeasurable aspects of well-being.

As with physical infrastructure, direct government support for education and health has a long history, usually complements private activities, and has been shown to contribute to the growth of productivity and higher living standards.

Numerical arguments for the growth of the defense share of GDP fail on two grounds. They assume that more spending leads to more security, and they ignore the opportunity costs associated with shifting the composition of society's output. These issues need to be addressed in their own right, not hidden behind some ratios.