Security After 9/11
Strategy Choices and Budget Tradeoffs
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Much budgetary and policy action was taken by the Bush administration and Congress in the immediate aftermath of the attacks of Sept. 11, 2001 — before a long-term plan and strategy for responding to newly-evident security challenges was worked out. The Defense Department’s Quadrennial Defense Review, laying out the nation’s military strategy and plans, was released soon after Sept. 11 without much modification. Billions of dollars were added to the defense budget without a clear plan about what to spend them on. Finally, a year after the attacks, the White House issued a National Security Strategy document that identifies foreign policy and national security policy goals — if not how to get there. But are these the right choices, and how best should resources be allocated to reach those or alternative goals? The papers in this briefing book try to expand and deepen a debate about these issues that are now vital to every American.

Steven Kosiak of the Center for Strategic and Budgetary Assessments brings clarity to the complicated slew of new spending on defense, homeland security, and combating terrorism in a piece on 2001-03 budgets. Cindy Williams of MIT provides a key framework for thinking about and balancing tradeoffs in broad strategic responses to global mass-casualty terrorism. David Gold of the New School University illustrates how economic tools and leverage can complement and substitute for military and diplomatic action, citing three case studies. William Hartung of the World Policy Institute explores the options of preventive diplomatic and economic measures versus preemptive military strikes. Carl Conetta of the Project on Defense Alternatives looks at alternatives choices for military transformation — since the Cold War, post-9/11, and for the future. Winslow Wheeler of the Center for Defense Information examines costs and tradeoffs within the military, between certain military personnel benefits and readiness for military operations. James Galbraith and Shama Gamkhar of the University of Texas at Austin present homeland security issues facing the local, state, and federal levels of government, and resource allocation between them. Anita Dancs of the National Priorities Project looks at the cost and consequences of focusing on military security to the exclusion of economic security at home.

These papers are brief versions of more in-depth analyses that are available online at www.cdi.org/spwg, along with an executive summary of this volume. For more information about this briefing book and related products contact the editor, Marcus Corbin, at the Center for Defense Information, mcorbin@cdi.org.

Some of the material in this volume has also been used in a citizen guide to national security issues entitled A Safer America? available from the National Priorities Project, info@nationalpriorities.org.

The views expressed in these papers are those of the individual author alone, and no sharing of opinion is implied by appearance together in this volume.

The authors gratefully acknowledge the generous support of the Ford Foundation, which made this project possible.
Funding for Defense, Homeland Security and Combating Terrorism Since 9/11

Where has all the money gone?

The tragic events of September 11, 2001 have had a significant impact on federal spending related to defense, homeland security and combating terrorism. The purpose of this backgrounder is to provide an estimate of just how much funding for these missions has been increased since 9-11, and to specify, to the extent possible, how that funding has been allocated.1

It is impossible to say precisely how much of the increase in spending that has occurred since 9-11 is attributable to the terrorist attacks themselves. Other factors have undoubtedly contributed to the growth in spending as well. However, the terrorist attacks of 9-11 have clearly been the most significant cause of the increase. Consistent with this fact, programs and activities related to homeland security and combating terrorism have been the main beneficiaries of the spending increases implemented since 9-11. But they have not been the only beneficiaries. In particular, some Department of Defense (DoD) programs and activities that are unrelated, or only indirectly related, to these missions have also benefited substantially.

In brief, this analysis finds that:

- Since the terrorist attacks of 9-11, US funding related to defense, homeland security and combating terrorism has been increased by some $145-160 billion.

- Assuming Congress approves the level of funding requested for homeland security and combating terrorism in the administration’s FY 2003 budget request for non-defense departments and agencies when it reconvenes early in 2003, annual funding for these programs will be about $18 billion higher than it was prior to 9-11. This represents a real (inflation-adjusted) increase of about 240 percent.

- DoD’s FY 2003 budget is about $48 billion higher than the last pre-9-11 annual defense budget. This represents a real increase of 15 percent. Only about one-third of this increase appears to be for programs and activities closely related to homeland security and combating terrorism.

- The bulk of the funding increases for homeland security and combating terrorism provided for FY 2001 and FY 2002 were included in three large emergency supplemental appropriations, which together contained some $64 billion. DoD has received about $30 billion, or 47 percent of the funding provided in these supplementals. The next largest recipients have been the Federal Emergency Management Agency (FEMA) ($11 billion) and the Department of Transportation ($7 billion).

- Most of the emergency funding provided to non-DoD departments and agencies has been used to help recover from the attacks of 9-11 and for victim relief, or to improve aviation security and security at critical, non-DoD facilities located around the world. Altogether, these activities have absorbed...
at least $25 billion of the emergency funding provided since 9-11.

- In recent years, DoD has received about one-third of the federal funding for homeland security and combating terrorism provided through the regular annual appropriations bills. The next largest recipients of non-emergency funding for homeland security and combating terrorism in recent years have been the Departments of Transportation and Justice.

- Programs and activities closely related to homeland security and combating terrorism continue to absorb a relatively small share of DoD’s overall budget. The Office of Management and Budget’s (OMB’s) and DoD’s own estimates suggest that DoD will spend roughly $20-30 billion on these activities in FY 2003. This is equivalent to some 5-10 percent of the recently enacted FY 2003 defense budget. Moreover, some of this funding may be provided in a future FY 2003 supplemental appropriation.

- If policymakers are to effectively determine how much funding needs to be provided for homeland security and combating terrorism in the future, the administration will have to begin providing substantially more detailed, comprehensive, and clear data and cost estimates concerning these missions than it has to date.

OVERALL FUNDING INCREASES

Since the terrorist attacks of September 11, 2001, US funding related to defense, homeland security and combating terrorism has been increased substantially. Assuming that Congress approves the level of funding requested for homeland security and combating terrorism in the President’s FY 2003 budget request for non-defense departments and agencies when it reconvenes early in 2003, the total increase since 9-11 would amount to about $160 billion. On the other hand, if those programs and activities were instead funded only at their current levels through the remainder of FY 2003, the total increase since 9-11 would amount to about $145 billion.

These estimates represent the additional amount of federal funding for defense, homeland security and combating terrorism provided above and beyond what would have been projected to have been spent in these areas had funding simply been increased at the rate of inflation. As such, they reflect increases in real purchasing power, and not merely nominal dollar increases. In other words, over the FY 2001-03 period, a total of $145-160 billion more has been provided for these broad mission areas than would have been needed to simply keep pace with inflation. Table 1 summarizes the different components of the $160 billion estimate.

These estimates may overstate the impact of 9-11 on funding for defense, homeland security and combating terrorism. This is because the starting point for the inflation-adjusted baseline used in this analysis was calculated using the levels of funding provided in the FY 2001 annual appropriations bills. Arguably, a better starting point would be the levels of funding provided in the FY 2002 annual appropriations bills. Arguably, a better starting point would be the levels of funding provided in the FY 2002 annual appropriations bills. This is because it is likely that increases in some or all of these areas would have been enacted in the FY 2002 annual appropriations bills even absent the terrorist attacks of 9-11. The administration had requested funding increases for many of these programs and activities in its initial FY 2002 budget requests, which were submitted to Congress more than six months before 9-11. In particular, it had requested a substantial increase in funding for defense (though this request did not include large increases in funding for DoD programs and activities related to homeland security or combating terrorism).

Since the funding levels proposed, prior to 9-11, for FY 2002 were substantially higher than the levels
enacted in the FY 2001 annual appropriations bills, choosing an FY 2002 inflation-adjusted baseline instead would lessen the apparent impact of 9-11 on spending. Specifically, if FY 2002 were used as the starting point for the inflation-adjusted baseline rather than FY 2001, the total increase in funding for defense, homeland security and combating terrorism would amount to some $105-120 billion. In the end, however, although there is no “right answer,” choosing the FY 2001 inflation-adjusted baseline appears to be the sounder approach. This is for the simple reason that, while the administration had proposed FY 2002 funding increases, prior to 9-11, for defense and some programs related to homeland security and combating terrorism, most of these bills were not enacted until after September 11, 2001.

FUNDING FOR HOMELAND SECURITY AND COMBATING TERRORISM

Precisely estimating funding levels for homeland security and combating terrorism is difficult, among other things, because it is not always clear which federal programs and activities should be included in these totals. The definition used in this analysis includes funding identified as related to homeland security and combating terrorism in a variety of administration and congressional documents.

According to OMB estimates, prior to the terrorist attacks of 9-11, the administration and Congress had provided about $20 billion for homeland security and combating terrorism in FY 2001. After the attacks, funding was increased for these activities both by providing more money in regular annual appropriations bills and by enacting a series of emergency supplemental appropriations. And legislation affecting direct federal spending has provided another $11 billion in funding related to 9-11 over the FY 2001-03 period.

Table 2 provides a rough breakdown of overall federal funding for homeland security and combating terrorism over the FY 2001-2003 period. The figures for FY 2003, in particular, are tentative. Among other things, they assume that when Congress reconvenes in January it will approve funding levels for domestic homeland security and combating terrorism activities that are close to the levels included in the administration’s FY 2003 request (US domestic departments and agencies are currently being funded through a stop-gap continuing resolution). Altogether,

| TABLE 1: FUNDING FOR DEFENSE, HOMELAND SECURITY & COMBATING TERRORISM SINCE 9-11 (in billions of dollars) |
| FY 2001 | FY 2002 | FY 2003 | FY 01-03 |
| Homeland Security & Combating Terrorism* | 45 | 71 | 56 | 172 |
| Department of Defense** | 301 | 327 | 364 | 991 |
| Pre-9-11 Inflation-Adjusted Baseline | 20 | 20 | 21 | 61 |
| Department of Defense | 301 | 310 | 317 | 927 |
| Difference | 25 | 51 | 35 | 111 |
| Homeland Security & Combating Terrorism | 0 | 17 | 48 | 64 |
| Department of Defense | 25 | 68 | 82 | 175 |
| Subtotal | 25 | 51 | 35 | 111 |
| Adjustment for DoD Overlap | 0 | -1 | -14 | -15 |
| TOTAL REAL GROWTH SINCE 9-11 | 25 | 67 | 68 | 160 |

* See table 2. ** Excludes funding provided in post-9-11 emergency supplemental appropriations.
Sources: CSBA based on OMB, DoD, CBO and CRS data.
as illustrated in Table 1, the level of funding provided for these missions over the FY 2001-03 period is likely to be about $111 billion more than would have been provided over this period had funding simply been increased at the rate of inflation.

**DOD FUNDING SINCE 9-11**

As the discussion above indicates, DoD accounts for a significant portion of what the administration defines as funding for homeland security and combating terrorism. DoD has accounted for nearly half of all the emergency funding provided since 9-11 and absorbs about one-third of all funding for these missions provided in regular annual appropriations bills. According to OMB and DoD figures, the administration’s FY 2003 request included as much as $32 billion for homeland security and combating terrorism. This included a $10 billion war reserve fund to be used, as needed, to cover unspecified future military operations (in Afghanistan or elsewhere) related to the war on terrorism. Congress rejected this proposed fund, but appears to have approved most (though not all) of the other funding requested. This suggests that the level of funding provided to DoD for missions related to homeland security and combating terrorism is likely to amount to some $22 billion in FY 2003. This is some $14 billion more than would have been provided in FY 2003 had funding for these missions simply been increased at the rate of inflation. That is a substantial increase. However, over that same period, DoD’s overall budget increased by significantly more. The recently enacted FY 2003 defense budget is about $48 billion above the FY 2001 inflation-adjusted baseline.

The recently enacted FY 2003 defense budget is about $48 billion above the FY 2001 inflation-adjusted baseline.
been allocated directly to homeland security and combating terrorism has been used to support a wide variety of other programs and activities. Much of it has been absorbed by improvements in military pay and higher operations and maintenance (O&M) costs. Among the fastest growing segments of the defense budget has been military health care. These costs have grown in part because of the expansion of health care benefits for military retirees, and in part because of the same factors that have pushed up health care costs in the civilian market. Another major beneficiary of the boost in DoD funding since 9-11 has been military research and development (R&D). FY 2003 funding for defense R&D is about $15 billion above the FY 2001 inflation-adjusted baseline for defense R&D. Among the greatest beneficiaries of this funding growth have been ballistic missile defense programs, funding for which has grown by over $2 billion since FY 2001. The other main beneficiaries are long-planned next-generation weapons programs, such as the F-22 fighter, the F-35 fighter and the Comanche helicopter, which are undergoing engineering and manufacturing development (EMD), the last phase of R&D prior to production. It is unclear precisely how much of the increase in funding for defense R&D since 9-11 has been allocated to programs related to homeland security and combating terrorism, but it appears likely that such programs account for only a relatively modest share of the increase.

ENDNOTES
2. OMB, p. 15.
3. The vast majority of this funding will be provided as a result of The Air Transportation Safety and System Stabilization Act (P.L. 107-42), which is intended to provide compensation payments to victims and their families and financial assistance to distressed airlines. CBO, Letter to Spratt, p. 2.
4. In addition to $64 billion provided through three emergency supplemental appropriations, Congress added about $700 million in funding related to homeland security and combating terrorism to the some of the 13 regular FY 2002 annual appropriations bills it enacted in the immediate aftermath of 9-11.
5. Among other things, reflecting reduced requirements, Congress cut the level of funding requested for flying combat air patrols over US cities after 9-11.
6. The $22 billion estimate assumes that the FY 2002 defense appropriations bill included the $14 billion in funding for homeland security and combating terrorism identified by OMB in the administration's FY 2003 request, plus some $8.2 billion in other DoD funding included in the administration's request.
Assessing the Tradeoffs

Choosing Among Alternative Responses to Global Mass-Casualty Terrorism

Cindy Williams
Principal Research Scientist
Security Studies Program
Massachusetts Institute of Technology

The terrorist attacks of September 11, 2001, provided shocking evidence that global, mass-casualty terrorism is a very real concern that requires a concerted national response along multiple fronts. To clarify and assess the policy and spending choices that must be made in dealing with the threat, it is critical that the nation develop a sound framework for thinking about them.

Such a framework would lay out the critical areas of effort, set priorities among them, and suggest how the responsibility for each area should be allocated among the federal government, state and local governments, businesses, and individuals. Priorities embodied in the framework should dictate the allocation of resources among the many possible measures. Adopting such a framework might help policy makers to think through the tradeoffs they will face in the future as they try to match strained budgets to national priorities. It can also serve as a useful tool for analysts and for members of the media who wish to assess the relative weight of effort embodied in national plans and budgets for countering terrorism.

A SIMPLE FRAMEWORK FOR THINKING ABOUT NATIONAL OPTIONS

As with other defensive problems, most of America’s options for dealing with global mass-casualty terrorism and its consequences can be grouped roughly into six layers (see table below for a description of the layers and illustrative elements within them). The outermost layer consists of non-military international measures aimed at preventing future acts of terrorism. It includes assisting and rewarding foreign governments and individuals for their cooperation in the fight against terrorism, reaching out to audiences abroad through U.S. and foreign media, providing humanitarian assistance to populations affected by the fight, working with others to prevent failed states, and working to improve the economic conditions that can create a breeding ground for terrorism. A second layer consists of military solutions aimed at stopping new acts of terrorism before they start, through retaliation and other deterrent measures and through offensive operations to destroy terrorist training camps and networks abroad and prevent the spread of weapons of mass destruction.

A third layer, a sort of barrier defense, aims to prevent attackers from reaching directly into the United States. That layer includes elements of federal law enforcement, border and aviation security, and active military defenses like combat air patrols. A fourth layer consists of physical and cyber security measures to protect people, facilities, and information systems from harm should attacks occur—gates, guns, and guards and their cyber equivalents. A fifth layer consists of making the preparations for disaster response and consequence management that will be needed to recover from and ameliorate the consequences of future attacks, and a sixth layer consists of relief and recovery efforts after an attack occurs. Taken together, those four innermost layers constitute homeland security.1

Comparing options within the same layer of the framework can help surface activities that may not make sense, either because they are duplicative or because they would cost substantially more or be less effective than other programs that could achieve similar aims. For example, both the military’s combat air patrols and the air marshals on commercial flights contribute to barrier defenses, the third layer of the scheme suggested here. The Defense Department spent
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substantial sums in 2001 and 2002 to operate the combat air patrols poised to shoot down errant commercial flights. Yet expanding the air marshal program would achieve similar aims, probably at a far smaller cost and with greater effectiveness and less risk to travelers. Similarly, one can ask whether the large expenditures planned for national missile defense make sense, given the many other approaches a terrorist might take to get through the barrier level. As a minimum, one should ask whether the $8 billion a year the Bush administration plans to spend on missile defenses is balanced by efforts to prevent weapons of mass destruction from being produced inside the United States or brought in through global transportation networks.

Exploring tradeoffs across layers might be more complicated. On the one hand, efforts in the outer layers may offer the greatest payoff; if they work, the inner layers will not be called upon. (Emphasizing the outer layers is consistent with a preference articulated by the administration for stopping terrorism as far from the United States as possible.) Moreover, the effect of efforts in an outer layer can compound the effects of inner layers and complicate the situation for terrorists. On the other hand, the possible threats are so varied and terrorist networks are evidently so widely dispersed around the globe that a prudent planner would want the inner layers no matter how effective the outer layers might seem against known potential threats. Thus, for example, even if ballistic missile defenses can be shown to work with some level of effectiveness, local measures to protect people and recover from future attacks will continue to be important. Nevertheless, comparing a variety of potential solutions both across and within layers may help to offset a preference for the complicated over the mundane and for reacting to the most recent crisis rather than setting priorities for the longer term.

THE ADMINISTRATION’S STRATEGY DOCUMENTS

The administration touts a multi-faceted campaign to disrupt and destroy terrorism worldwide—one that balances military measures with diplomatic and economic ones. Its two key strategy documents, the National Security Strategy of the United States of America and the National Strategy for Homeland Security, lay out a wide range of concerns and a number of broad
paths aimed at developing such a campaign. They provide a good start in identifying and articulating important areas of effort. Unfortunately, they do not offer much insight into the priorities among three critical areas of effort: non-military international solutions, military options, and homeland security measures. Looking at the problem of combating terrorism through a schema of layers such as the one proposed here might help policy makers and analysts to think through tradeoffs among the many choices discussed in those documents.

EXAMINING SPENDING CHOICES IN LIGHT OF THE FRAMEWORK
An examination of federal spending since September 11, 2001, in light of the framework proposed here reveals a hierarchy of administration preferences, however. In budgetary terms, military solutions are clearly preferred, even though much of the new money devoted to the defense department will have little effect in addressing the problems of terrorism. Nonmilitary international measures, the first layer of options, are the clear losers of the budget sweepstakes. Hefty sums spent on the sixth layer of the framework, disaster relief and recovery, reflect both the urgency and the substantial financial cost of recovering after attacks occur.

ENDNOTES
Economic strength can enhance national security because it allows a country more choices in structuring and exercising its military and diplomatic options. At the same time, economic strength can also give a false sense of security, and lead decision-makers toward over-stretching their boundaries. In addition, economic strength can create difficulties to the extent it generates new issues or areas that security planners need to be concerned with. Economic strength can also, however, provide a set of tools to achieve security objectives that can complement, and in some important instances substitute for, the traditional tools of military and diplomatic statecraft. This paper will develop ways of thinking about these alternative tools, and illustrate their use in three case studies.

GLOBALIZATION AND THE CHANGING NATURE OF SECURITY
Economic strength is increasingly derived from a country’s international economic relationships. Modern globalization, rooted in liberal political and economic institutions and increasingly based upon science and technological change, has progressed through two distinct phases. The expansion of international economic relations in the half-century prior to World War I was actively supported by, and sometimes led by, the political and military power of government.

The second phase of modern globalization began after World War II with governments, led by the United States, establishing rules of international political and economic interactions, in the form of inter-governmental agencies including the UN, the General Agreement on Tariffs and Trade (GATT) which is now the World Trade Organization (WTO), the International Monetary Fund (IMF) and the World Bank, with others in following years. These new rules and institutions set the stage for substantial growth in international trade, international finance, and foreign direct investment. Today’s globalization involves more extensive, or “deeper,” cross-national integration than in the past. Integration can occur at any place in a firm’s value chain, not only at the level of resource extraction or assembly and sales.

With economies being tied together more intimately, the cost of disrupting these ties is greater, and the pressures for maintaining them stronger. Policies to reinforce economic integration, while promoting greater democracy and equality, may be capable of serving and securing traditional security objectives. Since the end of the Cold War, the primary threats to U.S. security have come from failed and failing states and international terrorism. New threats require new tools and a wider menu of options.

THE BUSH ADMINISTRATION AND THE NATIONAL SECURITY STRATEGY
The Bush Administration has explicitly included economic considerations as a component of its national...
Security strategy. Previous administrations have done so also. These considerations are in terms of generalities, such as promoting open markets and free trade, and give little guidance as to how they would affect security. Such an approach is inadequate to deal with the most severe security problems and is often not practiced in reality, taking second place to military options.

**ECONOMICS AND SECURITY UNDER GLOBALIZATION**

An alternative vision of how economics can enhance security needs to understand both the strengths and limitations of open markets. While market-oriented policies can and have had significant successes in promoting development, they also have limitations. Closer and deeper integration increases the likelihood, and raises the cost of, market failure, such as pollution, inadequate investment in health and knowledge, development of social capital, and poverty and inequality. Transnational crime and violent conflict use the same modes of integration that characterize globalization. These failures imply the need for greater governmental and inter-governmental actions, not less.

**NUCLEAR PROLIFERATION AND THE DEMOCRATIC PEOPLE’S REPUBLIC OF KOREA**

The United States and the Democratic People’s Republic of Korea (DPRK) have been engaged in a long-running diplomatic dance over the DPRK’s attempts to acquire, build and disseminate weapons of mass destruction (WMD) and their delivery systems. Former President Jimmy Carter helped negotiate the Agreed Framework in 1994, under which the Korean programs would be halted in return for oil, assistance in building light water reactors, modest financial assistance to replace the hard currency earnings from sale of WMD technology, and greater political recognition. The United States was slow in delivering some of its commitments, and never delivered on the promise of political recognition. The DPRK, on its part, resumed its nuclear warhead program in 1998. At the same time, when the DPRK tested a multi-stage ICBM in 1998, this was taken as evidence of a growing ballistic missile threat to the United States, and has formed part of the rationale for deployment of a ballistic missile defense system.

The DPRK has indicated on a number of occasions that it sees its WMD programs as bargaining chips, and is essentially willing to trade them for economic assistance and political normalization. Its closest neighbors, South Korea, Japan and China, seem much more willing than the United States to follow these leads and engage in negotiations. The Bush Administration, by contrast, has raised the stakes by declaring the DPRK as a member of an “axis of evil,” by declaring it reserves the right of first use of nuclear weapons, by stating its acceptance of the doctrine of preemptive war, and by blaming the DPRK for every diplomatic setback. The DPRK is a failing economy and perhaps a failing state. A policy of direct economic aid, in return for cessation of WMD programs, of providing incentives for U.S., South Korean, Japanese and other companies to trade with and invest in the DPRK, of technical assistance in agriculture, energy, transportation and other key areas, and of assistance in supporting DPRK enterprises in their attempts to forge international economic links, promises to reduce tensions far more readily than the present course.

**CLOSING A NUCLEAR LOOPHOLE AND THE PRIVATIZATION OF THE UNITED STATES ENRICHMENT CORPORATION**

One of the reasons why the world community is presently concerned with Iraq is the possibility that the Iraqi government can obtain fissile materials from clandestine sources, and thereby have nuclear weapons within a one to two year period. The primary source of such clandestine material would be the surplus weapons stocks of the former Soviet republics. The United States has several programs designed to provide financial support and technical assistance to the former Soviet bloc to effectively manage these weapons stocks. The Cooperative Threat Reduction Program (Nunn-Lugar) has had substantial success, but has also been under-funded and experienced difficulties in its relations with host governments. A sec-
ond program, designed to purchase Russian high-enriched uranium (HEU) from de-commissioned warheads and blend it down into low enriched uranium (LEU) for use in nuclear power plants, has also had success and problems. Its problems, which severely limit its effectiveness, are due to an inappropriate privatization.

The Clinton Administration approved the privatization in 1998 of the United States Enrichment Corporation (USEC), the sole U.S. agent for blending nuclear fuel. Clinton’s chief economic advisor, and later Nobel laureate, Joseph Stiglitz opposed the privatization on the grounds that a private corporation would have the incentive to buy its source material at the lowest price available. Stiglitz predicted that USEC would buy less LEU than the Russians were willing to sell, a prediction that turned out to be accurate. The U.S.-Russian HEU agreement has had a smaller impact on Russian stocks of fissile material than it could have, a result of the conflict between private incentives and national security interests. This is an example where a government program would be more likely to have the incentives needed to reduce, and eventually remove, this material from possible theft or black market sales. In order to more rapidly achieve this objective, USEC should be re-nationalized and the U.S. government should purchase the entire Russian stock of HEU, blend it down into LEU, and provide the money and expertise to ensure the necessary security, transport and storage.

The Problem of Failed States and the Role of Foreign Economic Assistance

Foreign aid has a bad reputation, the result, in part of some large abuses (e.g., Mobutu’s Zaire) and over-sold strategies, but also because with the end of the Cold War, aid is no longer seen in the United States as having the same geo-political significance. Also, budgetary politics made aid an easy victim. But aid can have a substantial role in a broader strategy of political and economic security. The Bush Administration’s Millennium Aid strategy, designed to underpin an expansion in U.S. foreign aid, is deficient in that the criteria for aid recipients are too restrictive; only states that need aid the least will be eligible. Moreover, failing states may need aid to obtain the political and economic institutions that would make them eligible, a clear catch-22.

An alternative strategy would start with a substantial increase in aid amounts. It would contain an emphasis on health outcomes, including HIV/AIDS, malaria and other major health problems, as well as a host of less prominent issues. Improving health outcomes can be a major contributor to internal stability and economic growth. Also important is the use of aid to reduce poverty and inequality, and act as a complement to private initiatives, in conflict situations. While poverty, as the President and others have stated, is not by itself a cause of terrorism, failing to address poverty is one of the roots of the disenchantment with globalization and modernization.
Prevention, Not Intervention

Curbing the New Nuclear Threat

NEW PRIORITIES: DISARMING TERRORISTS AND TYRANTS
In response to the increased vulnerability felt by Americans in the wake of the September 11th terror attacks, the Bush administration has moved assertively to implement its agenda for protecting U.S. territory, U.S. troops, and U.S. allies from the greatest potential threat of all: nuclear weapons in the hands of a sworn U.S. adversary. As President Bush put it in his October 7th, 2002 speech in Cincinnati, “Terror cells and outlaw regimes building weapons of mass destruction are different faces of the same evil.”

The Bush administration is not putting its trust in treaties or the rule of law to diminish the nuclear danger, but in its ability to use force or the threat of force to preempt the development of these devastating weapons by hostile nations or terrorist groups. In the administration’s view, the problem is not stopping the spread of nuclear weapons per se, but keeping them out of the hands of bad actors. The existing nuclear arsenals of friendly governments in Russia, Israel, Pakistan, and India are tolerated, while heading off the potential nuclear arsenals of the so-called “axis of evil” states of Iran, Iraq, and North Korea has become a top strategic priority. And the Bush-Putin nuclear accord, which calls for the removal of two-thirds of the U.S. and Russian strategic nuclear arsenals from active deployment over the next decade, leaves the door open to the development of a new generation of low-yield, “bunker busting” nuclear weapons and a multi-billion dollar modernization of the U.S. nuclear weapons complex.

If we lived in a world in which countries were either “with us or against us,” as President Bush has put it, this narrow focus on keeping nuclear arms out of the hands of potential adversaries might make short-term, pragmatic sense. But the volatility of the current geopolitical landscape places severe limits on a strategy based on rooting out evil regimes. Just as the National Rifle Association’s slogan – guns don’t kill people, people kill people – ignores the dangers inherent in the widespread availability of firearms, the Bush administration’s focus on disarming or displacing “rogue” governments ignores the risks posed by the continuing existence of tens of thousands of nuclear weapons and massive quantities of bomb-grade materials.

A POST-9/11 STRATEGY: PREVENTION OR INTERVENTION?
A strategy of military preemption is ill-suited to the complex task of stemming the spread of nuclear weapons. In the real world, as opposed to the world that exists in the imaginings of Donald Rumsfeld, Dick Cheney, and Paul Wolfowitz, overthrowing Saddam Hussein will have virtually no impact on the future ability of Al Qaeda or some other terrorist group to get its hands on a nuclear weapon. Just as Willie Sutton robbed banks because “that’s where the money is,” a terror network intent on getting access to nuclear weapons or the ingredients thereof is likely to go where the bombs are. Bribing an underpaid Russian security guard or infiltrating the Pakistani nuclear program are far more likely avenues for terrorists seeking a nuclear weapon than cutting a deal with Saddam Hussein’s regime, which does not currently possess a nuclear weapon and would be extremely unlikely to share it with an Islamic fundamentalist group if it had one.

As a bipartisan task force headed by former Senate Majority Leader Howard Baker and former White
House Counsel Lloyd Cutler noted in January 2001, “the most urgent national security threat to the United States today is the danger that weapons of mass destruction or weapons-usable material in Russia could be stolen or sold to terrorists or hostile nation states and used against American troops abroad or American citizens at home.” The task force recommended the development of a $3 billion per year, ten year plan to safeguard, destroy, or neutralize Russia’s vast nuclear stockpile, which it estimated at up to 40,000 strategic and tactical nuclear weapons plus enough enriched uranium and plutonium to build tens of thousands more.

Despite its evident concerns about nuclear proliferation, the Bush administration has been slow to embrace the recommendations of the Baker/Cutler task force:

- The administration’s first budget submission for nonproliferation programs was just $759 million, a cut of roughly $100 million from prior year levels. It took action from a bipartisan coalition in Congress to push funding up to its current levels of roughly $1 billion per year, which is still only one-third of the levels recommended by the Baker/Cutler task force.

- At $1 billion per year, the federal government’s entire budget for non-proliferation programs is roughly equivalent to four days of the estimated costs for the Bush administration’s proposed military intervention in Iraq, which the Congressional Budget Office has estimated at a cost of about $9 billion per month. Tripling these programs to the levels recommended by the Baker/Cutler task force would cost the equivalent of less than two weeks of the proposed war in Iraq.

- Due to lack of a reliable funding stream, the Bush administration’s August 2002 removal of 2.5 nuclear bombs worth of highly enriched uranium from a research laboratory in Yugoslavia had to rely on a $5 million contribution from the private Turner Foundation to seal the deal. The Bush administration has failed to support members of Congress who are seeking to establish a truly global non-proliferation fund that could purchase and destroy nuclear weapons and nuclear materials from any nation of proliferation concern, not just Russia. In addition, the administration and hardliners in the Congress have blocked efforts to speed the implementation of Nunn-Lugar cooperative threat reduction programs in Russia by clinging to Cold War-style conditions on the provision of this vital assistance.

OUTLINES OF A NEW APPROACH

Preventive diplomatic efforts will be far more effective in stopping the new nuclear danger than preemptive military strikes. In line with a preventive approach, resources devoted to defending against a possible nuclear attack should be focused on the most likely threats. Key elements of such a strategy should include the following:

- Create a global non-proliferation fund with adequate resources to deal not only with the urgent task of destroying, securing, or neutralizing Russian weapons-grade nuclear materials, but to carry out similar programs in other nations of proliferation concern. As a first step, the Bush administration should increase annual U.S. government spending on nonproliferation programs from $1 billion per year to at least $3 billion per year.

- Support the implementation of a streamlined and strengthened regime of sanctions and inspections in Iraq that focuses narrowly on goods of direct military concern, improves border, cargo, and port monitoring in the region, and provides economic incentives for Iraq’s neighbors to observe the letter and spirit of the sanctions regime. The first step in the process involves supporting the efforts of the current UN inspection team to do its work as thoroughly and effectively as possible.

- Resume nuclear talks with North Korea based upon the principles of the 1994 U.S.-North Korea nuclear
framework agreement, with a focus on the elimination of Pyongyang’s nuclear and ballistic missile programs in exchange for a program of economic assistance and movement towards normalization of political relations.11

- Reinforce the Bush-.Putin accord’s commitment to reduce deployed U.S. and Russian nuclear weapons by two-thirds over the next decade with an agreement to accelerate the pace of reductions, destroy all warheads withdrawn from service under the accord, and begun the process of destroying Russia’s substantial stockpiles of tactical nuclear weapons.

- Initiate discussions among the five major nuclear powers designed to set time lines for the deep reduction and ultimate elimination of their nuclear arsenals, accompanied by parallel regional discussions on eliminating nuclear weapons and nuclear weapons development in the Middle East and South Asia.

- In line with longstanding assessments by U.S. intelligence analysts that a ballistic missile is the least likely method a hostile nation or terrorist state would choose for launching a nuclear attack against U.S. territory, funds should be shifted from the administration’s $7.8 billion per year ballistic missile defense program to efforts to protect U.S. ports, borders, and coast lines against the delivery of a nuclear weapon carried on a ship or truck. Greater resources should also be devoted to protecting nuclear weapons facilities, laboratories, and power plants against theft or attack. To date, all of these other necessary efforts combined are receiving a small fraction of the resources being lavished on the ballistic missile defense program – a program that is slated for major funding increases in the light of President Bush’s recent decision to seek deployment of an initial system by 2004. To cite just one example of the disparity in resources involved, federal resources devoted to stopping international nuclear smuggling totaled just $86 million for the ten years from 1992 to 2001, an average of just $8.6 million per year.12

ENDNOTES


2. Neither Iran nor Iraq has nuclear weapons. Some analysts believe that North Korea may have two to five nuclear bombs derived from work done before the implementation of the 1994 U.S.-North Korea nuclear framework agreement. By contrast, Israel is believed to have at least 100 nuclear weapons, India has an estimated 50 to 90, and Pakistan is believed to have 30 to 30. Figures are drawn from Joseph Cirincione, editor, with Jon B. Wolfsthal and Miriam Rajkumar, Deadly Arsenals: Tracking Weapons of Mass Destruction (Washington, DC: Carnegie Endowment for International Peace, 2002), p. 43.


4. The Bush administration’s use of the term preemption is a distortion of the term as it is generally understood. Historically, the term preemptive strike has been used to refer to a situation in which an adversary is poised to attack and the targeted country strikes first. In the Bush administration’s use of the term, it has been applied to situations like its proposed intervention in Iraq, a nation which is not currently in the midst of planning an attack on the United States. The term preventive war has been applied to scenarios like the administration’s proposed intervention in Iraq, which would involve displacing Saddam Hussein’s regime before it has the capability to attack the United States or its allies with weapons of mass destruction, and certainly before it is “on the verge” of doing so. Although it is strictly speaking more accurate, I have refrained from using the term preventive war with respect to possible military action against Iraq because I believe it gives the term “prevention” a bad name. A series of “preventive wars” designed to address non-imminent threats would be likely to cause more instability and destruction than they would prevent.


6. William Hoehn, “Analysis of the Bush Administration’s Fiscal Year 2003 Budget Requests for U.S.-Former Soviet Union Non-proliferation Programs,” Russian American Nuclear Security Advisory Council (RANSAC), April 2002. The non-proliferation programs referenced here include the Pentagon’s Cooperative Threat Reduction (Nunn-Lugar) programs, along with related programs run by the Department of Energy (such as the materials protection, control, and accounting program, MP&C) and the Department of State (including programs funded under the Freedom Support Act and the Nonproliferation, Anti-terrorism, Demining, and Related account, NADR).


9. This should include movement towards the $3 billion target for U.S. nonproliferation programs in Russia proposed by the Baker/Cutler task force, plus meeting the U.S. pledge to supply half of the funding for the G-8 nations ten-year, $20 billion proposed “Global Partnership Against the Spread of Weapons of Mass Destruction.” Once the U.S.-Russia programs are fully funded, total non-proliferation spending should be $4 billion or more per year. For an analysis of the G-8 proposal, see Testimony of Kenneth N. Luongo, “Executive Director, Russian-American Nuclear Security Advisory Committee (RANSAC), to the Committee on Foreign Relations, U.S. Senate, October 9, 2002, available at www.ransac.org.

10. For a more detailed proposal along these lines, see David A. Cortright, George A. Lopez, and Alistair Millar, Winning Without War: Sensible Security Options for Dealing with Iraq, Policy Brief F5, a joint project of the Sanctions and Security Project, Joan B. Kroc Institute for International Peace Studies at the University of Notre Dame, and the Fourth Freedom Forum.

11. For an up-to-date analysis of the state of play on the North Korean nuclear issue, see Leon V. Sigal, “North Korea is No Iraq: Pyongyang’s Negotiating Strategy,” Arms Control Today, December 2002.

12. Funding for programs designed to prevent nuclear smuggling was increased dramatically in the FY 2003 budget request, to $101 million for that year, but questions remain about whether investments in equipment and personnel are adequate to the task, and whether there is sufficient coordination among agencies involved in these efforts. For example, as of this writing, the U.S. Customs Service relies mainly on 4,200 belt-mounted radiation “pagers” to detect nuclear material; these devices are of minimal value in detecting weapons grade nuclear materials. For further background see Statement of Ms. Gary L. Jones, Director, Natural Resources and Environment, United States General Accounting Office, Before the Subcommittee on Emerging Threats and Capabilities, Committee on Armed Services, U.S. Senate, July 30, 2002; and the summary of the hearings at which Ms. Jones testified which was produced by Michael Roston of the Russian American Nuclear Security Advisory Committee (RANSAC), available at www.ransac.org, under “Congressional Updates.”
9–11 and the Meanings of Military Transformation

Carl Conetta
Co-Director, Project on Defense Alternatives

It has become commonplace to say that the “world changed” fundamentally on 11 September 2001, when terrorists attacked the Pentagon and World Trade Center. Actually, it had changed 12 years earlier — in 1989, when the Berlin Wall fell and the Cold War order began to crumble worldwide. With this, the types of threats that had shaped the US military since World War II began a precipitous decline — and a different set of challenges rose to prominence. What preceded the 11 September attack was a decade-long failure to adapt the US military to new conditions. And the failure continues still.

During the Cold War, America’s military requirements were decided largely by the contest between the superpower blocs. Today, no interstate confrontation provides a comparable framework. Instead, what gives the present security environment its distinctive character is a tension between the state system and several zones of acute instability. Appreciating the implications of this change is key to assessing efforts at military transformation.

THE WORLD THAT WAS

Between 1947 and 1989, the superpower blocs poured approximately $35 trillion (USD 2001) into their contest. It rested on two enormous military-industrial-scientific establishments, which in the 1980s employed 21 million people in the Soviet Union and United States. These establishments supported dense lines of military confrontation between the blocs in Asia and, especially, Europe (where more than 4 million high-readiness troops faced each other across the “central front”). They also supported proxies in the developing world, both governments and insurgents, producing armed forces there of unusual strength.

Arms transfers constituted one important type of support, North to South. The arms trade peaked during the 1980s, with the total value of transfers for the decade exceeding $650 billion (USD 2002). By the close of the Cold War there were 64 dictatorial or authoritarian “garrison states” in the South that had been significantly dependent on the superpower blocs. Also, between 1950 and 1989, there were 35 significant “Third World” insurgencies in which the superpowers (or their core allies) had aided rebel forces.

A distinctive mark of the Cold War military system was the prevalence of two types of confrontation:

- Very large-scale stalemates or conflicts between well-supported capital-intensive militaries, possessing armadas of heavy mechanized ground forces, artillery and missile systems, and advanced combat aircraft; and,
- Intense, protracted civil wars between militarized central governments and large, fairly well-equipped, and persistent rebel forces.

The material basis for these types of confrontation receded as the Cold War ended and the military-industrial system evolved from a bipolar to unipolar configuration. Also important in undercutting the military strength of many developing nations were changes in the global economy beginning in the early-1980s. While several high-density confrontations persisted — for instance, on the Korean peninsula — most nations of concern rapidly lost the capacity to maintain large, capital-intensive armed forces in good fighting shape.
MEASURING CHANGE
Between 1985 and 2001, world military expenditures declined by one-third. Former and potential adversaries of the United States accounted for most of the reduction in spending. As a group, their military spending declined 72 percent between 1985 and 2001 — even though one member of this group, China, actually increased its spending during this period.3 By contrast, US military spending declined by only 17 percent between these years. Total US spending during the 1990s was only 14 percent lower than the aggregate for the 1980s — $3.3 trillion versus $3.8 trillion (2003 USD).

Because US and allied spending did not recede as much, on average, as the rest of the world’s, the US and allied share of world spending increased — from 31 percent to 39 percent for the United States, and 57 percent to 73 percent for the allied group as a whole. (America’s share of world spending is likely to surpass 42 percent in 2003). Standing alone, the United States moved from spending only 80 percent as much as the adversary group in 1985 to spending 250 percent as much in 2001.

Turning to the arms trade: it underwent a 65 percent contraction between 1985 and 2001. Arms imports by developing countries fell by three-quarters. During the last decade of the Cold War about 45 percent of the trade in major weapons was controlled by the Soviet Union, its Warsaw Pact allies, and China. Today the combined market share of China, Russia, and Russia’s close allies is less than 23 percent by value. Whereas they once exported more than $40 billion worth of major weapons each year, their average annual sales for the period 1997-2001 was only $6.2 billion per year. By contrast, the United States and its allies exported $20.4 billion annually during 1997-2001, accounting for 75 percent of the trade in major conventional armament.4


Just as the United States and its allies have come to dominate the arms trade, they also conduct most of the world’s military research, development, and production. Today the United States accounts for almost 60 percent of all military R&D spending worldwide; America’s allies account for another 25 percent. China and Russia together account for less than 12 percent. Regarding military production: the United States presently accounts for more than half of the worldwide total. Adding European NATO and Japan brings the military production share of the allies to almost 90 percent. Combined Russian and Chinese production of major arms constitutes less than six percent of world production.5

The post-Cold War changes in military trade and investment patterns paralleled developments in the political and economic spheres. Together they implied a sharp and progressive reduction in the number, magnitude, and intensity of traditional military threats to the West.

NEW ERA, NEW REQUIREMENTS
Among the important catalysts of instability in the post-Cold War era were (1) the increasing economic marginalization of many developing nations, which began in the 1980s, (2) the collapse of the Soviet empire and Yugoslavia, which added to the world system 23 newly independent states (including the former Warsaw Treaty states), and (3) the sudden termination or attenuation of bloc support for many former allies in the South.

Instability was manifest in an increased incidence of weak or “failed” states, civil and communal violence, refugee and other humanitarian crises, and criminal and black market activity, including an increased traffic in illicit drugs and light military weapons. Amplifying these problems were some residual effects of the Cold War, notably: the broad availability of military weapons and a surplus of demobilized military personnel and insurgents, who could not easily be re-integrated into civil society. Within this latter class a subset that was especially relevant to the events of 9-11 were the 12,000-15,000 “Arab” veterans of the wars in
Carl Conetta

Afghanistan, most of whom came from Egypt, Algeria, Yemen, and Saudi Arabia. These and other veterans of the Afghan wars formed the recruiting pool for Osama bin Laden’s Al Qaeda.

Today, there are several broad zones of instability in the world: one encompassing southern Mexico, parts of Central America, and the Andean region of South America. A second, now in remission, comprises the “transitioning” states along the western border of Russia. A third encompasses most of Africa south of the equator. The fourth is a sprawling archipelago that includes portions of southeast Europe, Africa north of the equator, the Middle East, and portions of central, south, southwest, and southeast Asia. (From a strategic perspective this fourth zone is distinguished by the presence of oil and the prevalence of Islam.)

Due to increased trade, migration, and the weakening of nation-state borders, the problems that beset the zones have a transnational character. This poses a global challenge whose magnitude is suggested by the fact that a majority of the world’s nations are either encompassed, penetrated, or bordered by these zones. Indeed, as demonstrated on September 11, no place on earth is completely removed from their influence.

WHAT IS “MILITARY TRANSFORMATION”? 
While the world changed rapidly and radically after 1990, America’s armed forces did not — apart from reducing in size. Rather than refashion its tool box to fit new conditions, the Pentagon mainstream has tended to view the new era in terms of the types of tools it had on hand at the Cold War’s end. This, notwithstanding the fact that “transformation” has been a Pentagon watchword since the mid-1990s. But the term can have various meanings and serve different ends.

Transformation as adaptation
First, transformation can imply adaptation — reshaping and reorienting the military to better deal with the new security environment. This, the United States largely failed to do during the 1990s.

America’s Cold War armed forces were built to fight big, infrequent wars against large, nation-state foes. And the Cold War era bequeathed the United States a remarkable capacity to wage global nuclear wars, conventional naval wars, and big air-land wars involving heavy mechanized armies and powerful air forces on both sides. After 1989, however, the rising requirement was for a capacity to handle frequent and multiple smaller-scale contingencies of a complex sort: not just traditional combat missions, but also non-traditional missions, including stability and humanitarian operations.

Despite the increased prominence of smaller-scale contingencies during the 1990s, the lion’s share of the military’s time and resources was devoted to “traditional” activities and threats. The vaunted “two-war strategy” made claims on almost all of America’s conventional assets; it dominated planning, training, and procurement. On average, less than four percent of America’s conventional military capacity was deployed regularly in smaller-scale contingencies during the 1990s. (Counting rotation forces, less than one-sixth of the total were oriented toward such contingencies). Nonetheless, it was this set of activities that bore the blame for the military’s readiness problems. Indeed, readiness was defined as being fully prepared to execute the two-war scenario according to schedule. By the decade’s end, “operations other than war” — especially peace, stability, and humanitarian operations — were considered anathema.

During the 1990s, the force mix changed minimally, with the allocation of money and people among the services shifting only a few percent. Even today, preparations for conventional air-land wars absorb at least 70 percent of the Pentagon budget. By comparison, no more than ten percent of the budget serves counter-terrorism and homeland protection goals. This allocation of resources reflects the ongoing influence of the dominant military arms: aircraft carriers, piloted fighter aircraft, and heavy mechanized ground forces.

Poor adaptation is also evident in the Pentagon’s failure to procure enough of the type of assets used most in post-Cold War contingencies. These so-called “high-demand, low-density” (HD/LD) assets have included electronic warfare and suppression of enemy air defenses (SEAD) aircraft; reconnaissance, surveil-
lance, and intelligence-gathering aircraft; airlift assets; A/O-10 attack/observation aircraft and AC-130 gunships; special operations, intelligence, communications, military police, and public affairs units as well as other types of specialized support units. To this list can be added the Army’s lack of medium-weight units — a problem it did not begin to rectify until the end of 1999.

The Pentagon’s failure to substantially alter its mix of tools cannot be attributed principally to a shortage of funds. Among the $3.3 trillion spent on defense during the 1990s was $716 billion devoted to equipment purchases. Although this sum is 25 percent less than what was spent during the 1980s, it was meant to outfit a force one-third smaller than its Cold War predecessor. All told, between 1990 and 2001, the US armed forces bought 45 major surface combatants and submarines, more than 900 combat aircraft, and more than 2000 armored combat vehicles (while upgrading another 800).

Transformation as defense reform
A second possible meaning of transformation is defense reform — with the aim of streamlining the Pentagon’s infrastructure, improving its management practices, and reducing overhead costs. This type of change also foundered during the 1990s. Today our armed forces carry more than 20 percent excess base structure. In addition, maintenance depots, labs, testing facilities, schools, and hospitals all operate with significant excess capacity. Efforts to centralize or privatize support functions have proceeded at a delusory pace. Estimates of potential savings from a more dedicated program of infrastructure reform range from $10 billion to more than $20 billion a year.\(^7\)

Achieving greater efficiency and making wise investment choices depends on DoD having a reliable accounting system which, despite years of criticism, it does not. Untraceable bookkeeping entries presently run at about $1 trillion and problems of inventory control are epidemic. For instance, the General Accounting Office reported in 2002 that DoD had lost track of 1.2 million chemical-biological protective suits and that the Navy in 2001 had written off $3 billion worth of goods as lost in transit. In September 2001 Defense Secretary Rumsfeld estimated that reforming the Pentagon’s financial management system could reduce costs by $15 billion to $18 billion a year.\(^8\)

Transformation as military-technical revolution
Finally, transformation can mean fully adopting new information technology and restructuring the armed forces in order to produce an “information age” military. Along these lines we might expect the evolution of smaller more independent tactical units, flattened command hierarchies, a greater emphasis on networks (rather than platforms), and a thinning of the boundaries between services. The aim would be to increase the effectiveness, efficiency, and flexibility of the armed forces. Success in this would allow them to do more, faster, with fewer resources, and less risk. Although there has been some progress in this area, it continues to trail far behind need and opportunity.

The service bureaucracies have tended to “dumb down” transformation, retaining their emphasis on buying big-ticket platforms, while minimizing organizational change. This narrows transformation to a matter of “recapitalizing” fairly traditional unit structures along fairly customary lines.

Today, most major procurement items continue to reflect a design philosophy that is “pre-network” — a philosophy that loads a relatively few platforms with capabilities that could be distributed. Of course, most of these programs have their origin in the 1980s, before it became common to think in terms of a networked military. Only a few of these legacy programs have been eliminated or substantially trimmed back since the Bush administration took office: all components of combat aircraft modernization are going forward as is procurement of the Comanche helicopter, CVNX aircraft carrier, and V-22 Osprey transport aircraft.

One area of demonstrable progress has been the services’ capacity for conducting long-range precision bombardment, which increased several fold during the 1990s. Although also rooted in Cold War programs, this capability exhibits the transformational qualities of being distributed (thus flexible and robust) and
using information to substantially boost efficiency and effectiveness. But precision strike capabilities alone do not make for a transformed military — no more than having a strong and accurate pitching arm is all there is to excellence in playing baseball.

The 2001 Afghanistan war revealed the limits of precision strike: Using 24,000 bombs, the United States was able to topple the Taliban within ten weeks — but it could not corral Al Qaeda or control subsequent developments on the ground. Indeed, US victory in Afghanistan entailed handing most of the country back to warlords. This is not the type of victory that can stabilize weak states or protect us, in the long run, from the likes of bin Laden. But the problem is not simply one of achieving a more thorough and balanced information-technology revolution. There is a limit to the utility of integrating new technology as long as the US military fails to adapt its mix of capabilities to the present security environment. In other words: to be fully relevant, transformation must encompass adaptation.

**POLICY CHOICES AND TRADEOFFS**

The three meanings of transformation are in no sense mutually exclusive. It would be more accurate to think of them as representing different dimensions or aspects of change. However, there are distinct choices within each of them and specific tradeoffs are associated with these.

Regarding the adaptation of the US military to the post-Cold War security environment: Altering the mix of military capabilities at the disposal of the nation implies a wager about the balance of threats during the next 15 or so years. Although the US military today is not particularly well-suited to addressing many “new era” challenges, it is better prepared to address the sudden re-emergence of a peer or “near peer” rival employing traditional forms of power. How one values this capability depends partly on how likely it seems that a peer competitor to the United States will emerge within the next 15 years. Today’s military is also very well-prepared to dispatch smaller traditional foes such as Iraq. Thus, altering the mix also implies a wager about whether these are rising or declining threats.

Regarding a technology-driven “revolution in military affairs”: Any revolutionary change is bound to be disruptive in the short term. By contrast, the current path — procurement and modernization of traditional platforms and structures — involves minimal transition costs and ensures institutional stability. For this benefit, it sacrifices the flexibility that a more through-going change might bring — and it wagers that no truly revolutionary military competitor will emerge within the next 25 or so years.

America’s growing capability for long-range precision strike represents a partial or truncated revolution in military affairs (RMA). It is very well-suited to coercive diplomacy and large-scale attrition warfare against nation-state foes. Another possible, partial RMA with wider application might focus on modularizing US military units and greatly improving the capacities for joint command, control, and communication. This could greatly improve force flexibility — a benefit regardless of the type of challenge that America faces. Because this option would also produce a more “adaptable” military, it best addresses concerns about the uncertainty of the security environment.

Infrastructure and management reform efforts are also neutral with regard to threat. By relieving resource constraints, they would serve whatever type of military America chooses to build. However, they entail transition costs — such as base cleanup — that diminish near-term savings. Moreover, they directly challenge multiple parochial interests, making progress in this area difficult politically.

**ENDNOTES**


2. Only those insurgencies involving 1500 or more fatalities are counted as “significant.” The estimate is based on the *Armed Conflict 1946-2001* database compiled by researchers at the International Peace Research Institute, Oslo, and the Department of Peace and Conflict Research, Uppsala University.

4. Estimates of the contraction in the arms trade are derived from:

5. Arms research and production statistics are derived from:


Indiscriminate DoD Pay and Benefits Undermine US Defenses

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ince 1999, Congress has been increasing across the board pay and other indiscriminate benefits for active duty and retired military personnel that will cost between $74 billion and $112 billion over ten years. This spending has little proven relationship to stated goals of improving recruitment and retention; it does little, if anything, to help fight the war against terrorism at home or abroad, and it raids the DoD budget of resources needed for more important purposes, such as military readiness and transformation.

The personnel initiatives under discussion are: 1) the repeal of the military retirement reforms of 1986, known as “REDUX,” 2) across-the-board pay increases above the annual rate of inflation for all military personnel and DoD civilian bureaucrats, 3) a supplementary health-care system for military retirees, known as “Tricare for Life,” and 4) “concurrent receipt,” a departure from policy since 1891 of insisting that military retirees, even when disabled and qualified to draw disability payments from the Veterans Administration, draw just one stipend for their military service. Congress has also enacted other, less costly, more directed initiatives, such as selective re-enlistment bonuses and “pay table reform,” which increased pay for specific military grades; such measures can be assessed to address recruitment and retention more effectively and are not included in this analysis.

INDISCRIMINATE PENSION AND PAY INCREASES

In January 1999, Senator John Warner (R.) of Virginia, the Chairman of the Senate Armed Services Committee, introduced S.4 to repeal the 1986 reforms of the military retirement system, thereby arbitrarily increasing pensions for thousands of future military retirees, whether they will be passed over for promotion or perform a non-critical military specialty, or not. CBO assessed the ten year costs at $15 billion. S.4 also included a 4.8% pay increase to all military personnel regardless of specialty or status and even to all Defense Department civilian personnel, even though there had been efforts to reduce the size of the civilian cohort. This pay raise was 60% higher than the 3.0 increase in the consumer price index (CPI) and added over $17 billion to the bill. The impetus for the bill was the Joint Chiefs of Staff (JCS) who wanted to fill a 13% “pay gap” between military personnel and private sector civilian pay levels to address recruiting and retention problems.

Rejecting an appeal from Secretary of Defense William Cohen to delay consideration but after under-the-table urging from the JCS, Senate Majority Leader Trent Lott (R-MS) rushed the bill to Senate consideration February 1999. He had reason to hurry. CBO had been researching the issue, and its findings were devastating: “the Military Retirement Reform Act of 1986 [REDUX] is not having a discernible, widespread effect on the retention of mid-career personnel…. the 13 percent pay gap figure cited in the press does not accurately measure what it purports to and … in general, the whole notion of relying on a pay gap estimate to set pay raises is inappropriate.” And, furthermore, “If retention or recruiting is a problem only for some services, some occupations, or a few years of service [as was known to be the case], then other solutions — such as bonuses or changes in the pay tables — may be more cost effective than across the board increases.” In other words, the hugely expensive repeal of REDUX and passing a general pay increases were
mostly irrelevant to the stated goals of fixing retention and recruitment.

In addition, a draft GAO study8 weakened the case for S.4 even more: “money has been overstated as a factor affecting decisions to stay in or leave the military” and “other issues — a lack of spare parts, health care system concerns, too many deployments and even dissatisfaction with military leaders — have at least as much effect on retention, in some cases more effect, than money.” It was not a message the proponents of S.4 wanted to hear; their solutions were not just expensive, but false.

The messages from CBO and GAO were ignored. The Senate Armed Services Committee held hearings on CBO’s findings only after the Senate passed S.4. After hearing CBO and GAO in hearings, the House of Representatives also decided to ignore them and to adopt similarly indiscriminate measures. After S.4 became law, DoD’s retention problems predictably continued10 until other factors reduced them, such as patriotic enlistments and decisions to remain in service after September 11, 2001, a deteriorating civilian economy, and selective pay and benefits targeted at the problematic personnel areas. Notably however, even after the terrorist attacks of September 11, 2001, DoD had to initially enforce a “stop loss order” to force personnel in critical specialties to remain in military service.

TRICARE FOR LIFE

One of the persistent complaints GAO found about the quality of life for active duty personnel was the “Tricare” HMO-type health system. Congress’ response was to mandate the same system for military retirees, who had been complaining that they weren’t getting the “free healthcare for life” they were promised when they enlisted. The retirees resented being forced into the civilian Medicare system and the fees it required them to pay. Under “Tricare for Life,” they were granted almost wholly cost-free health coverage for any bills from providers or pharmacies not already covered by Medicare.

The most stunning aspect of Tricare for Life is its expense due in large part to the absence of incentives to control utilization. CBO estimated cost at a net $40 billion,11 but when the Defense Department looked at the program, it estimated an additional $3.9 billion just for the first year. When they came to the Defense Department in 2001, DoD’s new Comptroller and Secretary of Defense were aghast. Comptroller Dov Zakheim noted that healthcare had become a “huge portion” of the defense budget. Secretary Rumsfeld noted that the costs were threatening to devour resources needed to transform the military and, later, to fight the war against terrorism.12 DoD requested legislative efficiencies, but Congress rejected most of them, and costs continued to rise: by $5.2 billion in 2002 and $1.0 billion in 2003.13 Only after Congress was strenuously urged by a small number of Members to pay for all of the benefits it had legislated was the additional money appropriated.

Extended beyond the active duty force to retirees, Tricare’s impact on recruitment, retention, and readiness is tenuous, at best. Growing faster than the DoD budget, it will become a primary driver of expanding DoD costs at rates well above inflation that add no weapons, research, training, or personnel to U.S. defenses.

CONCURRENT RECEIPT

Since 1891, it had been federal policy that military retirees, who also qualify for veterans disability payments, may receive just one pension for their military service, and the amount of veterans disability payments were deducted from military pensions. In early 2001, staffers for the Senate Armed Services Committee and for Republican Leader Trent Lott were spreading the word on Capitol Hill that the next major initiative they were advocating with support from the JCS
was “concurrent receipt”: legislation to remove the military retirement offset for retirees who also received a disability payment from the Veterans Administration. CBO scored the cost at $40 billion over ten years; DoD estimated the costs at $16 billion more.

Companion bills (S.170 and H.R.303) were introduced by Senator Harry Reid (D-NV) and Congressman Michael Bilirakis (R-FL) and ultimately accumulated a huge, veto-proof majority in Congress as cosponsors. Concurrent receipt amendments were added to both the congressional budget resolution and National Defense Authorization bills but failed in House-Senate conferences. The cost intimidated Members, and Senator Reid quietly told Senate conferees it would be OK with him if his own proposals were dropped.

In 2002, concurrent receipt was again added to the National Defense Authorization bill, but Members of the Senate Armed Services Committee became concerned that their committee would be “irrelevant” if the bill were vetoed, as promised by Secretary Rumsfeld, if concurrent receipt remained in it. They were also worried that military retirees would become a permanently alienated constituency if concurrent receipt was stripped out again. As a result, they adopted a program just for military retirees who had been injured in combat and were significantly disabled. A reliable cost estimate was not available; CRS was only able to report that the costs would be somewhere between $2 and $10 billion. Veterans groups were incensed that only a small portion of the 550,000 disabled military retirees would qualify. The compromise was, nonetheless, adopted with Senator Warner attempting to mollify the angry retirees by calling the provision a “beachhead in law” for more benefits in the future.

Concurrent receipt had been characterized as “an absolute disaster” by DoD Comptroller Zakheim, and as something that “would divert critical resources away from the war on terrorism, the transformation of our military capabilities and important personnel programs,” by Secretary Rumsfeld. Although the costs, whatever they turn out to be, would come out of funding for other DoD programs, or as recommended by the Senate Appropriations Committee directly from emergency funding to support the war against terrorism — and although the limited benefit would be a precedent for more expensive legislation later, Secretary of Defense Rumsfeld retracted his veto threat, and the bill was signed into law on December 2, 2002.

CONCLUSION
A proposal with initial costs ranging somewhere between $2 billion and $10 billion and that could grow to $40 billion was incorporated into the long term defense budget. These costs were added to the $32 billion for indiscriminate pay and pension increases and to the $40 billion for supplemental healthcare for retirees to constitute immense cost (somewhere between $74 to $112 billion) for benefits having little direct bearing on the recruitment and retention problems of the active duty manpower force.

The ability to pay for more important readiness, modernization, and war fighting programs was also commensurately reduced. With the federal budget in deficit, with the rising costs of fighting the war against terrorism, and with the continuing increase in other defense spending, these indiscriminate initiatives are no longer affordable.

ENDNOTES
1 All costs displayed are estimates from the Congressional Budget Office, unless otherwise noted.
3 Ibid., and Congressional Budget Office Cost Estimate, S.4, February 12, 1999, p. 3.
5 Statement of staffs of Senate Armed Services Committee and of Senator Lott, and of JCS staff, to the author.
6 CBO testimony, Statement of Christopher Jehn, Assistant Director, National Security Division, on Military Pay and Benefits, before the Subcommittee on Personnel, Committee on Armed Services, United States Senate, March 3, 1999, p. 1.
7 Ibid., p. 4.

11 The costs of the program as estimated by CBO have been cited as $60 billion and more; however, those citations included intra-governmental transfers of funds. The net costs to the federal government as estimated by CBO were $40.4 billion.


14 CBO cost estimate of S.170, 107th Congress.

15 Letter of Secretary of Defense Donald Rumsfeld and Secretary of Veterans Affairs Anthony Principi to Senator Pete V. Domenici, March 15, 2002.

16 Senator Reid was heard making this statement at least two times by separate Senate staffers.


22 Belasco, CRS, p. 2.

New spending is required at the state and local level for homeland security. However, deficits in state budgets suggest that their own spending on these programs will not be adequate.

The state and local costs of first response and other homeland security initiatives must be assessed to evaluate the extent of federal grants needed to reach nationally desired levels.

For efficiency, homeland security grant programs could be planned on a regional basis, rather than local or state based. Additionally, a mix of formula and project grants is suggested so that aspects of state and local spending on homeland security that are likely to require long-term planning and some certainty of funding will receive formula grants while others will receive project grants. Further research is needed to identify the appropriate regional configuration of homeland security grants.

The Homeland Security Bill of November 25, 2002:

- Involves some 22 federal agencies with 170,000 federal employees and has a proposed estimated budget of $37.7 billion for fiscal year 2003.
- The mission of the new Department of Homeland Security is to help prevent, protect against, and respond to acts of terrorism on American soil.

While the 50 states are the main agents for implementation, how to finance this is unclear:

- State budgets are the worst for decades with a combined gap of $37 billion for fiscal year (FY) 2002.
- Low reserves and the expected FY 2003 gap will raise borrowing costs.

- Borrowing can nonetheless help fund some infrastructure needs, but current costs such as training police and fire personnel must come from:
  - State and local government’s own sources (taxes, fees and charges),
  - Or from intergovernmental grants.

Apart from the limited fiscal capacities of states and localities to fund homeland security:

- Sub-national governments are likely to spend less than needed because benefits financed by one state or city are in part received externally by other states and localities.
- Also, some states and localities could jeopardize the safety of neighboring jurisdictions by choosing to incur lower anti-terrorism expenditures than socially desirable.

Although the current federal reinsurance program creates a safety net by absorbing risks of losses from catastrophes, new monetary and other incentives are needed to address:

- The actual fiscal capacity constraints of states and local governments.
- The disincentives from externalities that benefit states and cities that lack adequate programs at the expense of those that make appropriate investments in security.

Federal incentive grants will be important; and their design must consider:
Which level of government (state, local or regional) should receive the grants?

Whether the grants should be designed as matching grants or non-matching grants?

Whether distribution should be by formulae or as project grants on a case-by-case basis?

What conditions, if any, should the grantors impose on the use of grant money?

Federal homeland security legislation identifies four main areas to be funded in FY 2003:

- First response capacities: $3.5 billion proposed, which is about 9% of the $37.7 billion total.
- Defense against bio-terrorism: $5.9 billion, about 16% of the total.
- Securing America’s borders: $10.6 billion, about 28% of the proposed total.
- Aviation security: $4.8 billion proposed, about 13% of the proposed total.

An additional $5.3 billion is proposed for other non-Department of Defense programs, plus $6.8 billion for DoD programs within the homeland security budget; and $0.7 billion for information technology, making a total of $37.7 billion proposed for homeland security in FY 2003.

Three of these areas give key roles to states and local governments:

- First response duties using police, firefighters and health personnel in case of catastrophic attack are to be covered by most of the $3.5 billion federal first-responder allocation.
- Defending against bio-terrorism using $1.2 billion or 20% of the related federal budget to strengthen state and local health systems, plus $0.4 billion to deliver pharmaceuticals.
- Building technology infrastructure with cyberspace security ($0.7 billion).

The remaining initiatives (73% of federal spending) is proposed for securing America’s borders, aviation security and other initiatives where states and local authorities are to act as partners without having budgetary control.

A 2002 report America Still Unprepared—America Still in Danger of the Independent Task Force chaired by former senators Gary Hart and Warren B. Rudman described state and local preparedness:

- State and local first responders (police, fire and medical emergency personnel) are basically unprepared for apprehending and responding to terrorist attacks.
- They have woefully inadequate access to communication equipment and to necessary intelligence data, training and protective gear in case of a terrorist attack.
- The fiscal capacity of states and localities needs to be augmented and coordinated to address their vulnerabilities with flexibility adapted to the local and regional needs.

State and local budget shortfalls are unprecedented since the 1930s:

- State shortfalls, partly caused by post-9/11 homeland security burdens, were $4 billion in FY 2002, $3 billion spent to combat bio-terrorism and to establish emergency communications systems and $1 billion for critical infrastructure protective measures.
- Local spending on homeland security is estimated by the U.S. Conference of Mayors as having been approximately $2.6 billion for fiscal year 2002.
- There is no systematically collected information on how much of the state and local government expenditure on homeland security was funded by federal grants.3

Considering which level of government should receive grants involves choices affecting more than 87,000
overlapping jurisdictions of federal, state and local authorities:

- The National League of Cities, the U.S. Conference of Mayors and the National Association of Counties ask that the funds for first response programs go directly to the local governments to avoid the state “skimming a percentage for administrative costs…. and a considerable slowing down of the funding timeline when a state gets involved — due to the state application process….”

- Alternatively, the Bush Administration has proposed a disbursement wherein states would keep 25% of the $3.5 billion first-responder funds and distribute the remaining 75% to local governments, with a 25% local “in-kind” match, to be distributed on a case-by-case basis as project grants, not as formula grants.

- A regional model for planning and administering first response programs could provide an intermediate ground between the federal proposal to assign this task to the states and the pitch by local governments for direct access to the federal funds.

- The regional model has been used successfully in highway and environmental programs (for example in permit trading programs for reduction of air pollution).

- Partnerships between localities are more likely to succeed at a regional level than at a state level, and the regional model, as compared to the local model is less cumbersome for disbursement of federal intergovernmental grants.

Achieving national preparedness and response goals will depend on federal, state and local governments forming partnerships among themselves and with non-governmental entities, and on the appropriate design of intergovernmental grants:

- The federal grant design and allocation criteria can be used to systematically encourage the adoption of partnership models for first response programs.

- The intergovernmental grant literature suggests that matching grants are appropriate when there are positive externalities from the program that benefit national interests. Any jurisdiction can thus be compensated for benefits from its program that accrue to other jurisdictions. The grant thus lowers the cost of the program to the grantee — bringing costs into line with the benefits realized by the grantee, and when externalities differ across jurisdictions, matching rates can be made to vary accordingly.

- Non-matching grants (community income supplementing grants) are appropriate for programs designed to equalize the fiscal capacities of different jurisdictions. These grants do not affect the cost of the program in the grantee’s jurisdiction.

If the first response programs are implemented by localities individually:

- Matching grants can be used to offset the costs of positive externalities to local authorities, and matching rates based on the size of the externalities generated.

- A combination of non-matching and matching grants can help to equalize fiscal capacity for communities that could not otherwise afford the stipulated matching funds.

If a regional model is adopted for first response programs with regional boundaries chosen to minimize costs and externalities, a mix of matching and non-matching grants would allow for the most socially desirable fiscal policy.

Disbursement of money on a case-by-case project grant basis or by formula involves choices:

- The federal proposal for first response programs indicates that the grant money will be disbursed on a case-by-case basis.

- Considering the magnitudes of the risks from terrorist attacks and the need for long-term planning, a combination of project and formula grants would be more appropriate.
The formula grant would provide implementing jurisdictions with an assured source of baseline funding for functions requiring continuity of expenditure such as training and maintenance of security standards and interoperability of information systems.

Project grants could be used to fund activities where full responsibility for sustaining support of the program is to be transferred to the implementing jurisdiction over time.

In conclusion, there is a clear mismatch between what is required for state and local homeland security and what is currently available in terms of funding and adequate planning:

- States and localities are facing increasing demands on their budgets and unprecedented budget shortfalls unequaled since the 1930s.
- The federal government’s proposed FY 2003 funding would cover only about 60% of the state and local expenditure on first response programs for homeland security.
- Preparedness for terrorist attacks requires cooperation at all levels of government.
- The federal government can encourage and support cooperation between federal, state and local agencies through technical support and monetary and non-monetary incentives.
- The state and local costs of first response and other programs administered and funded at sub-national levels need to be assessed comprehensively so that the federal government can evaluate the extent of federal involvement required to bolster spending on these programs to nationally desirable levels.
- An efficient system of federal intergovernmental grants is required to realize economies of scale, strategic complementarities, and to subsidize (appropriately) the state and local provision of public services for homeland security. This can be done using a combination of matching and non-matching grants.

Pilot studies, conducted by research universities, examining regional models for implementing and funding homeland security programs (including intergovernmental grants) will go a long way toward bringing new ideas to a policy area that is likely to dominate public debate in the foreseeable future.

ENDNOTES

1 This guide is based on an Economists Allied for Arms Reduction (ECAAR) paper by James Galbraith and Shama Gamkhar. For further information on this edited version or the longer paper, you may contact its editor, Lucy Webster at lucywebster@ecaar.org.

2 The fiscal year in most states is July 1 to June 30 and the U.S. federal fiscal year is October 1 to September 30.

3 The National Conference of State Legislatures report in, Protecting Democracy America’s Legislatures Respond – Overview of State Activity in Response to September 11 (April 2002), provides information on select federal funding to states in FY 2002 from the Department of Health and Human Services, and for combating bio-terrorism from the Department of Transportation for airport security (Compiled by Molly Stauffer at molly.stauffer@ncsl.org).

4 Mary Poss, member of Dallas, Texas, city council and co-chair of the National League of Cities’ Homeland Security Task Force along with Mayor Michael Guido of Dearborn Michigan.


6 Federal Highway programs emphasize the role of state and local officials in developing a plan to meet regional transportation needs. Under The Transportation Equity Act for the 21st Century (TEA21), Metropolitan Planning Organizations coordinate the regional planning process and adopt a plan, which is then approved by the State. See, U.S. General Accounting Office, Testimony before the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations, Committee on Government Reform, House of Representatives, Intergovernmental Partnership in a National Strategy to Enhance State and Local Preparedness, Statement by Paul L. Posner, Managing Director, Federal Budget Issues, Strategic Issues, March 22, 2002, p. 17.

Is our homeland secure? The answer is no if we consider economic security. As much as polls indicate that Americans feel enough is being done with respect to ‘homeland security,’ most Americans are very pessimistic about the economy. In spite of what the Administration might claim, Americans justifiably believe that the economy is in a recession and that it is becoming worse.1

Congress and the Administration have devoted an enormous amount of time, energy and money to military responses to security needs, but other needs of Americans – a stable job, affordable home, a good education for their children – have not received adequate attention. Yet, economic security is important for national security, too. A healthy, better educated, more united populace will be better equipped to deal with the diffuse, unpredictable threats emerging from a changing world.

Four issues of family and community needs are examined below. All of these needs could have and should have been addressed by the Administration and Congress, but were not.

The unemployment rate is currently hovering around 6% with 1.5 million jobs being lost in 2001 and another 150,000 in 2002. More indicative of current labor market conditions is that long-term unemployment is growing. The median duration of unemployment is steadily rising and is at its highest since 1983. Based on historical trends, analysts argue that long-term unemployment, while already having well more than doubled over the past year, is actually going to continue to rise well into 2003.2

The safety net of unemployment insurance runs out after 26 weeks. Since long-term unemployment is growing, the safety net is not long enough. Congress did enact legislation to extend unemployment benefits earlier in 2002. The temporary extended unemployment compensation (TEUC) was part of the Job Creation and Worker Assistance Act passed in March. The act enabled all workers to be eligible for an additional 13 weeks of benefits, which undoubtedly helped many workers. It also provided for a further extension based on the rise in individual state unemployment rates, but only a small handful of states qualified based on the restrictions.3 This meant that 95% of unemployed workers who exhausted their benefits could not qualify for the further extended benefits.

By late 2002, 1.5 million workers lost their benefits. Congress adjourned in November knowing that many American families would face the holiday season either without benefits or losing them shortly after.4 Congress passed a bill that extended unemployment benefits, yet lacked the political will to get it done. The price tag of the Senate bill, $4.9 billion, pales in comparison to the business tax breaks it voted for earlier in the year in another package.

The Senate and House did introduce legislation extending unemployment benefits, yet lacked the political will to get it done. The price tag of the Senate bill, $4.9 billion, pales in comparison to the business tax breaks it voted for earlier in the year in another package.

Defenders of the package claimed that tax breaks for business would stimulate the economy, thereby creating jobs. However, tax or other incentives to stimulate investment do not work during a recession because firms have excess capacity. Even though this basic understanding of economics exists, and has been born out by recent data, Congress prioritized spending on business over workers.

More than half of unemployed workers never even receive unemployment benefits. Low-wage unemployed workers face additional challenges. On average, only 20% of low-wage workers receive unemployment insurance due to rules regarding the minimum level of earnings required for eligibility.5
The federal minimum wage has not been increased since 1997. But after five years, the gains from that increase have been more than eroded through inflation. Today’s minimum wage of $5.15 per hour (or less than $11,000 working full-time year-round) remains at less than three-quarters of its value in the 1960s and 1970s. Raising the minimum wage is dismissed by many politicians because of the myth that low-wage workers are part-time teen-agers. This is just a myth. The vast majority of low-wage workers in the US is not teenaged, and is not part-time; these workers are adults trying to get by, many of whom have a family to support. Seven million people in this country earn the minimum wage with over ten million earning just a dollar (or less) above.  

Legislation to raise the minimum wage was introduced in 2001 and 2002, but no action resulted. This is the case in spite of the absolutely trivial effect on the federal budget and the over 15 million people it would help (directly and indirectly). Raising the minimum wage would also be good for the economy through the increased consumption of millions of people. 

The consequences of low-wage work are obvious. For example, food insecurity has risen between 1999 and 2001. Finding affordable housing can be another struggle.

Across the country, the gap between wages and rents has continued to widen. On average, a household must earn $14.66 per hour (full-time, year-round) in order to afford a 2-bedroom, safe, decent apartment and still meet the household’s other basic expenses. About 40% of renters across the country do not have affordable housing. Almost one in six of all American families does not have affordable housing. Further, more than 14 million American families have critical housing needs where housing costs consume at least 50% of their household income. 

The response of the Bush Administration — to cite the slight increase in rental vacancies — has missed the point. There is insufficient affordable housing. Recent building has been devoted to upscale housing, not affordable housing and tight conditions in particular communities have driven rents sky high.

Spending on housing assistance and HUD are less than half of what they were 25 years ago. Affordable housing appears to be off the radar screens of Congress, explaining why the issue has reached such a crisis level. State budgets, most of which have had severe budget gaps recently, are not able to provide more affordable housing and local and state officials are calling for federal help.

Legislation has been introduced into both houses which would create a National Housing Trust Fund. The objectives of the Trust Fund would be to build, preserve, or rehabilitate 1.5 million affordable housing units by 2010. A trust fund could be established by using the surplus of the Federal Housing Administration Mutual Mortgage Insurance Fund. This fund has a capital adequacy ratio considerably above what is required for safety and soundness of the program. Using the surplus of this fund would provide $26 billion for the Trust Fund.

For every $5 billion spent on housing construction, an estimated 185,000 jobs are created. A similar case can be made for school construction and rehabilitation.

Research done by the GAO in the mid- to late-1990s found that one-third of public schools needed extensive repair or replacement of at least one building. A more recent report indicated that three-quarters of schools needed to spend money to put school buildings into good overall condition and about one-quarter of schools were overcrowded. The need for school construction amounted to $127 billion.

School construction is typically financed by bonds which add interest payments as a further cost. Federal government spending amounts to only about 2% of total school construction spending. This pales in comparison with other infrastructure projects.
Legislation has not accomplished much. The Education Infrastructure Act of 1994 was enacted to address school construction needs, but it was never funded. Other legislation, such as providing credit for qualified school modernization bonds never made it out of committee.

The list of community and family needs which Congress passed over in order to spend time on debating war and other military matters is considerable: Congress failed to pass legislation that would extend expiring funds for the State Children's Health Insurance Program. The OMB projected that if no action was taken, almost one million children would lose SCHIP coverage between 2003 and 2006. After an almost $40 billion collective state fiscal crisis in FY2002 and more state budget gaps this year, Congress has done nothing to alleviate the burden. And, it implemented tax cuts which would decrease state tax revenues in most states. Almost half of state budget crises have been triggered at least in part by ballooning Medicare and other health expenditures. Congress and the Administration have not taken action on this issue, or on prescription drugs. Welfare re-authorization and energy policy were left incomplete by the end of the year.

Out of the 13 appropriation bills in the annual budget process, only two were passed. The two bills that were signed into law were related to the military and economic security. Congress also passed a motion on the use of force against Iraq requested by the Administration. Congress also passed the Homeland Security measure which curtailed 170,000 federal employees' labor rights.

So while there is no explicit trade-off between military and non-military spending per se, a trade-off does seem to have occurred between military issues and economic security. Congress and the Bush Administration became pre-occupied with foreign policy and have done practically nothing on issues of economic security.

Yet, transforming the military from the Cold War strategy to new threats, as argued elsewhere in this brief, could save money. Extending unemployment benefits could cost as little as $5 billion, less if the economy does indeed recover. Increasing the minimum wage by $1.50 would cost as little $16 million over a three-year period. Establishing a National Housing Trust Fund might only mean transferring surpluses from one fund to another. The federal government could make a huge difference in the condition of school by committing at least $8 billion a year, the same as is now spent on ballistic missile defense.

ENDNOTES

1 Polls are always widely disputed, but Gallup polls indicate that Americans hold these opinions about the economy, and that there has been a significant drop in their view of their individual personal finances since the beginning of 2002.
3 Alaska, Oregon, and Washington.
4 Shapiro, I. and W. Primus, ‘All unemployed workers will lose temporary federal help on December 29 unless House acts on Friday,’ Center on Budget and Policy Priorities, November 21, 2002.
7 Although opponents to minimum wage laws claim that employment will decrease since labor costs rise for firms, economists generally believe that the increase in disposable income and the jobs it creates would off-set any tendency for firms to lay off workers.
9 Congress and the Dept. of Housing and Urban Development define ‘affordable housing’ as having to pay no more that 30% of household income for housing costs. According to Census 2000, over 40% of renter households pay out at least 30% of their income, not including 'not computed' households which changes the calculation to slightly fewer than 40%.
10 Center for Housing Policy, America's Working Families and the Housing Landscape, 2002.
Carl Conetta
301-320-6676
cconetta@comw.org
www.comw.org/pda

**AREAS OF EXPERTISE:** threat assessment, US defense policy and planning, military transformation and readiness issues.

Carl Conetta is co-director of the Project on Defense Alternatives in Cambridge, MA, and editor of the Chinese Military Power Page and the Revolution in Military Affairs (RMA) Debate Page. Since joining PDA in 1991 he has coauthored thirty PDA reports and has published widely outside the Institute, including contributions to ten edited volumes. Mr. Conetta has testified before the House Armed Services Committee and has made presentations at the US Departments of Defense and State, the National Defense University and US Army War College, UNIDIR, and other governmental and nongovernmental institutions in the United States and abroad. He has been interviewed on CNN, ABC-TV, CBS-TV, Canadian television (CBC), BBC, Voice of America, and NPR, among others. Mr. Conetta also has served as a consultant for the Council on Foreign Relations, the House Armed Services Committee, the South African Ministry of Defense, and the American Academy of Arts and Sciences. Before joining PDA, Mr. Conetta was a Fellow at the Institute for Defense and Disarmament Studies and served as editor of the IDDS journal, Defense and Disarmament News, and associate editor of the Arms Control Reporter.

Anita Dancs
413-584-9556
anita@nationalpriorities.org
nationalpriorities.org

**AREAS OF EXPERTISE:** general federal budget in particular domestic spending.

Anita Dancs is Research Director for the National Priorities Project in Northampton, Mass. She researches and writes on the impact of federal policies and manages the development of the NPP Database. She has a PhD in economics and spent years teaching and researching at universities in Hungary, the UK and the US. She also has over 10 years experience teaching popular economics to activists and concerned citizens as a staff economist with the Center for Popular Economics. Her past research focused on the transition from state socialism to capitalism in Eastern Europe.

Marcus Corbin
202-797-5282
mcorbin@cdi.org
www.cdi.org/mrp

**AREAS OF EXPERTISE:** national security strategy, military forces and resources.

Marcus Corbin is a Senior Analyst at the Center for Defense Information in Washington, D.C., and Director of its Military Reform Project. He co-authored a broad review of national security policy at CDI in 2001 and has written a follow-up post-9/11 entitled *Honing the Sword*. He has covered defense issues since 1989 including U.S. military strategy, conflicts around the world, force structure, budgets, procurement, defense industry, and military reform. He has worked at the Project On Government Oversight, the Federation of American Scientists, and the World Bank. Corbin has an MA in International Relations from the School of Advanced International Studies in Washington, D.C., and an undergraduate degree in Public Policy from Princeton University.

James Galbraith
galbraith@mail.utexas.edu
www.utexas.edu/lbj/

**AREAS OF EXPERTISE:** economics and security.

Dr. James K. Galbraith, Chair of Economists Allied for Arms Reductions’s (ECAAR) Board of Directors, holds the Lloyd M. Bentsen Jr. Chair in Government/Business Relations at the LBJ School of Public Affairs at the University of Texas at Austin. (ECAAR) is a nongovernmental organization that promotes objective economic analysis and appropriate action on global issues relating to peace, security and the world economy. ECAAR’s General Director is Kate Cell, 845-620-1542, katecell@ecaar.org, www.ecaar.org.

Shama Gamkhar
gamkhar@mail.utexas.edu
www.utexas.edu/lbj/

**AREAS OF EXPERTISE:** economics and security.

Dr. Shama Gamkhar is Assistant Professor at the LBJ School at the University of Texas at Austin; her research interests include intergovernmental finance.
David Gold
212-206-3524, ext. 2430
goldd@newschool.edu
www.newschool.edu

AREAS OF EXPERTISE: US defense spending, economics of military production and the arms trade, economic impacts of military spending, relation between economics and security.

David Gold is Professor of Economics and Director of the Project on Security and Development, Graduate Program in International Affairs, New School University in New York City.

William D. Hartung
212-229-5808, ext. 106
212-229-5579 (fax)
hartung@newschool.edu
www.worldpolicy.org/projects/arms

AREAS OF EXPERTISE: missile defense and nuclear weapons issues, with special emphasis on costs, contractors, and key constituencies impacted by missile defense and nuclear weapons spending; U.S. military strategy and spending priorities; and global weapons proliferation.


Charles Knight
617-547-4474
cknight@comw.org
www.comw.org/pda

AREAS OF EXPERTISE: national security strategy, readiness issues, and technology and force structure.

Charles Knight is co-director of the Project on Defense Alternatives at the Commonwealth Institute, Cambridge, MA and is editor of the Defense Strategy Review Page <http://www.comw.org/qdr/>. Mr. Knight was the founder in 1989 of the Ground Force Alternatives Project at the Institute for Defense and Disarmament Studies and in 1991 he co-founded the Project on Defense Alternatives. Mr. Knight has authored numerous publications and has made presentations on security issues at many governmental and nongovernmental institutions. During the 1994-1996 period he led PDA consultative work with the African National Congress and the new South African Ministry of Defense, focusing on stability-oriented security options for southern Africa.

Steven M. Kosiak
202-331-7990
Kosiak@CSBAonline.org
www.csbaonline.org

AREAS OF EXPERTISE: defense budget and defense budget trends, funding for homeland security and combating terrorism, weapons modernization programs, personnel and readiness spending, cost and affordability concerns, force structure, funding for contingency operations, funding for military transformation.

Steven M. Kosiak is Director of Budget Studies at the Center for Strategic and Budgetary Assessments (CSBA) in Washington, D.C. He is the author of CSBA’s annual defense budget reports, including the same-day analysis of the president’s defense budget request, and selected issue reports including Buying Tomorrow’s Military: Options for Modernizing the Defense Capital Stock and Options for U.S. Fighter Modernization. He is the co-author with Dr. Krepinevich and Mr. Vickers of A Strategy for a Long Peace and he contributes extensively to all CSBA research activities. Mr. Kosiak is a frequent speaker on defense issues, including readiness and modernization programs, and the defense budget process. He holds a BA from the University of Minnesota, an MPA from the Woodrow Wilson School at Princeton University, and a JD from Georgetown University.

Robert Manoff
212-998-7962
robert.manoff@nyu.edu
www.nyu.edu/cwpnm

AREAS OF EXPERTISE: media and conflict, resources for journalists, media coverage of national security affairs.

Robert K. Manoff is the director of the Center for War, Peace, and the News Media, at New York University. Among its projects to support journalists and news organizations in their efforts to sustain an informed and engaged citizenry, the Center provides articles, analysis and resources for journalists covering world affairs through its Global Beat and Global Beat Syndicate. Before co-founding the Center in 1985, Professor Manoff served as managing editor of Harper’s magazine, editor of the Columbia Journalism Review, managing editor of the Soho News and senior editor of MORE, the magazine of media criticism. He has published widely on the media and international and ethnic conflict; the media, nuclear issues and international security; and the media and politics. His byline has appeared in The New York Times, Harper’s, Journal of Communication,

John J. Schulz
617-353-3479
jjschulz@bu.edu
http://www.nyu.edu/globalbeat/syndicate

AREAS OF EXPERTISE: Afghanistan and Pakistan, Chinese, Indian, Korean and Japanese military affairs, arms control issues and treaties, national security policy and terrorism.

John J. Schulz is Editor-in-Chief of the Global Beat Syndicate, which is sponsored by NYU’s Center for War, Peace and the News Media. He is also a Professor of International Communication at Boston University’s College of Communication. A former senior news executive and foreign correspondent at Voice of America, he has been bureau chief or regional correspondent in Hong Kong, Saigon, Bangkok, Tokyo, London, Islamabad and New Delhi. He was a professor of national security policy at the National War College in Washington, D.C. and from 1992-95 was editor of Arms Control Today magazine and an associate director of the Arms Control Association in Washington. He has written extensively on strategic, military and nuclear issues related to the Indian Subcontinent and has testified at the senate on Chinese military capabilities. His monograph on Afghanistan, which he covered from 1987-89, was read into the Senate record after its publishing three years ago. He holds a BA in journalism from the University of Montana, and M.Phil. and D.Phil. degrees in international relations from Oxford University, England, where his focus was on strategic studies, and on Japan, China and the Soviet Union. In 1967-8 he flew 275 combat missions over Vietnam in the F-100 Supersabre.

Greg Speeter
413-584-9556
greg@nationalpriorities.org
nationalpriorities.org

AREAS OF EXPERTISE: domestic spending, federal budget.

Greg Speeter is executive director of the National Priorities Project. He founded it in 1982 as a way for community groups and the public to understand and participate in critical federal budget decisions. Speeter has been a featured speaker at both policy conferences and training sessions for community organizers, has held a number of budget briefings on Capitol Hill, and is frequently sought out by the media for analysis of budget policies. Before founding the National Priorities Project, Speeter worked for 6 years at the Citizen Involvement Training Project in Amherst, MA, where he authored training books on community organizing and access to the political process. Speeter began his career as a VISTA Volunteer in 1966, and spent the first decade of his professional life as a community organizer and policy analyst.

Lucy Webster
212-490-6494
lucywebster@ecaar.org
www.ecaar.org

AREAS OF EXPERTISE: economics and security.

Lucy Webster is Program Director at Economists Allied for Arms Reduction in New York.

Winslow T. Wheeler
301-840-8992
WinslowWheeler@msn.com
www.cdi.org

AREAS OF EXPERTISE: how Congress addresses defense, defense budget analysis, Desert Storm air campaign, strategic weapons, operational testing, congressional war powers, military reform.

Wheeler currently is a Visiting Senior Fellow to the Center for Defense Information in Washington, D.C. From 1971 to 2002, he was a national defense analyst for four United States Senators (Jacob K. Javits, Nancy L. Kassebaum, David Pryor, and Pete V. Domenici) and the General Accounting Office. Wheeler was also active in the Congressional Military Reform Caucus, which included over 100 Democratic and Republican House and Senate Members of Congress in the mid-1980s. He was also simultaneously employed by Senators Pryor (AR) and Kassebaum (KS) and as such was the first Senate staffer to work at the same time on the personal staffs of Members of opposing political parties. At GAO, he directed and wrote comprehensive evaluations of the US strategic triad and the air campaign of Operation Desert Strom, which were widely reported in the press. Wheeler resigned his position with Senator Pete V. Domenici and the Senate Budget Committee after his essay criticizing Congress’ handling of defense budgets after September 11, 2001 (“Mr. Smith Is Dead”) caused some controversy. Wheeler is now expanding on his essay in a book on Congress and defense for the Center for Defense Information.

Cindy Williams
(011) 32 2 235 2232 (office phone, Brussels, Belgium; time is six hours later than Washington, DC)
(011) 32 2 235 2226 (office fax)
cindywil@mit.edu
web.mit.edu/cis/Programs/ssp.html

AREAS OF EXPERTISE: the overall U.S. defense and security budget, policy choices for U.S. conventional forces, and reform of military personnel and pay policies.

Cindy Williams is a principal research scientist in the Security Studies Program at the Massachusetts Institute of Technology. She is working this year as a fellow at the Transatlantic Center of the German Marshall Fund of the United States in Brussels, Belgium.
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This is a general guide to areas of focus – many of these topics are related, and the experts cover related areas not specifically listed for them.

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