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Four Percent for Freedom

The Need to Invest More in Defense



Selected Writings

Edited by Mackenzie M. Eaglen



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Contributors

James Jay Carafano, Ph.D., is Assistant Director of the Kathryn and Shelby Cullom Davis Institute for International Studies and Senior Research Fellow for National Security and Homeland Security in the Douglas and Sarah Allison Center for Foreign Policy Studies at The Heritage Foundation.

Mackenzie M. Eaglen is Senior Policy Analyst for National Security in the Douglas and Sarah Allison Center for Foreign Policy Studies, a division of the Kathryn and Shelby Cullom Davis Institute for International Studies, at The Heritage Foundation.

Edwin J. Feulner, Ph.D., is President of The Heritage Foundation.

Alison Acosta Fraser is Director of the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.

Will Packer is a former Research Associate in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.

Brian M. Riedl is Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.

Baker Spring is F. M. Kirby Research Fellow in National Security Policy at the Douglas and Sarah Allison Center for Foreign Policy Studies, a division of the Kathryn and Shelby Cullom Davis Institute for International Studies, at The Heritage Foundation.

James Talent is Distinguished Fellow in Military Affairs at The Heritage Foundation. He served in the U.S. House of Representatives (1993–2001) and the U.S. Senate (2002–2007). He was a member of the Senate Armed Services Committee and, for four years, chairman of the committee's Seapower Subcommittee.

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FOREWORD

Today, America's military is not in crisis. That could change, unless the nation commits to sustained and adequate levels of defense spending over the long term. *Four Percent for Freedom: The Need to Invest More in Defense* makes the case for a bipartisan consensus to maintain annual defense appropriations at 4 percent of Gross Domestic Product—GDP (the total measure of goods and services produced by the U.S. economy). Bringing together cutting-edge research and commentary by Heritage scholars this collection:

- Argues that measuring defense spending as a percentage of GDP is the most appropriate and realistic means to gauge America's commitment to ensuring an adequate national defense;
- Warns that without maintaining annual defense budgets at 4 percent of GDP America's military will become a "hollow" force placing the lives of our young men and women in uniform at risk and jeopardizing the Pentagon's ability to defend the nation's vital national interests;
- Demonstrates that a 4 percent level of spending is achievable and fiscally responsible, encouraging the military to prudently use its resources while not limiting the capacity of the U.S. economy to grow and prosper;
- Cautions that the nation won't be able to meet its obligations to our military without a bipartisan consensus in Washington committed to both maintaining adequate defense spending and addressing the pressing challenge of the historically unprecedented and unsustainable growth in Social Security, Medicare, and Medicaid which are consuming ever larger portions of the federal budget.

In short, *Four Percent for Freedom* makes a compelling case that Congress must put the need for robust defense budgets and addressing current fiscal challenges at the front of its agenda—and then keep those priorities throughout the decades ahead. The reason is simple. To do anything less will put our men and women in uniform in harm's way without the equipment, training, and support they need to protect America.

U.S. history is replete with cautionary tales of the cost of playing politics with American security. After World War II, America's military was sadly neglected. When the Korean War broke out soldiers were thrown into battle with weapons that did not work, wearing sneakers instead of combat boots. Lives were lost needlessly, and the U.S. effort in Korea almost faltered because the nation was unprepared. After the Vietnam War, defense spending once again plummeted, leaving the Pentagon with a "hollow force" lacking in training and readiness and without enough money to fix its equipment or modernize for the future. After a decade of neglect, the cost of rebuilding the military during the Reagan years cost far more than if Washington had simply sustained a responsible level of defense spending year in and year out. These are lessons worth learning.

As America looks beyond the first years of the long war against terrorism and combat in Iraq and Afghanistan, the nation's military could well become "hollow" again—and it will unless Congress and future administrations commit to responsible levels of defense spending. The United States is a global power with global interests, and even with the support and cooperation of friends and allies around the world, America must have the capacity to secure its vital national interests. Sustained, robust defense budgets are a prerequisite for that effort.

Four Percent for Freedom: The Need to Invest More in Defense provides the rationale for sensible spending on defense; illustrates the dire consequences of inadequate funding for supporting our troops and promoting America's national interests; and lays out the policy challenges that have to be overcome to achieve the bipartisan consensus that will be needed in the next decade. It is a call to action to Congress and future administrations that they must heed in order to keep America safe, free, and prosperous in the 21st century.

Edwin J. Feulner, Ph.D.
President
The Heritage Foundation

INTRODUCTION

Mackenzie M. Eaglen

The United States military has reached a crossroads. In many respects, America's armed forces are better off than ever before. The all-volunteer force is a proven, mature, and successful model. America is protected by the finest servicemen and women in history who employ the most advanced arsenal on the planet.

Yet the number, size, and duration of military deployments have increased dramatically since the end of the Cold War, while defense spending has remained at an historical low. The military will likely face further calls for reduced spending when, at some point, the pace of operations in Iraq slows down and Congress begins searching for yet another "peace dividend" to help pay exploding Social Security, Medicare, and Medicaid costs. If a clearly delineated policy is not established now to ensure stable funding, the military risks becoming a hollow force.

The term "hollow force" describes the situation when readiness declines because the military does not have enough funding to provide trained and ready forces, support ongoing operations, and modernize simultaneously. Like a freshly painted house with no plumbing or wiring inside, the military may appear functional but in reality is too poorly trained and equipped to be reliable without incurring excessive and unnecessary risk.

The last time America's military truly went hollow was in the aftermath of the Vietnam War. Recruitment plummeted, equipment modernization slowed substantially, and training funds were unavailable. The cracks became visible in 1979 when the captain of the USS *Canisteo* refused to certify his ship as seaworthy because his men had not been adequately trained. When this was followed in 1980 by the Desert One debacle in Iran, it became clear that years of underfunding had left America's military hollow.

Upon assuming office in 1981, President Ronald Reagan immediately rectified the situation by securing two double-digit increases in the defense budget, followed by substantial increases for several years thereafter. The results resounded throughout the military where morale skyrocketed, training improved significantly, and the Pentagon was able to develop a new generation of vehicles, ships, and aircraft using the latest technologies.

The Soviet Union, which a few years earlier had dreamed of building a blue-water navy to compete with the United States, then realized it could no longer compete—a realization that was a significant factor in its eventual demise. This strategic buildup also provided the overwhelming force behind Operation Desert Storm and made possible the peace that America enjoyed throughout the 1990s.

The military is now showing many of the same signs, however, that were evident in the post-Vietnam era. Despite the intense pace of repeated military deployments over the past 15 years, today's force is roughly half the size it was in the early 1990s. The Army has been reduced from 18 divisions during Desert Storm to 10, the Air Force from 37 tactical air wings to 20, and the Navy from 568 ships in the late 1980s to a fleet of only 276 today.

Moreover, modernization and procurement budgets were cut substantially throughout the 1990s. As a result, along with manpower shortages, much of the military's equipment is too old and increasingly unreliable. For example:

- The Pentagon purchased an average of 78 scout and attack helicopters each year from 1975 to 1990 but only seven each year from 1991 to 2000.
- An average of 238 Air Force fighters and five tanker aircraft were purchased from 1975–1990, compared to 28 and one per year, respectively, from 1991 to 2000.
- The average age of Air Force aircraft in 1973 was just nine years. The average aircraft today is 24 years old, while aircraft modernization funding has dropped by nearly 20 percent.

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As in the aftermath of the Vietnam War, the Army National Guard was the first to show signs of being hollow. In 2005, the Army National Guard contributed nearly half of all troops on the ground in Iraq and has assumed an increased role in homeland defense missions over the past six years. Yet the Guard faces severe equipment shortages while relying extensively on a policy of cross-leveling to fill units. The equipment that is available is typically much older, more difficult and expensive to maintain, and not easily deployable or useful in its missions. Chief of the National Guard Bureau Lieutenant General Steven Blum confirmed that the Guard's equipment readiness has fallen from 75 percent in 2001 to only 35 percent today.

Without maintaining a robust defense budget of 4 percent of gross domestic product (GDP) over the next five to 10 years, the U.S. will be unable to equip and modernize its forces to preserve America's security. The military is in a vital phase of mandatory recapitalization. With the current and future budget projections, the services are scheduled to field new platforms that will anchor American security for the next generation.

Robust and consistent funding of the military is fully within America's capability. Currently, the U.S. spends only 3.8 percent of GDP on the core defense budget. That is far lower than during the Cold War and almost a full percentage point lower than the hollow force era after Vietnam. The budget is expected to drop even further in the coming years, falling to just 3.2 percent of GDP by 2012.

America's economy is so powerful, however, after years of underfunding military procurement that the U.S. could recapitalize and sustain military strength by increasing and maintaining defense spending at 4 percent of GDP. This policy, called the "Four Percent for Freedom" solution, would ensure that America's military remains capable and ready.

A policy of Four Percent for Freedom would also have a positive impact by focusing the national debate about the deficit where it belongs: on entitlement programs. These mandatory programs—not defense spending—pose the real long-term threat to solvency.

In addition, sufficient funding would promote more efficient use of defense dollars. Service chiefs would not have to maneuver funding each budget cycle to keep programs alive but could instead focus on long-term planning.

Finally, American power is an important stabilizing force in the world. The Four Percent for Freedom solution would help to reassure financial markets about American strength, reduce risk within the international community, and promote economic growth both at home and abroad.

CHAPTER 1

More: The Crying Need for a Bigger U.S. Military

James Talent

In 1979, the captain of the USS *Canisteo* refused to certify his ship as seaworthy, because, in his opinion, his men had not been adequately trained. It was the first time in 15 years that a U.S. Navy captain had refused to take his ship to sea. His courage, coupled with a blistering report about lack of military readiness authored by former defense secretary Melvin Laird, and followed in 1980 by the Desert One fiasco in Iran, made graphically clear that years of underfunding had left America's military "hollow." Like a freshly painted house with no plumbing or wiring inside, the military looked functional; but in reality, it was too poorly trained and equipped to be reliable.

At the time, America's resolution was already in question because of Vietnam and the weakness of foreign policy during the Carter years. It was no accident that by the end of President Carter's term the Soviets had invaded Afghanistan and the new regime in Iran had seized the American embassy in Tehran. America's enemies were reacting to her weakness like rats in a room where the lights had gone dim: They had come out of their holes and begun to probe, scouting for opportunities to advance their ambitions and threaten U.S. security.

President Reagan had no formal experience in foreign policy and no training in military affairs. But he understood the basic equation of world leadership: force plus resolve equals power. Despite the large budget deficits, President Reagan secured two immediate double-digit increases in the defense budget, followed by substantial increases for several years thereafter.

The effect was electric. Military morale skyrocketed. Training improved, and the Pentagon was able to recapitalize its "platforms"—the military term for ships, planes, and vehicles—with equipment that used the latest technology and was therefore less vulnerable and more lethal. The geriatric leaders of the USSR, who a few years before had dreamed of building a blue-water navy that could challenge the U.S., now realized that they were in a competition they could not possibly win: The "correlation of forces" was moving decisively in the direction of freedom. Throughout the rest of the 1980s, the reality of growing American power, coupled with Reagan's eloquence and conviction, forced the Soviets increasingly into a corner. Finally they threw in the towel. Only a few years later, America's newly empowered military paid another dividend: It provided the overwhelming force behind Operation Desert Storm. The strategic buildup Reagan initiated made possible the end of the Cold War, and the peace and prosperity that America enjoyed throughout the 1990s, and up until 9/11.

America is now reaching a decision point similar to the one Reagan faced in 1981, and it is important to understand clearly what is at stake. America is the defender of freedom in the world and therefore always a prime target for those who hate freedom. The progress of the international order toward peace and democracy depends on American power; and while the basket of Western foreign policy contains many tools, what underpins them all is a U.S. military that the world knows is capable of defeating threats swiftly and effectively.

Judged by this standard, the situation facing the U.S. military is grave. America's armed forces are, in one respect, better off than in 1981. The volunteer force is a proven, mature, and successful model; America is protected by the finest servicemen and women in history. But because of decisions over the last 15 years—driven more by budgetary than by military considerations—the Army is too small, the Navy and Marine Corps may well be too small, and much of the equipment in all the services is too old and increasingly unreliable. Without a substantial increase

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in procurement spending, beginning now and sustained over the next five to ten years—an increase measured not in billions but in tens of billions of dollars per year above current estimates—the U.S. will be unable to modernize its forces to the degree necessary to preserve its security with the necessary margin of safety.

President Bush, to his credit, has submitted a budget for FY 2008 that begins to recognize the true requirements of American security. If the president has his way, defense spending will increase by more than 10 percent over last year. That is a hugely important first step, but it is not enough. Congress should give the president his request for defense this year—but both ends of Pennsylvania Avenue also need to adopt a rule that the core defense budget should never sink below 4 percent of the nation's GDP. The War on Terror will eventually end, but the need for American strength will not; there is no conceivable international scenario for the next generation that does not justify at least such a modest ongoing investment in the nation's security. As Reagan liked to say, "Of the four wars in my lifetime, none came about because America was too strong."

The Necessary Upkeep

The world today is, on balance, at least as dangerous as it was at the end of the Cold War. The U.S. is no longer in danger of a massive nuclear attack, nor is a major land war in Europe likely, but the threats we face are no less serious. America is engaged in a war against terrorism that will last for years. The danger of a rogue missile attack is greater than ever. China is emerging as a peer competitor much faster than most of us expected, and Russia's brief experiment with democracy is failing.

The "operational tempo" of American conventional forces—the number, intensity, and duration of their deployments—has increased since the end of the Cold War. Yet the forces were almost twice as big in 1992 as they are today. The active-duty Army was cut from 18 divisions during Desert Storm to ten by 1994—its size today. The Navy, which counted 568 ships in the late 1980s, struggles today to sustain a fleet of only 276. And the number of tactical air wings in the Air Force was reduced from 37 at the time of Desert Storm to 20 by the mid-1990s.

Modernization budgets also were cut substantially during the Clinton years, and procurement budgets were cut much further than the cuts in force size and structure warranted. In essence, the Clinton administration took a "procurement holiday" where the military was concerned. The contrast in the average annual procurement of major equipment in two periods—1975 to 1990 and 1991 to 2000—is startling. For example, the Pentagon purchased an average of 78 scout and attack helicopters each year from 1975 to 1990, and only seven each year from 1991 to 2000. An average of 238 Air Force fighters and five tanker aircraft were procured each year from 1975 to 1990, as against only 28 and one per year, respectively, from 1991 to 2000.

These dramatic reductions had profound implications. When older platforms are not replaced, readiness levels drop, and the cost of maintaining inventory climbs rapidly. By the end of the Carter years, the force had gone "hollow"; by the end of the Clinton years, it had begun to "rust," badly. The George W. Bush administration has increased procurement budgets, but nowhere near enough to make up for the 1990s. The average age of Air Force aircraft in 1973 was just nine years. Today, the average aircraft is 24 years old and aircraft-modernization funding has dropped by nearly 20 percent over the last 22 years.

The current force is too small and too old relative to the requirements of the official national military strategy. That strategy calls for a military capable of defending the homeland, sustaining four peacekeeping engagements, and fighting two large-scale regional conflicts at approximately the same time. The services today probably cannot execute even this strategy within an acceptable margin of risk. Certainly they will be unable to do so in the future unless the Army and probably the Marine Corps are made bigger and unless all the services have the money to recapitalize their major platforms with modern equipment.

For years, the Joint Chiefs have been under pressure from political authorities to reduce the budget below what they really need. So they have delayed new programs, reduced the number of new ships or planes they say they need, kicked crucial procurement decisions down the road, robbed Peter to pay Paul, and otherwise tried to avoid confronting the approaching crisis.

But the crisis is upon them, and us, now. The military is entering a crucial phase of recapitalization. Beginning with the next budget, and intensifying over the next five to ten years, the services are scheduled to field the new platforms that will anchor American security for the next generation. No one can say that this spending is not needed or that it can be delayed any further. The Army must modernize and replace almost its entire capital stock of fighting vehicles. The Navy must buy new DDG-1000 destroyers, ramp up procurement of Virginia-class submarines, and buy large numbers of littoral combat ships and the next-generation cruiser. The Air Force must buy its new superiority fighter, the F-22, as well as Joint Strike Fighters or equivalent aircraft. In addition, the Air Force must fund its strategic-airlift requirement, design and build a new tanker, and develop an interdiction bomber to replace the B-52, an aircraft almost 50 years old.

The current procurement budget for all three services is \$81.3 billion. Simple budgetary mathematics shows that the services cannot possibly meet their crucial requirements without an average budget over the next five to ten years that is at least \$30 billion higher per year.

The situation facing the Navy is representative of the dilemma facing all the services. Currently the Navy has 276 ships. Its shipbuilding plan calls for 326 ships by 2020, eventually reaching a fleet that averages 313 ships. The plan actually calls for a reduction in aircraft carriers, attack submarines, and major surface combatants, but makes up for this with modern destroyers, more capable submarines, pre-positioning ships that will allow us to build and defend "sea bases," and the whole new class of multi-mission modular vessels called littoral combat ships. There is no margin whatsoever in this plan; it is the minimum necessary for American security.

The chief of naval operations, the admiral who represents the Navy on the Joint Chiefs, has estimated that the plan will require an annual shipbuilding budget that averages \$13.4 billion, almost \$5 billion more than was spent on shipbuilding last year. His plan calls for that figure to increase to \$17.5 billion by 2012. Most naval experts believe these figures are far too conservative. But it will be utterly impossible, at current levels of defense spending, for the Navy to reach and sustain even the \$13.4 billion figure; the money simply is not there. Beginning no later than 2009, there will be a growing shortfall in the shipbuilding accounts, in addition to an annual shortfall of \$1 to \$2 billion per year in Navy aviation procurement.

The bottom line is that the Navy needs at least an \$8 billion procurement increase per year above current estimates. The Marine Corps needs about \$3 billion more per year. It is not necessary to go into great detail with regard to the budgetary picture for the Air Force and Army; the pain has been spread fairly evenly across the services, and all face roughly the same shortfalls. That equals a procurement deficit over the next ten years of at least \$30 billion per year. Most independent experts believe the number is even higher. For example, the Congressional Budget Office estimates that the shortfall, including expected increases in personnel costs, will be a minimum of \$52 billion per year.

Add to this the fact that the active-duty Army is clearly too small. Even in an age of transformation and non-linear battlefields, America will always need the capacity to put boots on the ground. Particularly in the post-9/11 era, the U.S. needs the ability to carry on sustained, large-scale peacekeeping or low-intensity combat missions, without having to send the same units on three or four tours over the life of a mission. A nation of America's size and strength should not have to tie up essentially its whole active-duty Army, much of its Marine Corps, and many of its reserves in order to sustain 130,000 troops in the kind of low-intensity combat we are experiencing in Iraq.

In 1992, just after Desert Storm, the Pentagon stated a requirement of twelve active-duty Army divisions, before the increases in operational tempo of the 1990s and before the War on Terror. The Army should surely have at least twelve divisions today. To their credit, President Bush and defense secretary Robert Gates have proposed such an increase. It costs at least \$2 billion to stand up and sustain an addition to the army of division strength, which means we need to invest about \$4 billion per year or more in increased Army force structure, in addition to the \$30 billion more in new procurement funding.

So to sustain our military at the level necessary to protect our security, we must increase procurement, personnel, and support spending by at least \$34 billion above the FY 2007 budget. It may be possible to fund a small fraction of this increase from reforms in the rest of the defense budget. Congress typically adds \$3 or \$4 billion worth of earmarked appropriations every year. Some of those earmarks are actually warranted, but a dedicated effort to

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reduce those that aren't could produce \$1 or \$2 billion in savings per year. The cost of new programs has certainly spiraled—there are still \$400 hammers floating around in the defense industry—and the right kind of procurement reform might reduce them somewhat.

The unstable and inadequate defense budgetary climate is itself a major reason program costs have increased. The Defense Department regularly projects what it intends to buy in the out years of its defense plan, but then institutes last-minute cuts, changes, and delays that allow it to meet annual budget targets but increase program costs in the long run. The Navy, for example, originally planned to buy a total of 32 DDG-1000s—the Navy's next-generation multi-mission destroyer. A few years later, Navy officials said the military requirements had dropped to only eight to twelve destroyers, and the most recent Navy plan now calls for a total of only seven. It is no coincidence that over the same period, due to the loss of economies of scale, the cost per destroyer has increased.

Those who understand the free market will not be surprised that the years of uncertainty and low defense budgets caused capital and companies to merge or leave the defense business. That means fewer competitors, more sole-source contracts, less research, and therefore higher costs.

The reality is that there is no huge pot of money currently in the defense budget from which the necessary increase can be funded. It cannot come from reducing the number of service personnel because the military is already too small. Precisely because of budget pressures in the past, the service chiefs have already reduced force structure to dangerous levels. That is why the Navy is “cross-decking” sailors—helicoptering them from a ship returning home to one that is steaming out to sea—in order to man all its vessels. Nor can the money come from reducing the compensation we pay our servicemen and women. Apart from the fact that Congress would and should never reduce compensation in the middle of a war, the services must hire and retain high-quality people. The more modern the military becomes, the more skills it demands, and skilled people cost money. There is no such thing as a “grunt” in today's military. The truth is that spending on personnel benefits is much more likely to increase than decrease. Total spending on defense health care, for example, increased from \$17.5 billion in 2000 to \$37 billion in 2006.

We Can Do It

The good news is that robust and consistent funding of the military is fully within America's capability. Currently the U.S. spends only 3.8 percent of its GDP on the core defense budget, including the non-Department of Defense expenditures for national security. That is far lower than during the Cold War, and almost a full percentage point less than was spent even during the Carter years. America's economy is so powerful that even after years of underfunding military procurement, the U.S. could still recapitalize and sustain its military strength by enacting the \$34 billion increase I mentioned earlier, and maintaining defense spending at no less than 4 percent of GDP thereafter.

This program—called the “4% for Freedom Solution” by the Heritage Foundation—would send the clearest possible message to America's friends and enemies that, whatever happens in Iraq, America will remain a force to be reckoned with. For some purposes, defense policy is foreign policy. Imagine the impact on China and North Korea, for example, of realizing that the U.S., by using only a small fraction of its economic resources, can guarantee an increased and highly capable naval presence in the Western Pacific for years to come.

The 4% for Freedom Solution would also have a positive impact on our long-term fiscal position. First, it would focus debate about the deficit squarely where it belongs: on the entitlement programs. Even a glance at the government's budget shows that growth in entitlement programs, not in defense or other discretionary spending, poses the real long-term threat to solvency. If Congress reforms entitlement spending, there will be more than enough money for defense; if Congress fails to get entitlements under control, then funding defense on the cheap will not save the country from bankruptcy.

Second, assuring sufficient funding for defense would promote more efficient use of defense dollars. Capital would flow back into the defense industrial base, and the service chiefs could attempt what in Washington has heretofore been unthinkable: long-term planning. They could budget in a way that reduces costs over the life of new systems, instead of fighting each other for money every year, or maneuvering each budget cycle just to keep vital

programs alive. President Bush's proposed double-digit increase is welcome news; but large swings in defense funding always cost the taxpayer more than solid, consistent funding over time.

Finally, American power is an important stabilizing force in the world; by reassuring the financial markets about American strength, the 4% for Freedom Solution would help reduce risk within the international economy and promote economic growth at home and abroad. Even a small positive impact on the economy would more than pay for the additional investment in military capability. How much would it be worth economically, for example, to reduce the risk that China invades Taiwan, or Kim Jong Il is tempted to use his nuclear capability? The peace and prosperity of the 1990s, remember, were due at least in part to the Reagan defense buildup of the 1980s. The Reagan precedent is also the answer to those who are concerned about the short-term impact of the 4% for Freedom Solution on the deficit. It is true that military strength has its price, but as Jimmy Carter found out, there is a price to be paid for weakness, too.

President Bush's recent defense-budget submission is the best news for American security in 15 years. The Democratic leaders should fully fund it, and the administration deserves credit for proposing it. But it would not have been necessary if the Clinton administration had not cut defense spending in the 1990s, or if the first George W. Bush administration had more robustly funded the needs that were clearly apparent even in 2001. By adopting the "4% for Freedom Solution," our leaders can show that for once they have learned the lessons of the past. There never will be a war that ends all wars; history has shown that, even in years where threats do not seem immediate, the dangers remain—and only the reality and perception of American power can deter them from breaking out.

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CHAPTER 2

Defense FY 2008 Budget Analysis: Four Percent for Freedom

Baker Spring

Fighting the war on terrorism will require a sustained commitment to fund national defense programs because it will clearly be a long war. At the same time, the U.S. needs to fund defense programs that protect the American people and U.S. friends and allies against the enduring threats posed by hostile states such as Iran and North Korea. Finally, there are looming threats, such as one posed by a hostile China.

The Bush Administration's defense budget request, released on February 5, 2007, would commit \$647 billion to national defense in fiscal year (FY) 2008.¹ At 4.4 percent of gross domestic product (GDP), this should be adequate to meet America's immediate national security needs.

However, the budget request fails to answer the question of whether or not this commitment of resources to national defense will be sustained for the remaining four years of the five-year budget period. The Bush Administration has deferred cost estimates of ongoing operations in the war on terrorism because projecting the precise costs of these operations is impossible this far in advance. Nevertheless, this omission shows defense budgets declining after FY 2008 to 3.2 percent of GDP by FY 2012.²

Congress can ensure that it is providing adequately for national security by making a firm commitment now to fund the national defense at no less than 4 percent of GDP. Protecting the lives and freedom of the American people is certainly worth 4 percent of national income. This commitment will require Congress to add roughly \$400 billion to the defense budget for the four-year period from FY 2009 to FY 2012, which it can do by amending the pending budget resolution. Clearly, a portion of this money will be allocated to ongoing operations to counter terrorists. The remainder should go to the core defense program, with a special emphasis on developing and deploying the next generation of weapons and equipment that U.S. forces will need to fight effectively in the future.

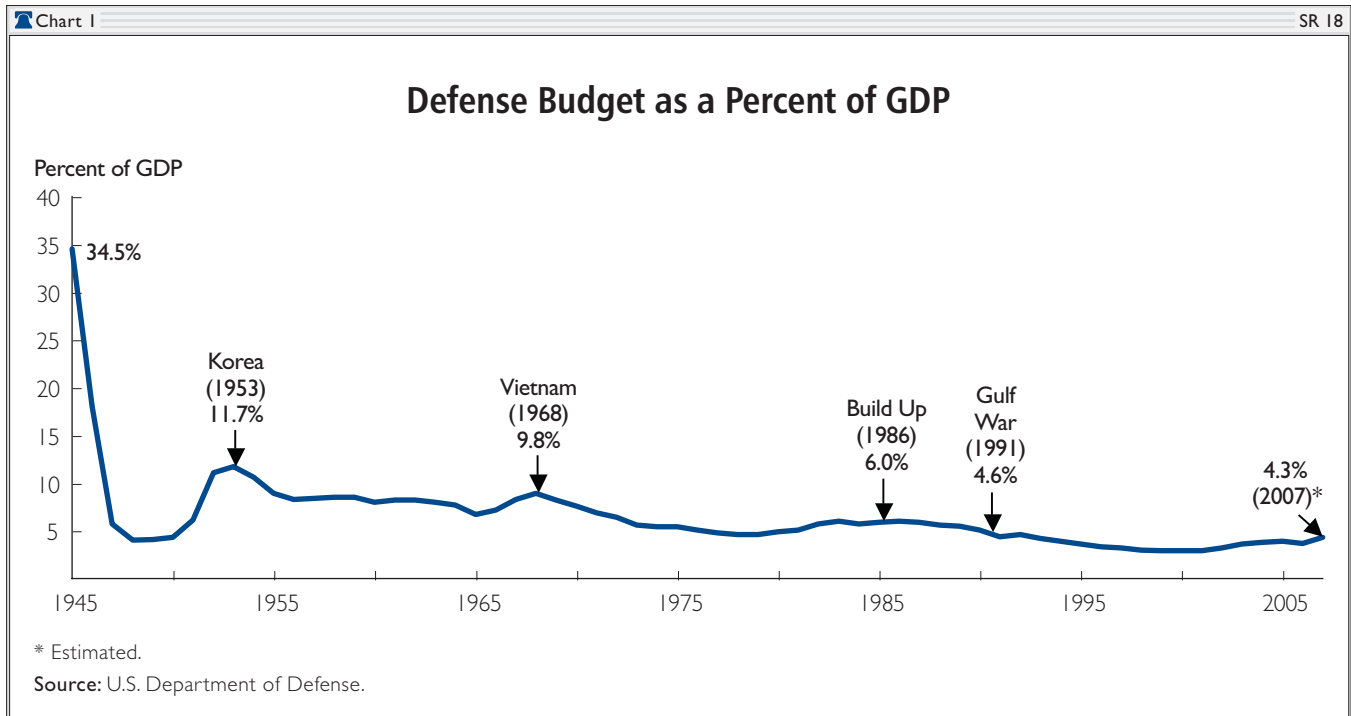
The Administration's Defense Budget Request

The Bush Administration's budget request for FY 2008 through FY 2012 shows a number of external and internal pressures on the defense budget. The external pressures are posed by the continuing and projected growth in spending for the three major entitlement programs: Social Security, Medicare, and Medicaid. If these entitlement programs are not reformed, the growth in entitlement spending will crowd out needed defense funding. This comes at a time when defense expenditures relative to GDP are already relatively low. (See Chart 1.)

The internal pressures stem from the high cost of military operations and the increasing costs (both gross and per capita) of compensating military personnel. While defense reform efforts will alleviate some of the internal pressure on the defense budget, these problems cannot ultimately be solved without a sustained commitment by Congress to provide at least 4 percent of GDP for defense.

1. 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. 89, at www.whitehouse.gov/omb/budget/fy2008/pdf/hist.pdf (February 26, 2007).
2. Heritage calculation based on figures from Office of Management Budget, *Historical Tables*, pp. 89 and 193.

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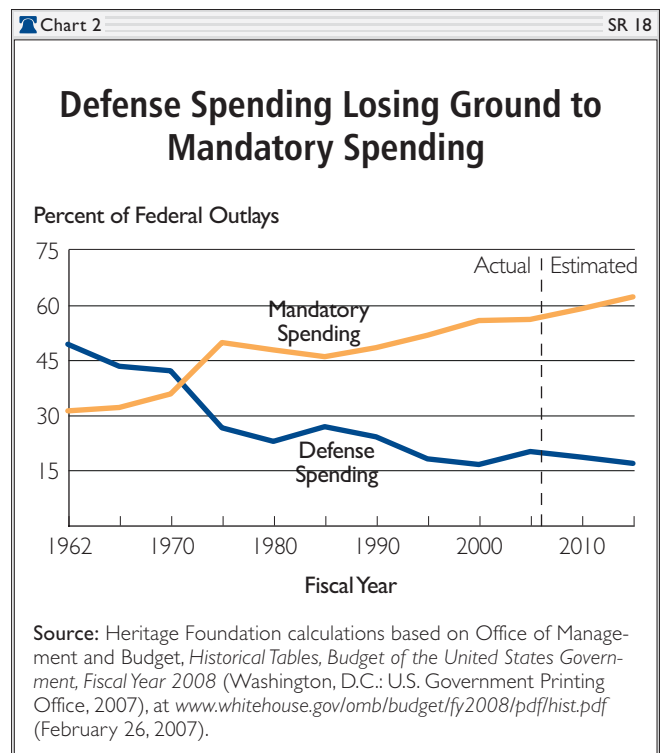


In terms of claims on the total budget, the defense account is continuing to lose ground to domestic mandatory spending programs (e.g., Social Security, Medicare, and Medicaid), despite the ongoing war. This trend will continue through the entire five-year budget period. (See Chart 2.)

Regarding the internal pressures on the defense budget, the trends have been in favor of spending on today's forces rather than investing in tomorrow's forces. The funding for operations and support activities, the sum of the operations and maintenance account and the military personnel account, continues to rise as an overall share of the Department of Defense (DOD) budget. At the same time, spending on modernization, the sum of the research and development account and the procurement account, has fallen as a share of the DOD budget. (See Chart 3.)

Specifically, operations and support activities continue to absorb roughly 60 percent of DOD budget authority. Modernization activities absorb only about 35 percent. By comparison, the two activities approached parity in the 1980s, when operations and support activities absorbed only slightly more than modernization activities.

The trend toward operations and support receiving higher shares of the core defense budget is driven largely by the increasing per capita compensation cost for military personnel and the higher operational tempo. During the 1990s, the gross cost of compensating military personnel was held in check by a 24 percent reduction in manpower; but this pressure valve on manpower costs is closing because the Bush Administration has proposed add-



ing 92,000 soldiers and Marines to the force by 2012,³ and per capita military compensation costs continue to rise, more than doubling in the past 10 years. (See Chart 4.) A major contributing factor is the cost of military health care. The FY 2008 defense budget allocates \$38.7 billion to providing health benefits to military personnel and their dependents.⁴

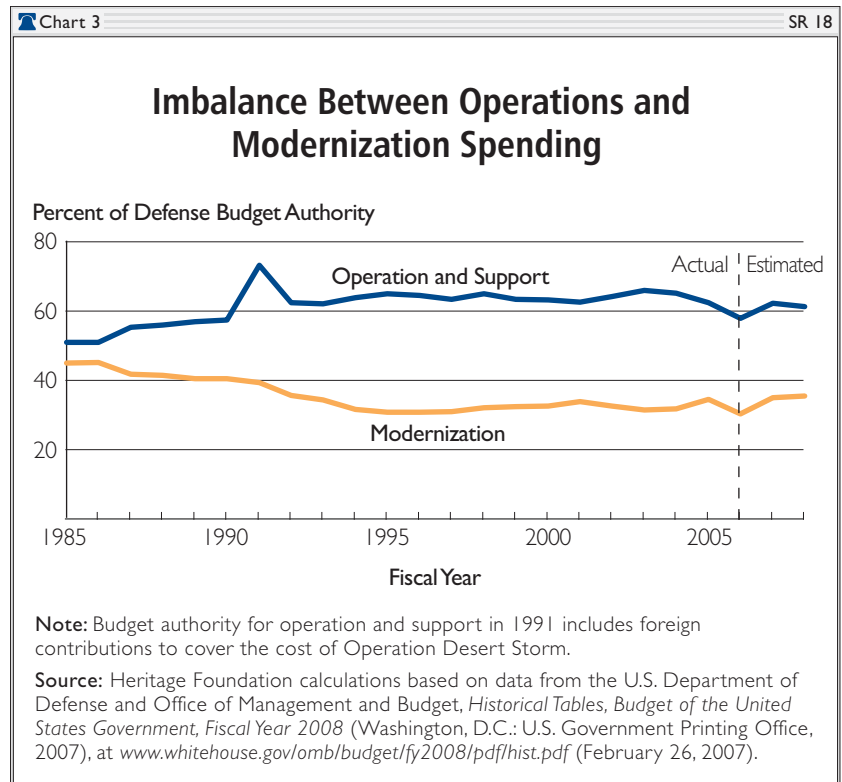
The trend toward modernization receiving smaller shares of the core defense budget is largely the result of the Clinton Administration's "procurement holiday" in the 1990s. The recovery from this unwise choice is still incomplete. The enduring effect of the procurement holiday is an imbalance between the procurement account (the account for purchasing new weapons and equipment) and the account for researching and developing new weapons and equipment technology.

In the 1980s, procurement consumed more than 70 percent of the modernization budget. (See Chart 5.) The core defense budget for FY 2008, despite a generous addition to the procurement account over FY 2007 levels, would still leave procurement at well below 60 percent. As a result, important new weapons programs must be stretched out, which increases unit costs, decreases the numbers of new weapons available to the military, and prevents their timely delivery. For example:

- The Navy has been forced to reduce construction of *Virginia*-class submarines to one per year even though constructing two per year could have reduced the unit cost to \$2 billion per boat.⁵
- The Air Force has been forced to scale back dramatically its purchasing of F-22 Raptor tactical fighters. It is now slated to obtain just 183 F-22s despite its requirement for 381.⁶
- The Army has been forced to extend the production time for its Future Combat System by five years.⁷

Sustaining Resources for National Security

Maintaining a healthy national defense program has three prerequisites. The first is a sustained commitment to robust funding for national defense. This is axiomatic. A robust defense program cannot be maintained without a sustained commitment to provide the necessary funds. Congress should therefore establish a floor of 4 percent of



3. U.S. Department of Defense, "President Bush's FY 2008 Defense Budget Submission," February 5, 2007, p. 2, at www.dod.gov/comptroller/defbudget/fy2008/2008_Budget_Rollout_Attachment.pdf (February 26, 2007).

4. U.S. Department of Defense, "FY 2008 President's Budget for Defense," February 5, 2007, at www.defenselink.mil/news/d20070205slides1.pdf (February 26, 2007), in U.S. Department of Defense, "DoD News Briefing with Secretary Gates and Under Secretary Jonas from the Pentagon," transcript, February 5, 2007, at www.defenselink.mil/Transcripts/Transcript.aspx?TranscriptID=3881 (February 26, 2007).

5. Baker Spring and David D. Gentilli, "Congress Should Accelerate Submarine Procurement," Heritage Foundation *WebMemo* No. 1084, May 17, 2006, at www.heritage.org/Research/NationalSecurity/upload/97341_1.pdf.

6. Defense Daily Network, "Bush Defense Budget Adequate Next Year, But Then Falls \$400 Billion Short," February 7, 2007, at www.defensedaily.com/VIP/dd/previous/dd0207.htm#A10 (February 9, 2007; subscription required).

7. Megan Scully, "Army Trims FCS, Stretches Program to Meet Current Needs," *Congress Daily AM*, February 8, 2007.

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GDP for national defense and firmly commit to resisting all attempts to go below this floor.

The second prerequisite is to reform Social Security, Medicare, and Medicaid. In the long run, projected growth in spending on these three entitlement programs will make it impossible for Congress to honor its commitment to provide at least 4 percent of GDP to national defense. Even in the near term, entitlements will make allocating adequate resources to national defense incrementally more difficult.

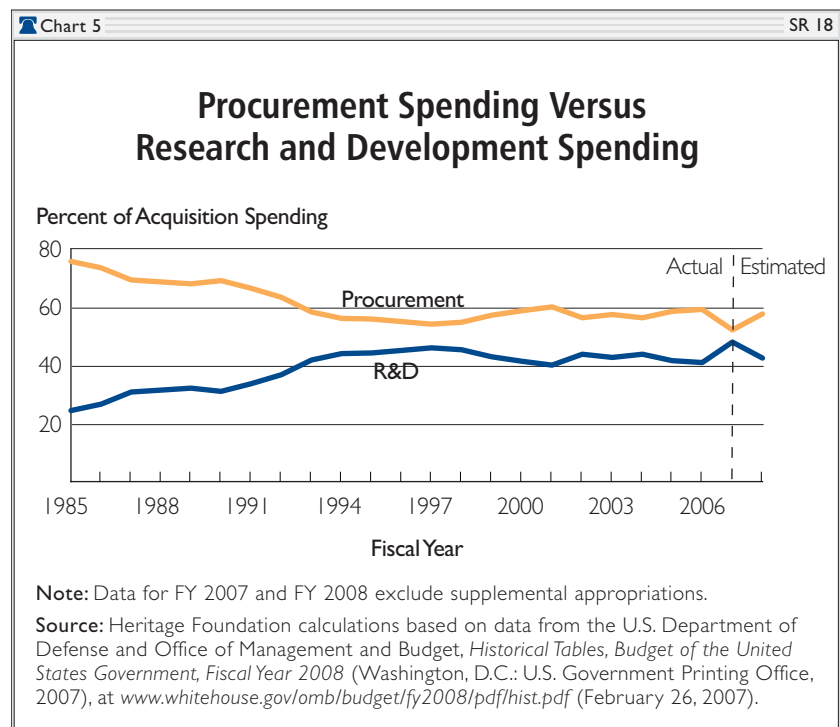
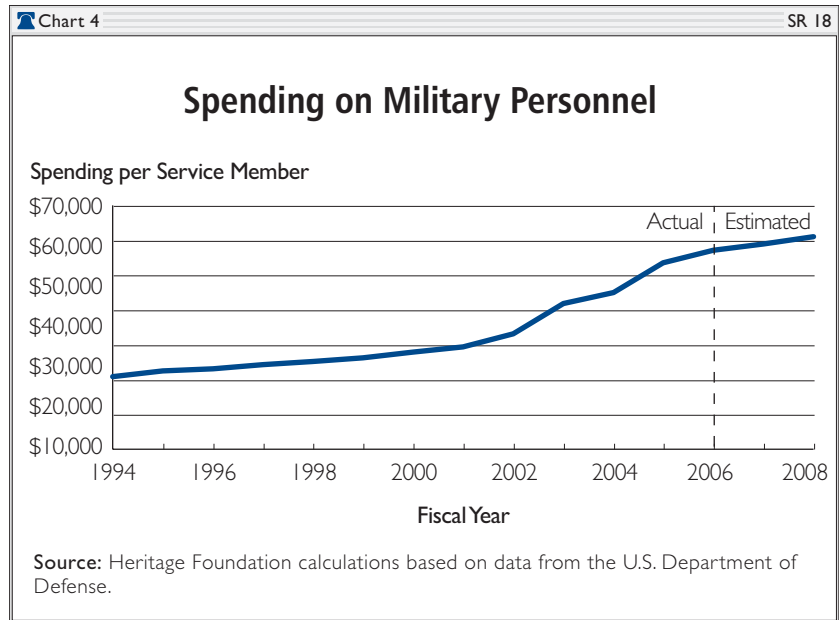
The third prerequisite is to spend the resources provided to national defense wisely. This entails rebalancing the internal defense accounts to meet long-term needs. Specifically, this means increasing funding for the core defense programs if and when supplemental appropriations to support ongoing contingency operations decline, shifting resources from the operations and support accounts to the modernization accounts, and increasing the share of the modernization accounts devoted to procurement.

Providing the Necessary Resources for National Defense. Providing adequate funds for national defense starts with recognizing that the Bush Administration's five-year defense budget request provides sufficient resources in FY 2008 but falls short in the next four years.⁸ Thus, the Administration's budget from FY 2009 through FY 2012 reflects a roughly \$400 billion defense funding gap in budget authority. (See Chart 6.)

Congress should:

- **Fill this gap by drafting a budget resolution that adds the necessary budget authority to the five-year national defense account.** The relevant defense budget targets should be \$612.3 billion for FY 2009, \$644.5 billion for FY 2010, \$677.5 billion for FY 2011, and \$711.4 billion for FY 2012.
- **Make a clear commitment to sustain funding for national defense beyond the five-year budget period.** It can do this by including report language that pledges Congress to allocate no less than 4 percent of GDP to national defense for the indefinite future.

8. Baker Spring, "An Adequate Defense Budget That Must Be Sustained into the Future," Heritage Foundation *WebMemo* No. 1342, February 5, 2007, at www.heritage.org/Research/NationalSecurity/upload/wm_1342.pdf.



Reforming Social Security, Medicare, and Medicaid. Social Security, Medicare, and Medicaid spending has absorbed ever higher portions of the federal budget since the 1960s. In general terms, this growth has come at the expense of the defense budget. This trend cannot continue indefinitely. Indeed, the United States is facing a fiscal crisis because spending on Social Security, Medicare, and Medicaid is projected to increase rapidly. Each of these three programs is forecast to grow faster than the overall economy between 2005 and 2030. (See Chart 7.)

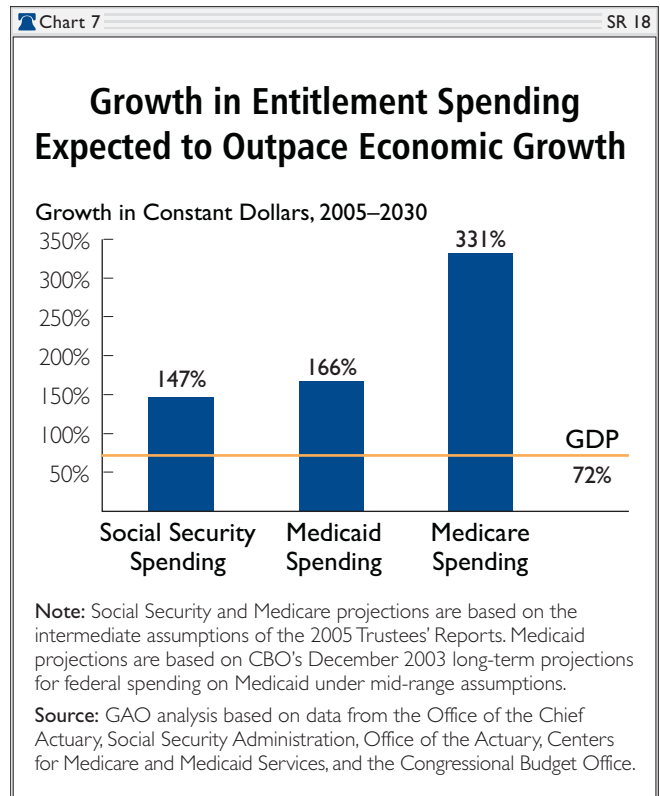
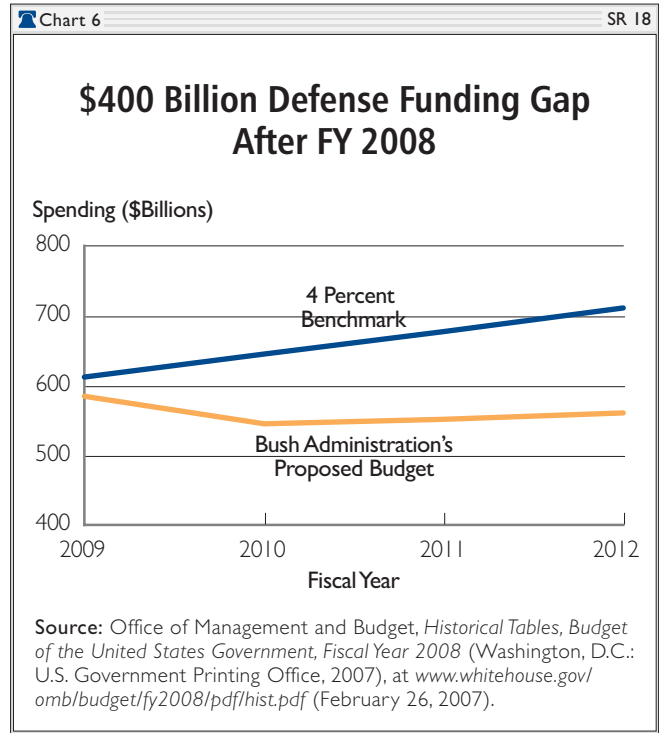
The implications for national defense are clear. Spending 4 percent of GDP for national defense will quickly become impossible unless Congress reforms Social Security, Medicare, and Medicaid.

Given the size of the Social Security, Medicare, and Medicaid programs, reforming them will take time. Thus, Congress should start now.

Some Members of Congress will argue that any reform of these programs is tantamount to a draconian cut. It is nothing of the sort. None of the current entitlement reform proposals would cut spending on these programs; they would only limit future growth.

Outlays for Social Security, Medicare, and Medicaid currently total 8.7 percent of GDP.⁹ By comparison, the defense budget proposal in this paper would allow future defense spending to decline slightly as a share of GDP from the proposed FY 2008 level and asks only that defense spending keep pace with economic growth after 2008. Further, the proposed defense benchmark (4 percent of GDP) is less than half of the percentage of GDP that will be spent on the three major entitlement programs for the foreseeable future.

Continuing to Fund Anti-Terrorist Operations Separately. In times of war, there is always the challenge of not letting the requirements for current operations undermine the military's ability to field first-rate forces in the future. The Bush Administration has recognized this challenge and responded by using supplemental appropriations to fund ongoing operations in fighting the war against Islamic terrorists. This has served the purpose of keeping these expenditures from crowding out core investments in future defense programs. If the costs of current operations were incorpo-



9. Baker Spring, James Jay Carafano, Ph.D., Alison Acosta Fraser, Brian M. Riedl, and Will Packer, "Protecting Homeland Security and Defense by Reining in Entitlements," Heritage Foundation *WebMemo* No. 1352, February 8, 2007, p. 2, at www.heritage.org/Research/Budget/upload/wm_1352.pdf. Reprinted in this volume.

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rated in the annual defense budget, the temptation to rob future military capabilities to fund current operations would have been overwhelming.

Congress should therefore continue this practice of funding current contingency operations through supplemental appropriations. Ultimately, the 4 percent benchmark is intended to protect the core defense program and future defense capabilities. This means that the roughly \$400 billion that Congress should add to the defense budget in the latter years of the budget period will go to both supplemental appropriations and the annual defense appropriations bill. If the funding requirements for ongoing operations start to decline, the resources should be shifted to the core program.

By the same token, the Bush Administration and Congress should resist the temptation to fund elements of the core defense program out of supplemental appropriations bills. Doing so will tie enduring defense programs to a funding source that could easily decline in future years.

Rebalancing Military Compensation. Without reform, future increases in the per capita cost of military compensation will crowd out needed spending on military modernization in the core defense budget because the overall size of the military will increase. Ultimately, rebalancing military compensation will require a number of significant reforms. Evidence suggests that the current compensation system is weighted too heavily in favor of in-kind and deferred compensation over direct cash compensation.¹⁰

To begin this rebalancing effort, Congress should:

- **Apply reforms similar to those that have been proposed regarding the indexing of Social Security benefits.** If retirees receiving Social Security benefits are asked to accept less generous indexing of those benefits, it is entirely appropriate to ask the same of military retirees. This does not mean that a new indexing formula for military retirement benefits must be exactly the same as the one applied to Social Security benefits. The military retiree community is much smaller than the population of Social Security recipients and has unique characteristics.
- **Move the military health care system away from a defined benefit plan and toward a defined contribution plan.** While the DOD touts its \$38.7 billion system that provides benefits to 9.2 million people “as one of the best healthcare programs in the world,” this claim is far from obvious.¹¹ While the system is clearly one of the most generous, it may be one of the most inefficient.

A key problem with the U.S. health care system overall is that it often precludes individuals from assuming at least some responsibility for making decisions about their care. The military health care system is more extreme in this regard because it encourages beneficiaries to treat health care as a free good or service and consume it on the basis of whim as opposed to need.

Structuring the military health care system as a defined contribution plan would give its 9.2 million participants greater freedom of choice and more control over their health care decisions.¹² Greater individual control is also likely to impose more discipline on the system with respect to how it uses its resources.

Increasing Military Modernization Funding to \$200 Billion by FY 2014. The Bush Administration’s FY 2008 budget request gives a significant boost to the modernization program in the core defense budget. If Congress approves the request, the 13 percent increase over FY 2007 would bring modernization funding to \$176.8 billion.¹³

Modernization funding after FY 2008 is less certain because the Bush Administration provided neither a budget authority estimate for the core defense program nor estimates for modernization funding in the latter years of the budget period. This is a cause for concern because of the \$400 billion funding gap from FY 2009 through FY 2014.

10. 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), and Cindy Williams, “Paying Tomorrow’s Military,” *Regulation*, Vol. 29, No. 2 (Summer 2006), pp. 26–31, at www.cato.org/pubs/regulation/regv29n2/v29n2-1.pdf (February 27, 2007).

11. U.S. Department of Defense, “FY 2008 President’s Budget for Defense.”

12. James Jay Carafano, Ph.D., “A ‘Rucksack’ for U.S. Military Personnel: Modernizing Military Compensation,” *Heritage Foundation Web-Memo No. 1020*, February 14, 2007, at www.heritage.org/Research/NationalSecurity/em1020.cfm (March 2, 2007).

13. U.S. Department of Defense, “President Bush’s FY 2008 Defense Budget Submission,” p. 10.

Congress should approve the Bush Administration's military modernization funding request for FY 2008 and thereby establish the foundation for future increases. Congress should also fill the gap in the proposed five-year defense budget, which should leave sufficient room to reach the \$200 billion target for modernization in FY 2014. This kind of sustained funding for modernization will provide the military with the new weapons and equipment that it will need to be a fully capable force a generation from now.

Increasing the Procurement Account's Share of Modernization Spending to at Least 60 Percent by FY 2014.

The Bush Administration's FY 2008 budget request for the core defense program also takes a major step toward rebalancing the internal structure of the modernization program. All of the increase in the modernization accounts for FY 2008 over the FY 2007 estimate goes to the procurement account.¹⁴ The \$101.7 billion for procurement in budget authority therefore constitutes over 57 percent of the entire modernization program. Clearly, this represents a major step forward in recovering from the procurement holiday of the 1990s.

Congress should approve the Bush Administration's procurement request for the core defense program and resist all temptations to shift resources away from procurement and toward research and development. Further, it should be prepared to sustain this rebalancing action in future defense authorization and appropriation bills by making sure that procurement is greater than 60 percent of total modernization budget in 2014. Again, filling the gap in the budget for the core defense program in the latter years of the budget period should provide sufficient room in the overall budget to accommodate this goal.

Conclusion

The United States was founded on the basis of individual liberty. As a result, the Constitution assigns to the federal government the primary responsibility to "provide for the common defence." It is entirely reasonable to expend 4 percent of national income in the defense of freedom. Nevertheless, the federal government is now allocating a smaller share of national income to defense than the average for the past four decades, despite the ongoing war against terrorism.

Projected growth in entitlement spending, not defense spending at this level, is at the core of the looming fiscal crisis facing the federal government. Defense expenditures at this level will jeopardize neither the health of the economy nor the prosperity of the American people, but a sustained commitment to defense is necessary to sustain liberty. Paying 4 percent for freedom is worth the price. Indeed, it is a bargain.

First published as Heritage Foundation Backgrounder No. 2012, March 5, 2007.

14. *Ibid.*

CHAPTER 3

Four Percent for Freedom: Maintaining Robust National Security Spending

James Jay Carafano, Ph.D., Baker Spring, and Mackenzie M. Eaglen

Despite intense military activity since 9/11, defense spending is at a historical low and has been for too long. Current and future Administrations and Congress should commit now to spending 4 percent of gross domestic product (GDP) on national defense even after any drawdown of U.S. forces in Afghanistan or Iraq, both to prevent a recurrence of the “hollow force” and to meet the military’s immediate modernization needs.

Although defense spending has been relatively restrained, expenditures on Social Security, Medicare, and Medicaid have been exploding. Meeting the resource needs for winning the war on terrorism includes maintaining overall defense budgets at 4 percent of GDP while simultaneously recognizing that projected growth in entitlement expenditures will jeopardize the nation’s ability to wage war over the long term. This harsh fact makes entitlement reform a national security issue.

Avoiding a “Hollow Force”

The term “hollow force” was coined in the post–Vietnam War era to describe a military force that lacks the resources to field trained and ready forces, to support ongoing operations, and to modernize. In the past, when America’s military has begun to become hollow, the strain has showed first in the National Guard. The same warning signs are evident today, including an austere lack of equipment, heavy reliance on cross-leveling to fill out units preparing to deploy, and a reduction in the levels of unit readiness. However, this problem is not exclusive to the National Guard. The Army and Air Force are already showing signs of funding shortfalls for equipment modernization. Although today’s military is not yet hollow, it could become so in less than a decade if funding for military modernization is not adequate over a sustained period of time.

Moreover, underfunding defense will actually cost the U.S. more in the long run, including reducing the defense industrial base to a dangerously low level. This leads to an undercapitalized base that is not competitive, driving up costs for the U.S. government and taxpayer. Not spending enough on defense also creates the reality and perception of American weakness, which will increase risk, hinder economic growth, and lower stability in the world. Indeed, robust defense spending saves money. President Ronald Reagan’s defense buildup and steady defense funding throughout the 1980s helped to win the Cold War and enabled the U.S. to quickly defeat Saddam Hussein in the Gulf War.

Regrettably, the Administration’s defense budget request and emergency supplemental spending bill come at a time when political pressure to reduce defense expenditures is growing. The perception is that the battle in Iraq constitutes the entirety of the war effort and that as this operation winds down, the American people are entitled to a new peace dividend. This notion, coupled with the imminent retirement of 78 million baby boomers, means that the danger of a hollow force is very real. Mandatory spending in the U.S. budget is projected to increase significantly in

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the coming years. The Congressional Budget Office projects that the share of the U.S. economy devoted to defense spending will actually decrease as a result.

Entitlement Reform as National Security Issue

The U.S. government is running a large budget deficit, and the principal reason is the growth in entitlement costs, not increased defense funding since 9/11. Since 1970, the historical ratio between defense spending and entitlement spending on Medicare, Medicaid, and Social Security has flipped. In 1970, military spending totaled 7.8 percent of GDP—almost twice the 4.1 percent of GDP spent on the big three entitlement programs. Today, defense spending has fallen to 3.9 percent of GDP while entitlement spending has more than doubled to 8.8 percent of GDP. By 2030, the big three entitlements will absorb roughly 84 percent of all federal revenues, crowding out defense and homeland security and threatening the historically low-tax, high-growth U.S. economy. Congress needs to find a solution to the entitlement spending problem quickly.

Consequently, defense is not the problem with the budget, and cutting defense is not the solution. As a nation at war, the U.S. is spending remarkably little on defense. Devoting 4 percent of GDP to defense imposes a reasonable burden on the U.S. economy and is significantly below the mean of roughly 7.5 percent of GDP that the U.S. spent on defense during the Cold War.

Spending 4 percent of GDP will not risk losing the war because of economic collapse brought on by excessive defense spending. Further, Congress needs to keep in mind the economic costs of military failure. Military power trumps economic power in the short term. Even a single successful attack on U.S. territory using an electromagnetic pulse generated by a nuclear weapon would have devastating economic consequences.

What the U.S. Should Do

Over the long term, federal spending should be reformed to provide adequate funds for current defense needs, and the shape of the U.S. military should continue to transform to reflect future threats. Rather than decrease defense spending, Congress needs to make a strong commitment to fund the nation's war requirements well into the future; indeed, the next President and future Congresses must also commit to providing for the nation's defense through increased defense budgets. Both Congress and the President should also begin the difficult task of changing public opinion, not following it, by reminding the American people that the ongoing war is not over, regardless of what happens in Iraq, and that the stakes in this war extend to their lives, liberty, and future prosperity.

Conclusion

Spending 4 percent of GDP on national defense will allow the U.S. to keep the nation and its service members properly trained, equipped, and ready. In the long term, continuing to underfund defense and then allowing wild fluctuations in defense budgets during times of war will only cost the country more and compromise national security. Congress and the Administration should commit now to spending at least 4 percent of GDP on national security, and they should move swiftly to reform the major entitlement programs that threaten both the budget and the economy over the long term.

First published as Heritage Foundation Executive Memorandum No. 1023, April 10, 2007.

CHAPTER 4

Four Percent for Freedom: Spend More on National Defense

Baker Spring

In the cover article for *National Review* on March 5, Heritage Foundation Distinguished Fellow and former Senator James Talent (R–MO) urged the United States to commit 4 percent of its economic output or gross domestic product (GDP) to defense. Senator Talent is concerned that inadequate U.S. funding for defense will lead to a “hollow force” that lacks the manpower, training, operational capabilities, and/or modern weapons necessary to prevail decisively on the battlefield.

A policy of sustaining defense spending at 4 percent of GDP raises the same question from both ends of the ideological spectrum: Why 4 percent? Liberals may argue that this level of commitment is too high. Conservatives may question whether it is sufficient. The answer is that 4 percent would meet the military’s requirements to protect the nation while allowing sustained long-term economic growth. The figure is based on separate arguments about why less than 4 percent is too little and why 4 percent is adequate in the context of robust economic growth.

Less Than 4 Percent Is Too Little

The argument against spending significantly less than 4 percent of GDP on defense is simple and straightforward. Even with robust economic growth, spending significantly less than 4 percent on defense will shortchange the military, producing a hollow force with some combination of the following attributes:

- **Too small.** The Department of Defense is already increasing manpower levels for U.S. ground forces by 92,000 by 2012. Manpower, however, is expensive, and spending less than 4 percent will make completing the proposed increases extremely difficult. It could also raise pressures to reinstate the draft, which would reduce the quality of manpower because draftees would likely be poorly motivated and inadequately prepared for military service.
- **Unable to sustain operations in the war on terrorism.** The war against Islamic terrorists will be a long war. While the operational tempo of the U.S. military during this war will vary, in general terms the conflict will require an elevated tempo. Spending less than 4 percent may place the President in the position of needing to undertake a sizeable operation to meet a threat without the resources to sustain that operation.
- **Low readiness.** Training military personnel for prospective operations is expensive, but cutting back on training will result in units that are not ready for combat.
- **Aging weapons and equipment.** During the 1990s, the Clinton Administration and Congress sharply reduced funding for developing and acquiring new weapons. Because of this “procurement holiday,” the military’s inventory of weapons and equipment is aging. Replacing these worn-out or obsolete weapons will require a significant investment. Failing to make this investment risks losing U.S. forces’ technological advantage on the battlefield.

Strong Economic Growth Is Essential

The case for the argument that spending 4 percent of GDP is adequate to provide for national security is somewhat more complicated than the case for the argument that spending significantly less than 4 percent is too little. The crux of the argument is that the actual defense budget is a dollar amount, not a specific percentage of GDP. In a robust economy, this dollar figure (equal to 4 percent of GDP) will be relatively high because the economy will be larger. If the economy grows at the rate currently projected by the Bush Administration, 4 percent of GDP would mean a defense budget of \$711.4 billion in fiscal year (FY) 2012. However, if the economy stagnates between now and 2012 and Congress allocates 5 percent of GDP to defense, the military would receive \$688.5 billion in FY 2012.

The argument can be made that Congress should establish dollar-based budget targets for defense and stick to those regardless of the overall economy's performance. The argument is logically sound but impractical. There is no way around the fact that the defense budget will be a casualty of a stagnant or shrinking economy. Not even the Soviet Union with its command economy could buffer its strongly pro-military budget against the forces of economic decline in the 1980s. The lesson for the defense sector is that economic growth must come first.

Providing for Defense by Following Pro-Growth Policies

Because meeting the resource needs of the Department of Defense depends on a growing economy, both Congress and the public need to focus on furthering pro-growth economic policies. The critical elements of these policies are:

- **Restraining federal spending.** The primary federal budget problem is the projected growth in spending on Social Security, Medicare, and Medicaid—the three major entitlement programs. Entitlement spending is forecast to increase dramatically in the coming decades and, unless these programs are reformed, will crowd out defense spending in the federal budget and hobble economic growth, ultimately depriving the federal government of the resources made available by a growing economy.
- **Keeping federal taxes low.** High tax rates will discourage Americans from working, saving, and investing. The perverse incentives created by high tax rates will be a drag on economic growth, and the defense budget will become a casualty.
- **Maintaining a prudent monetary policy.** Economic growth is encouraged by a monetary policy that balances the need to combat inflation with the need to increase the money supply to permit access to credit. In general terms, the Federal Reserve has been effective in finding this balance. However, demographic trends—specifically, the retirement of the baby-boom generation—will make this task more difficult.

Conclusion

Senator Talent's recommendation to allocate 4 percent of GDP to meeting the national security needs of the United States is designed to drive long-term trends, not to establish a precise requirement for any specific year. In some years, the defense budget can and should exceed 4 percent of GDP. In other years, it may fall just shy of the target.

Regrettably, current forecasts are pointing in the wrong direction. The Bush Administration's current budget proposal shows the defense budget declining to just 3.2 percent of GDP by 2012. Even with robust levels of economic growth, this level of funding is too small to meet the nation's defense needs. The Bush Administration and Congress need to do better by simultaneously working to keep overall federal spending and taxes low and allocating the resources generated from the resulting higher levels of economic growth to provide adequately for national security.

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CHAPTER 5

Ten Myths About the Defense Budget

Baker Spring

“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.

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.

Four Percent for Freedom: The Need to Invest More in Defense

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 in Chapter 2 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

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.

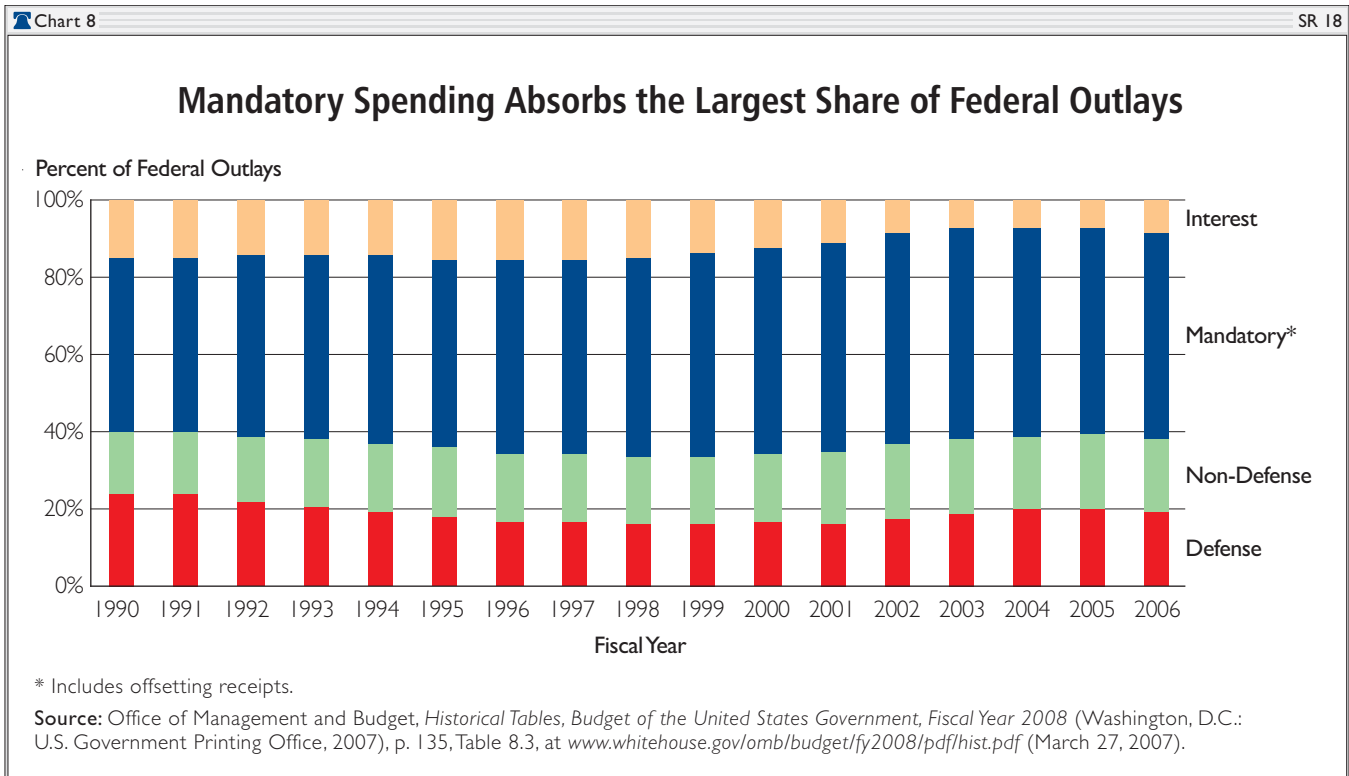
Since the end of the Cold War, mandatory spending has consistently claimed a far larger portion of the federal budget than defense has claimed. In fact, during the 1990s, defense came close to being the smallest of the four components. (See Chart 8.)

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.

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). Reprinted in this volume.

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).



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

Chart 8 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

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.

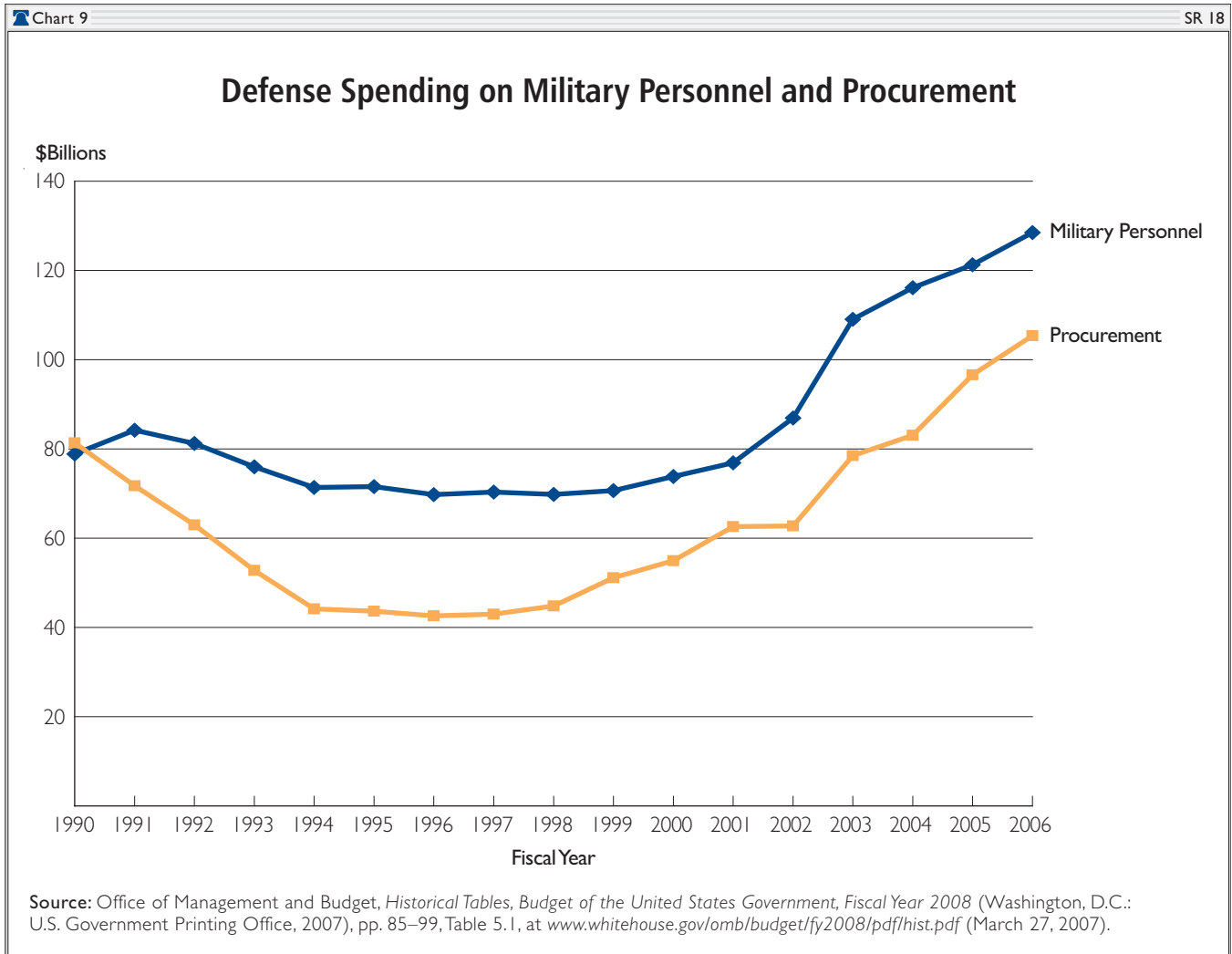
Myth #4: The defense budget is skewed in favor of purchasing new weapons at the expense of compensation for military personnel.

On March 20, 2007, the Senate Judiciary Committee held a hearing entitled “Combating War Profiteering: Are We Doing Enough to Investigate and Prosecute Contracting Fraud and Abuse in Iraq?”⁶ Hearings like this can lead

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).

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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 9.) 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 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.

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).

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 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 9 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

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).

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.

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

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).

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 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.

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.

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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. Reprinted in this volume.

CHAPTER 6

Bush's Budget: Protecting Homeland Security and Defense by Reining in Entitlements

Baker Spring, James Jay Carafano, Ph.D., Alison Acosta Fraser, Brian M. Riedl, and Will Packer

The primary objective of the President's 2008 budget is to eliminate the deficit by 2012. While this seems a commonsense goal, focusing solely on the deficit will deflect attention from more important issues. The most important feature of the President's budget proposal is its focus on reining in the crushing costs of entitlement programs like Medicare while adequately funding national defense and homeland security. Congress should give serious consideration to these proposals. Just as important, it should address the coming tsunami of entitlement spending and set a goal to maintain adequate defense spending at 4 percent of GDP on a sustained basis.

Consistent and Sustained Homeland Security Funding

For fiscal year 2008, the President has proposed investing about \$61.4 billion on homeland security. This figure includes all spending by all federal agencies, including about \$29.9 billion for the homeland security responsibilities of the Department of Homeland Security.

This proposed level of spending is appropriate and consistent with the Administration's previous budgets. Consistent and sustained funding is the most crucial way to ensure homeland security over the long term and is more important than short-term spurts in funding. Consistent, ongoing vigilance is essential to maintain adequate homeland security. After all, it took at least five years to plan the 9/11 attacks and at least three years to organize the Madrid bombings.

The time between attacks alone reveals very little about the nature of the threat. It may be another week or another five years before the next major attack. And the next attack may occur with little or no warning. The best way to guard against this possibility is to ensure that homeland security is adequate, year after year. Programs built for the long term are more vital than spending splurges on short-term investments.

A Strong National Defense

The Bush Administration is requesting \$647.1 billion in budget authority for national defense in FY 2008. This includes \$141.7 billion for ongoing operations in the global war on terrorism. This means that national defense programs, in terms of budget authority, will absorb over 4.4 percent of GDP in FY 2008. If Congress adopts the Administration's request, the resources required to meet U.S. defense needs in FY 2008 will be available.

American troops today are at the frontlines in Afghanistan and Iraq to protect the liberty of the American people and keep them safe from attack. In return, they deserve the resources from Congress that give them the best possible chance to prevail. Further, this commitment should extend to the troops who will be manning the frontlines in the future by starting to build the weapons and equipment they will need. Playing shell games with vital defense funding

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in order to shirk fiscal responsibility is unacceptable. If the troops themselves are too polite to remind Congress of its responsibilities, the American people should do so on the troops' behalf. To ensure an adequate defense, the U.S. government must meet the nation's defense requirements by devoting 4 percent of GDP to defense on a sustained basis.

Furthermore, Congress should resist the temptation to assume another peace dividend is in sight. The idea of a peace dividend poses a risk to national security because the federal government has been ignoring the need to develop and build the next generation of weapons and equipment since the early 1990s. In short, such thinking would be harmful to an adequately prepared and supplied defense program. Congress should make a firm commitment now to sustain national defense budgets at 4 percent of GDP into the future.

Unchecked Entitlement Spending Threatens National Defense

The biggest risk for maintaining a strong defense and adequate homeland security comes from the growing cost of entitlement programs like Medicare, Medicaid, and Social Security. The challenge posed by long-term entitlement spending is daunting. Between now and 2050, Social Security, Medicare, and Medicaid costs are projected to surge from 8.7 percent to 19.0 percent of GDP. Consider that an equivalently sized tax increase today—raising taxes by 10.3 percent of GDP—would amount to \$13,457 per household.

The sheer enormity of these spending programs threatens to crowd out all the rest of the federal budget. If lawmakers do not restrain spending in these programs, they would have to eliminate every other federal program, including all defense and homeland security. Because every year of delay steeply increases the ultimate costs of reform, responsible lawmakers must address this challenge now.

The Administration's budget sets the stage for addressing the huge long-term fiscal challenges of entitlement spending by making changes to Medicare premiums for Parts B and D and to the program's reimbursements to doctors and hospitals. These reforms would be a strong first step toward reining in the enormous fiscal burden of current policies that threatens a strong national defense and homeland security.

Conclusion

The President deserves praise for proposing sustained funding for defense and homeland security. Adequate defense funding is critical to America's security and prosperity. Moreover, the President's proposals would take the first steps to rein in entitlement spending and could set the stage for a serious discussion of the unaffordable entitlement programs, paving the way to maintaining adequate resources for vital national security priorities. Congress would do well to consider these proposals and to commit now to sustain national defense budgets at 4 percent of GDP into the future.

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