

Background

No. 2022
March 30, 2007



Published by The Heritage Foundation

Ten Myths About the Defense Budget

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“Immense Expense Is Mainly in Defense” is a parody tune performed by the Capitol Steps, a Washington-based troupe; but while the tune has a nice rhyme scheme, it does not reflect the facts concerning recent federal budgets. By historical standards, the federal government’s investment in defense is relatively modest. Given that the United States has been at war since September 11, 2001, and has been conducting significant military operations in Afghanistan and Iraq, this may come as a surprise to many Americans.

The perception that the nation’s defense expenditures are larger than they really are is the result of a widespread acceptance of 10 myths about the defense budget. These myths range from the assertion that defense expenditures impose a large burden on the U.S. economy to the assumption that the defense budget is skewed in favor of the defense contractors that manufacture weapons and equipment for the Department of Defense.

It is time for Members of Congress to level with the American people regarding the true scope of the defense budget and its internal structure. Americans are firmly committed to maintaining a strong national defense, but they look to their leaders in Congress to reflect their views and take appropriate action. They extend to Congress an extraordinary trust—a trust that Members betray if they choose not to correct inaccuracies regarding the defense budget that are widely assumed to be true.

Talking Points

- The United States currently spends about 4 percent of GDP (20 percent of the federal budget) on defense. This does not constitute an excessive burden on either the economy or the budget.
- Projected rapid growth in spending on Social Security, Medicare, and Medicaid will consume all federal revenues by 2050. Unless these programs are reformed, they will undermine the economy and crowd out essential defense spending.
- Since the end of the Cold War, defense spending on compensation for military personnel has substantially outweighed spending on weapons procurement.
- The military benefits system (e.g., health care and retirement) needs to be reformed to increase flexibility, portability, and individual choice. Such reforms will also help to control costs.

This paper, in its entirety, can be found at:
www.heritage.org/research/budget/bg2022.cfm

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Center for Foreign Policy Studies
of the

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Institute for International Studies

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This betrayal of trust can apply at either of two levels.

- If some Members of Congress perpetuate the inaccuracies as a way to thwart the desire of the American people to maintain a strong national defense, they are using illegitimate means to realize anti-democratic ends. Trying to change public opinion in an open and honest fashion is one thing; trying to do so by obscuring the relevant facts is quite another.
- Alternatively, if Members of Congress are leaving the inaccuracies undisturbed because of the inherent difficulties involved in convincing the American people that something they hold to be true is actually false, they are effectively precluding the American people from making informed decisions regarding a critical area of public policy.

At both levels, Congress has a moral and political obligation to inform the public of the truth. This is particularly so when the subject is providing for national security.

The 10 Myths

The American people are likely to accept the following 10 myths about the defense budget based on nothing more than the feeling that they “sound about right.” In these cases, however, what sounds right is demonstrably at odds with the facts. Members of Congress should therefore be able to dispel these myths by succinct statements to their constituents regarding the true state of affairs.

Myth #1: Defense expenditures are so large that they overburden the U.S. economy.

According to a Gallup poll on February 1–4, 2007, a clear plurality (43 percent) of Americans think that the federal government spends too much on defense.¹ This is the highest number that Gallup has recorded in answer to the question about the level of defense spending since the end of the Cold War.

While the response to the Gallup poll cannot answer the question of why the American people feel the way they do, it is reasonable to surmise that

they assume the federal government is spending much more on defense to support operations in the ongoing war than is actually the case. This assumption is even more justified in the context of the defense budget’s claim on the national economy or gross domestic product (GDP).

Instinctively, Americans are likely to equate the current state of war with the circumstances facing the nation during World War II. In this context, a chart that shows the share of GDP devoted to defense would likely prove surprising. Chart 1 shows that the U.S. commitment to defense peaked during World War II at over 34 percent of GDP, which obviously would surprise no one, but it also shows that the portion of GDP devoted to defense is much lower than it was during World War II and has been on a fairly consistent downward trend since the onset of the Cold War. It now rests at roughly 4 percent of GDP. In addition, the U.S. spends less on national defense than the total amount it spends on alcoholic beverages, tobacco, cosmetics and similar products, entertainment, and restaurants.

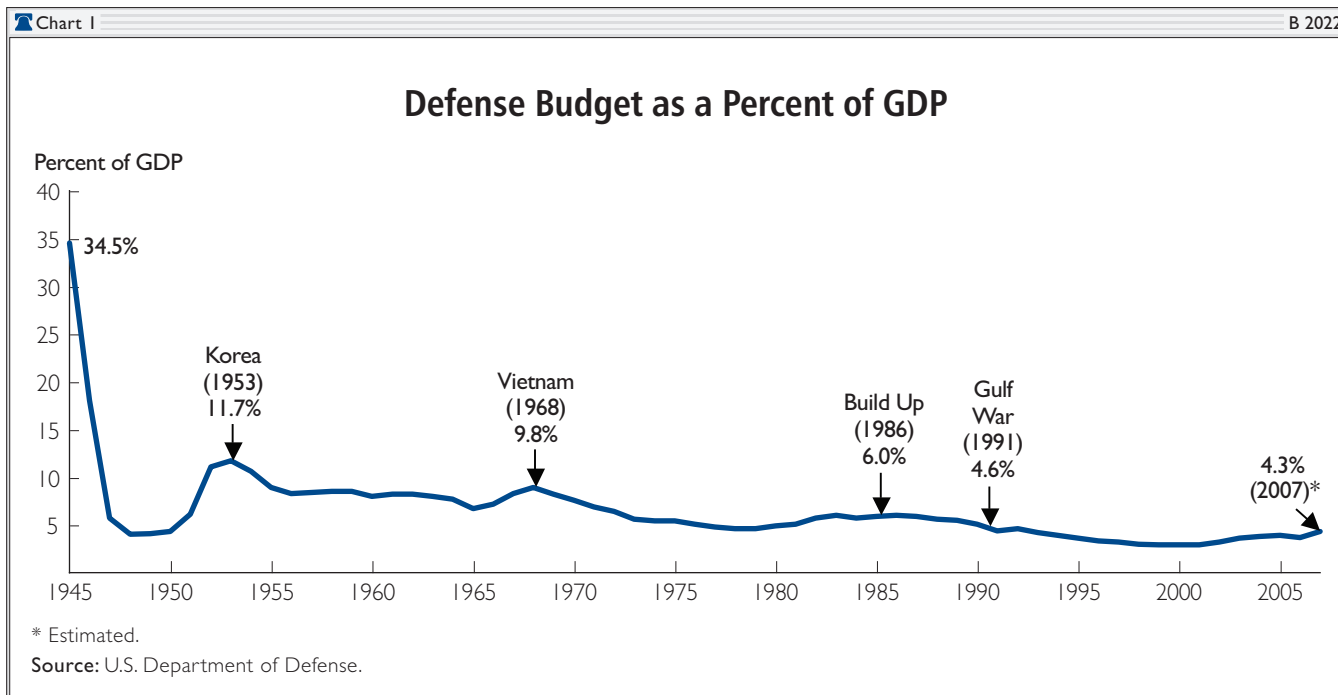
If Members of Congress put the appropriate amount of time and effort into educating their constituents about the modest burden that defense expenditures impose on the national economy, they should have little problem convincing them that defense expenditures will not somehow bankrupt the nation. Specifically, Members should work to convince their constituents to support defense budgets that spend at least 4 percent of GDP for the foreseeable future.²

Myth #2: Defense expenditures are the largest component of the federal budget.

Given the findings of the Gallup poll, it is reasonable to assume that the American people believe that defense absorbs more dollars than any other major component of the federal budget. This belief is factually incorrect. The mandatory programs—which consist largely of Social Security, Medicare, and Medicaid—absorb more than double the share of the federal budget that is devoted to defense.³

1. Gallup Poll, “Military and National Defense,” at www.galluppoll.com/content/default.aspx?ci=1666 (March 8, 2007).

2. Baker Spring, “Defense FY 2008 Budget Analysis: Four Percent for Freedom,” Heritage Foundation *Backgrounder* No. 2012, March 5, 2007, at www.heritage.org/Research/Budget/upload/bg_2012.pdf (March 8, 2007).



The federal budget consists of four major components:

- Mandatory entitlement programs;
- Domestic discretionary spending for things such as the justice system, transportation, environmental programs, and housing programs;
- Defense; and
- Interest on the national debt.

Since the end of the Cold War, mandatory spending has consistently claimed a far larger portion of the federal budget than defense has claimed. In fact, during the 1990s, defense came close to being the smallest of the four components. (See Chart 2.)

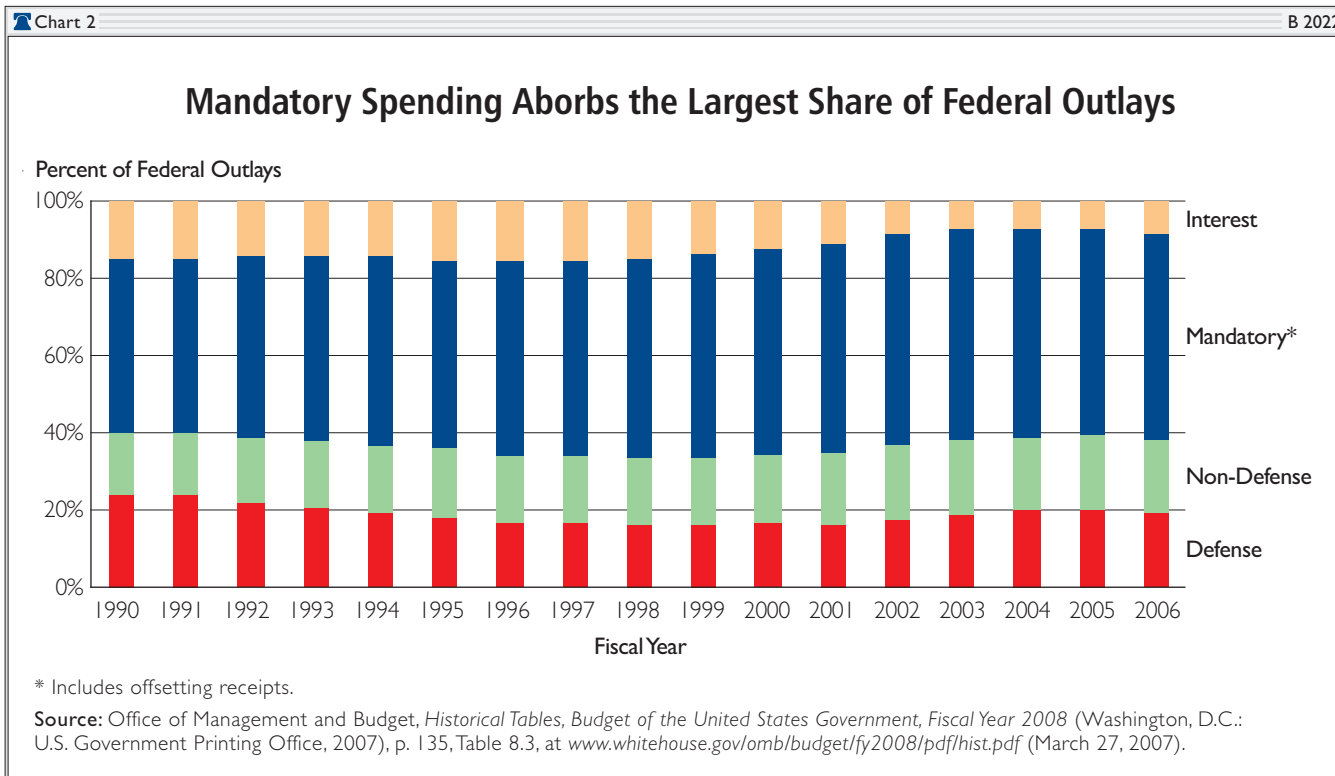
Consistent with the goal of devoting at least 4 percent of GDP to defense, Congress will need to maintain defense spending at no less than 20 percent of federal outlays. This is based on the Bush Administration's projected level of total federal outlays through fiscal year (FY) 2012. In fact, defense's

share will need to approach 22 percent by the end of the five-year budget period.

Myth #3: Defense expenditures can be maintained at adequate levels without reforming the major entitlement programs.

Chart 2 does not reveal that long-term projected spending on the three major entitlement programs will increase rapidly in the decades ahead. According to U.S. Comptroller General David M. Walker, Social Security, Medicare, and Medicaid are projected to grow by 147 percent, 166 percent, and 331 percent, respectively, between 2005 and 2030 in terms of inflation-adjusted dollars.⁴ Further, rapid growth in entitlement spending will likely be accompanied by correspondingly larger interest payments because the entitlement expenditures will become so large that by 2050 they will absorb all federal revenues and ultimately require large-scale debt financing to fund any other programs.⁵

3. Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2008* (Washington, D.C.: U.S. Government Printing Office, 2007), p. 135, Table 8.2, at www.whitehouse.gov/omb/budget/fy2008/pdf/hist.pdf (March 28, 2007).
4. David M. Walker, "Saving Our Future Requires Tough Choices Today," U.S. Government Accountability Office, GAO-07-222CG, November 8, 2006, p. 8, at www.gao.gov/cghome/d07222cg.pdf (March 28, 2007).
5. Brian M. Riedl, "Federal Spending 2007—By the Numbers," Heritage Foundation *WebMemo* No. 1390, March 8, 2007, p. 8, at www.heritage.org/Research/Budget/upload/bythenumbers.pdf (March 12, 2007).



This is based on a projection of federal revenues at levels consistent with the historical average. The casualties of the twin pressures of entitlement expenditures and mounting interest payments on the national debt will be the defense and domestic components of the budget, starting with defense.

Defense expenditures cannot be sustained without reform of Social Security, Medicare, and Medicaid. Looking ahead, Members of Congress need to convince their constituents that current commitments to entitlement benefits are unsustainable. This will not be easy. If they cannot convince their constituents of the need to control future growth in entitlement spending, they have no hope of convincing them of the need to maintain defense expenditures at 4 percent of GDP.

Myth #4: The defense budget is skewed in favor of purchasing new weapons at the expense of compensation for military personnel.

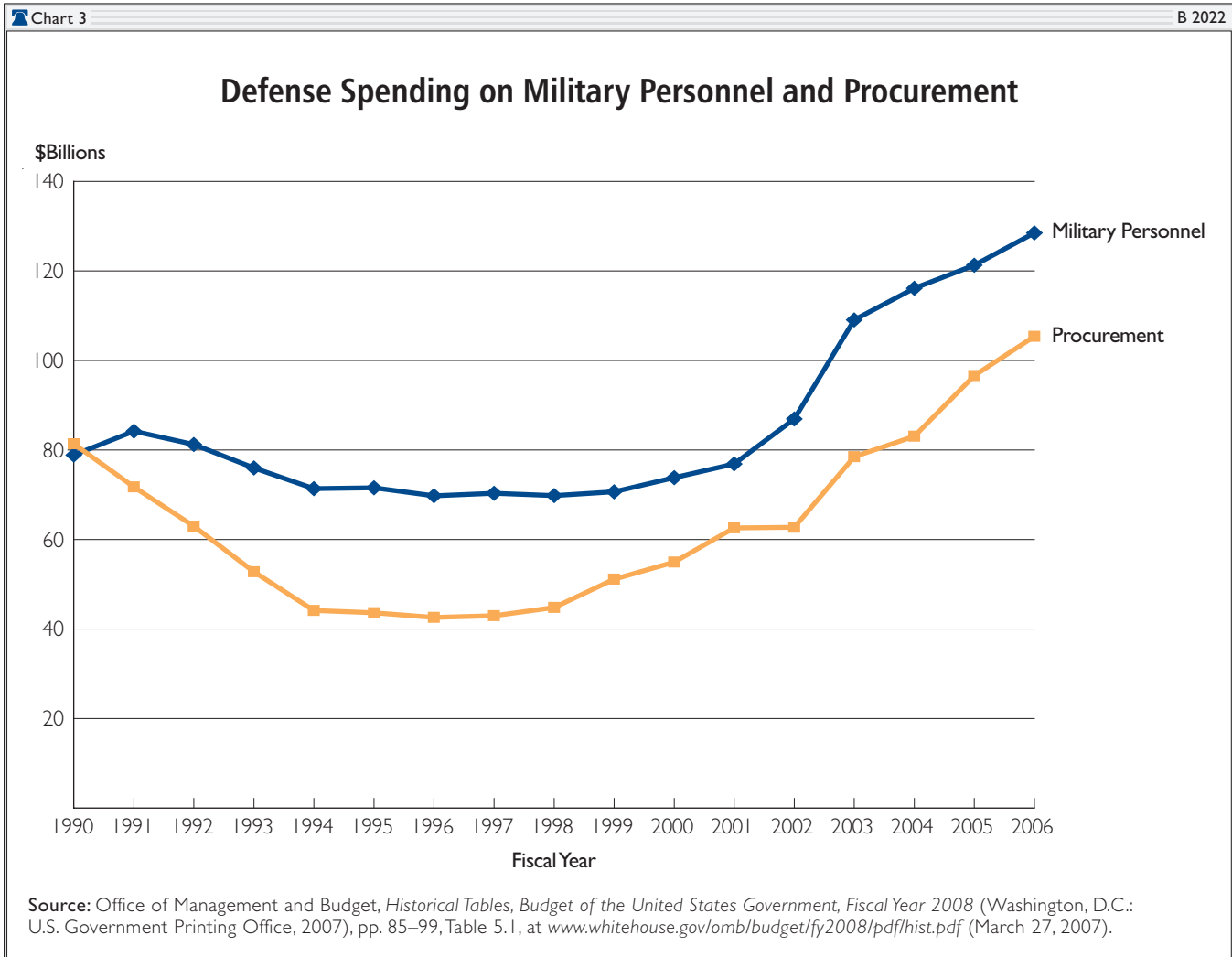
On March 20, 2007, the Senate Judiciary Committee held a hearing entitled “Combating War Prof-

iteering: Are We Doing Enough to Investigate and Prosecute Contracting Fraud and Abuse in Iraq?”⁶ Hearings like this can lead to a public perception that lobbyists working for defense contractors are extremely powerful and have tilted defense budget deliberations in the executive branch and Congress toward weapons purchases at the expense of compensation and benefits for military personnel.

The flaw in this perception is that, since the end of the Cold War, defense budgets have favored the military pay account over the procurement account. (See Chart 3.) The military pay account surpassed the procurement account in the early 1990s. During the “peace dividend” period in the 1990s, military pay declined marginally, while the procurement account plummeted. With some justification, this period is sometimes referred to as the “procurement holiday.”

Since September 11, 2001, both the military pay and procurement accounts have increased. However, the military pay account has remained far

6. Committee on the Judiciary, U.S. Senate, “Notice of Committee Hearing,” March 16, 2007, at <http://judiciary.senate.gov/hearing.cfm?id=2598> (March 2007).



larger. This budget history suggests that service members and their support organizations are at least as effective as defense companies in lobbying Congress and that defense companies support a strong pay and benefits package for the troops as much as any other patriotic Americans do.

Congress needs to renew its commitment to buying the next generation of weapons and equipment for the military. It should start by resisting the temptation to demonize defense contractors. After all, defense contractors provide the weapons and equipment that help to maintain the U.S. military as the world's premier technological force.

Further, Congress needs to support a steady increase in procurement funding. The Bush Administration's FY 2008 defense budget moves in this direction by increasing funding for the procurement account in the core defense program by more than 25 percent over the FY 2007 level.⁷ Congress should accede to the Bush Administration's funding request and prepare to sustain the trend for increased procurement funding in future years.

Myth #5: U.S. military personnel are not fairly compensated.

In abstract terms, it is easy to conclude that military personnel—especially those who participate in

7. U.S. Department of Defense, "President Bush's FY 2008 Defense Budget Submission," February 5, 2007, p. 8, at www.dod.gov/comptroller/defbudget/fy2008/2008_Budget_Rollout_Attachment.pdf (March 28, 2007).

highly dangerous combat operations—are not paid enough. In tangible terms, the U.S. can never pay these individuals enough for what they do.

Members of the military look to the intangible compensation that comes from the knowledge that what they do is extremely important, the sense of honor gained from their service, and the respect that they receive from their fellow citizens. Nevertheless, maintaining a good quality of life for military personnel is essential to maintaining the nation's all-volunteer force.

As Chart 3 reveals, Congress has strongly supported funding for military pay. While overall funding for this account declined during the 1990s, overall manpower levels declined at a faster rate during this period. As a result, compensation per military person has increased steadily since the end of the Cold War.⁸

Further, military personnel receive more generous in-kind compensation (e.g., housing and health care) and deferred compensation (e.g., retirement benefits) than is typical in the private sector.⁹

Congress needs to determine whether it can better match the tangible forms of compensation with the intangible benefits of military service. Possible reforms of the overall military compensation package could include creating a more flexible military retirement system and moving the health care benefit in the direction of a defined-contribution plan.¹⁰ At this point, Congress should hold hearings on a broad range of options for reforming the military compensation system to make it more flexible, easier to manage, and more efficient.

Myth #6: The current military health care system can be sustained indefinitely while avoiding structural imbalances in the defense budget.

The Department of Defense is projected to spend \$38.7 billion on health care in FY 2008 for 9.2 million beneficiaries, which includes family members of service personnel.¹¹ This is roughly 28 percent of all direct compensation paid to military personnel.¹²

The increasing cost of health care is not a problem unique to the military sector, but it is likely to be far worse in the defense sector. While calculating a comparable figure for private-sector health care compensation is difficult, studies suggest that health care constitutes 8.5 percent of compensation in the private sector, which reflects an increase in dollar terms of almost 50 percent since 2000.¹³

Clearly, the U.S. needs to reform its health care system across the entire economy. The military sector cannot expect to exempt itself from the broader reform process. Regrettably, Congress has not yet recognized this fact. When the Department of Defense recommended an increase in participant fees in the military health care system in the FY 2007 budget request—the first increase in over 10 years—Congress rejected the proposal.¹⁴

Absent reform, the Department of Defense will lack the resources necessary to build new weapons and equipment while sustaining necessary military operations. This will be the case even if the overall national security budget is maintained at 4 percent of GDP. Congress should recognize that reforming the military health care system is not just about reducing costs or trimming benefits. Proper reforms

8. Spring, "Defense FY 2008 Budget Analysis," pp. 3–4.

9. Congressional Budget Office, "Military Compensation: Balancing Cash and Noncash Benefits," *Economic and Budget Issue Brief*, January 16, 2004, at www.cbo.gov/ftpdocs/49xx/doc4978/01-16-DoDcompensation.pdf (February 27, 2007).

10. James Jay Carafano, Ph.D., "A 'Rucksack' for U.S. Military Personnel: Modernizing Military Compensation," Heritage Foundation *Executive Memorandum* No. 1020, February 14, 2007, at www.heritage.org/Research/NationalSecurity/upload/em_1020.pdf (March 13, 2007).

11. U.S. Department of Defense, "FY 2008 President's Budget for Defense," February 5, 2007.

12. *Ibid.*

13. Employee Benefit Research Institute, "The \$7 Trillion Question: How Do Employers Spend That Amount on Worker Wages, Salaries and Benefits," *Fast Facts* No. 38, January 3, 2007, at www.ebri.org/pdf/publications/facts/fastfacts/fastfact010307.pdf (March 15, 2007).

14. Press release, "House Armed Services Committee Approves Fiscal Year 2007 Defense Authorization Bill," Committee on Armed Services, U.S. House of Representatives, May 3, 2006, p. 1.

of the health care system should be more about giving military personnel greater flexibility and control of their care.¹⁵

The chief cause of the unsustainable increases in health care costs across the public and private sectors is that the various health care systems hide the true cost of care from recipients while depriving them of the opportunity to make informed decisions regarding their own care. These systems effectively teach recipients to treat health care as a free good to be used on the basis of whim as opposed to need. Additionally, the current approach represents a least-common-denominator solution that assumes that all Americans have essentially the same health care preferences. This lack of flexibility causes numerous frustrations for health care consumers.

The need for flexibility in the military health care system is made evident by the advantages of an overall personnel system that gives service members more opportunities to move between active and reserve military service and civilian employment. In this context, a military health care system that is a component of a “rucksack” of benefits that military personnel can select and carry with them will bolster the all-volunteer military.¹⁶ The best option to increase the utility and efficiency of the military health care system is to move the system toward a defined-contribution plan that maintains access to health care in a seamless fashion as personnel move back and forth from active service to reserve duty to civilian employment.

Myth #7: The military retirement system can only be improved by increasing benefits within the existing structure.

The current military retirement system requires a minimum of 20 years of service to receive any retirement benefit. This necessarily puts the system at odds with a labor market that favors much greater career

mobility. As with health care reform, the military retirement system needs to facilitate greater opportunities for military personnel to move among various forms of military service and civilian employment.

The best option for reforming the military retirement system is to offer military personnel a variety of options that are completely portable.¹⁷ Similar to the needed health care reform, the military retirement system needs both to move toward a defined-contribution plan and to be included in the same benefits rucksack that is offered to military personnel.

Some will argue that this reform will undermine military retention, but a properly designed defined-contribution plan can avoid this problem. It is entirely possible for the military services to structure their contributions to service members’ retirement accounts in a way that promotes longevity of service. In fact, they could do so more effectively and efficiently if they had the flexibility to target the contributions toward military career lines in which longevity of service is most important. Today’s system treats all types of military service and personnel the same.

Myth #8: Defense research and development drives the nation’s overall effort to advance technology.

During the early years of the Cold War, research and development (R&D) spending for defense accounted for roughly 80 percent of all federal R&D spending,¹⁸ and R&D funding by the federal government constituted over half of total R&D spending in the U.S. economy.¹⁹ As a result, research and development for national defense was effectively in the driver’s seat in the U.S. in the 1950s and early 1960s.

Since then, however, private-sector R&D spending has slowly overtaken the federal government’s R&D spending. Similarly, total R&D funding by the federal government, both defense and non-defense,

15. See Daniel H. Johnson, M.D., “After Walter Reed: How to Fix Military Medicine,” Heritage Foundation *WebMemo* No. 1388, March 8, 2007, at www.heritage.org/Research/HealthCare/upload/wm_1388.pdf.

16. Carafano, “A ‘Rucksack’ for U.S. Military Personnel.”

17. *Ibid.*

18. National Science Foundation, Table 38, “Federal Research and Development for National Defense and Civilian Functions: FY 1955–2007,” at www.nsf.gov/statistics/nsf07303/pdf/tab38.pdf (March 16, 2007).

19. American Association for the Advancement of Science, “U.S. R&D Surges to \$312 Billion in 2004,” May 10, 2006, at www.aaas.org/spp/rd/guitotal.htm (March 16, 2007).

has trended in the direction of a closer balance. Clearly, defense is no longer the driver of national research and development.

The good news for defense R&D is that overall funding levels are marginally higher than they were during the latter half of the 20th century in terms of inflation-adjusted dollars.²⁰ Therefore, the Department of Defense has a significant amount of R&D money to apply to obtaining the next generation of weapons and equipment. However, the department can no longer compete with other sectors of the economy, particularly the private sector, and this circumstance is unlikely to change in the foreseeable future. In fact, reverting to the circumstances of the 1950s—federal dominance of research and development—would not be in the nation's economic interests.

Given current and projected circumstances, Congress should allocate defense research and development dollars along two lines.

- The first line is research and development on technologies that constitute unique niches for the defense sector and are of little interest to the civilian economy. An obvious example is research and development of the next generation of nuclear weapons to meet the security requirements of the post-Cold War world.
- The second line is to scan the technologies emerging in the civil sector and determine how best to apply them to national defense. During the 1950s and 1960s, considerable attention was paid to emerging defense technologies that could be “spun off” to civilian applications. Today, the focus should be on civilian technologies that can be “spun in” to defense applications. Robotics and biotechnology are just two areas that are ripe for exploration.

Myth #9: The U.S. is completely self-reliant in defense production.

Since the end of the Cold War, the system that supplies the Department of Defense with goods and services has diversified. Put succinctly, the defense market has been “globalized.”²¹ For

example, the Joint Strike Fighter, the next tactical fighter aircraft, will be built by contractors in a number of nations.

In general terms, this transition has been a good thing for the Department of Defense. It has spread the sources of goods and services beyond what would otherwise have been a very narrow group of suppliers, particularly during the 1990s when defense procurement funding plummeted and the defense sector was consolidated. It has also increased the economies of scale and improved the chances that taxpayers' interests will be protected in the defense acquisition market.

This is not to say that managing defense production in this worldwide network of suppliers is without risk. The primary concerns are maintaining very high levels of reliability of supply and protecting against the diversion of advanced defense technologies to existing or future enemies of the U.S.

Some Members of Congress will argue that the best option for addressing these risks is for the U.S. to withdraw from the global defense industrial market and construct a supply system that is based exclusively in the U.S. They will argue that the best means for achieving this goal is to expand “buy America” restrictions and other protectionist measures.

Both the goal itself and the means for attaining it are unrealistic and counterproductive. The preferable option is for Congress to accept today's global defense supply structure and to guide it through the funding mechanism for defense acquisition. Congress should allow foreign involvement in defense production by promoting “best cost” standards for these acquisitions as it authorizes and appropriates funds. At the same time, Members should seek to ensure that these foreign suppliers will honor fundamental commitments regarding both reliability of supply to the Department of Defense and protection of advanced defense technologies.

In short, Congress should not reject the participation of foreign suppliers, but should accept such participation and seek to manage it in a way

20. American Association for the Advancement of Science, “Federal Spending on Defense and Nondefense R&D,” February 2007, at www.aaas.org/spp/rd/histde08.pdf (March 16, 2007).

21. Jack Spencer, ed., *The Military Industrial Base in an Age of Globalization* (Washington, D.C.: The Heritage Foundation, 2005), pp. 9–14.

that protects U.S. security. This should be possible because the most likely candidates for foreign participation in the U.S. defense market are industries from countries that are allies or close friends of the U.S.

Myth #10: The time to find the next “peace dividend” is approaching.

Some congressional opponents of U.S. military operations in Iraq apparently hold the mistaken belief that those operations constitute the entirety of the war against Islamic terrorists who continue to threaten the American people. In reality, the conflict in Iraq is only one battle in a much broader, long-term war that shares some of the characteristics of the Cold War.²²

On the basis of their mistaken belief, these opponents appear to be working to manufacture an American defeat in Iraq to argue that the war on Islamic terrorists is over and that Congress should slash the defense budget. Specifically, the Congressional Progressive Caucus has offered a budget proposal that would drive the defense budget to just \$445.2 billion in FY 2012, which is over \$125 billion less than the Bush Administration’s projected level.²³

Such a step would be extremely unwise and cannot be justified, because the current financial burden imposed by defense spending is not large by historical standards. Any cut from current levels would put the U.S. military on the path to a hollow force. This is because the starting point for the reductions is already very low. The reductions proposed by the Congressional Progressive Caucus lead to spending about 2.5 percent of GDP on defense. Essentially, the Caucus is asking Congress to recreate the circumstance that the U.S. military faced in the late 1970s. In fact, the fiscal circumstance would be worse because in the late 1970s defense spending absorbed between 4 percent and 5 percent of GDP.

Former Senator James Talent (R–MO) recognizes the risks to national security posed by the search for another peace dividend and has proposed committing a minimum of 4 percent of GDP to defense.²⁴ Senator Talent’s approach would ensure that the federal government has the means to defend the American people and the nation’s vital interests for the remainder of the long war against Islamic terrorists and against other threats that may emerge.

Conclusion

The United States is engaged in a long war against Islamic terrorists that could extend for many years into the future and therefore is similar to the Cold War. The United States also needs to build the military capabilities necessary to respond to possible future threats from actively or potentially hostile states. To fulfill these two responsibilities, Congress will need to provide adequate funds to the Department of Defense.

At the same time, Congress needs to ensure a growing economy by not burdening it with excessive federal spending. The risk to future economic growth that is posed by excessive federal spending is extremely serious, but the root of that threat is not the defense budget.

Despite the ongoing war against Islamic terrorists and the need to meet enduring national security requirements, the defense budget is not large. By itself, it poses no threat to the overall economy. With the future of free peoples at stake, spending 4 percent of the national economy for defense is well worth the cost.

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22. James Jay Carafano, Ph.D., and Paul Rosenzweig, *Winning the Long War: Lessons from the Cold War for Defeating Terrorism and Preserving Freedom* (Washington, D.C.: The Heritage Foundation, 2005).

23. *Congressional Record*, March 29, 2007, p. H3300.

24. Jim Talent, “More: The Crying Need for a Bigger U.S. Military,” *National Review*, March 5, 2007.