

Background

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The FY 2010 Defense Budget Request: Prelude to Another Procurement Holiday?

Baker Spring

On May 7, 2009, the Obama Administration submitted its defense budget plan for fiscal year (FY) 2010. However, the plan provides insufficient resources for the core defense program (not including funding for overseas contingency operations) and raises serious questions about whether it is committing the U.S. to a path that would leave the Department of Defense unable to purchase sufficient weapons and equipment for the military.¹ The request allocates \$562.8 billion to the core defense program. This constitutes 3.8 percent of gross domestic product (GDP) in FY 2010, based on the Administration's own GDP forecast.² The funding for the core defense budget is slated to increase by an average of around \$10 billion (nominal dollars) per year from FY 2011 through FY 2014, which is no growth in real terms. As a result, the core defense budget will fall to less than 3.3 percent of GDP in 2014.

Fighting and winning the long war on terrorism will require a sustained commitment to fund national defense programs. However, this is not the only national security challenge that the U.S. military will face in the coming decades. The U.S. needs to fund defense programs that will protect the American people and U.S. friends and allies against the ongoing threats from hostile states (for example, Iran and North Korea) and potential threats, such as the one posed by a hostile China. The FY 2010 budget request fails to provide adequate funding for the basic building blocks in the core defense program, which are needed to protect the national security over the long term.³

Talking Points

- On May 7, 2009, the Obama Administration released its detailed defense budget request for fiscal year 2010. The core defense budget, not including funding for overseas contingency operations, will absorb 3.8 percent of gross domestic product (GDP).
- The Administration's budget request points to a future in which the military will be unable to acquire the modern weapons and equipment that it needs to maintain the building blocks to support a prudent national security strategy.
- Congress needs to change direction on the defense budget by pledging to work toward a core defense budget that is at least 4 percent of GDP.
- Changing direction will require Congress to limit future growth in spending on the major entitlements of Social Security, Medicare, and Medicaid.
- Within the defense budget, Congress should seek to increase funding for accounts that modernize military weapons and equipment, particularly the procurement account.

This paper, in its entirety, can be found at:
www.heritage.org/Research/NationalSecurity/bg2286.cfm

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Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

Regrettably, Congress has already approved a budget resolution that generally agrees with the Obama Administration's request.⁴ Clearly, Congress needs to change course. It should do so by making a firm commitment to fund the core defense program at no less than 4 percent of GDP for the next 10 years. Senator James Inhofe (R-OK) and Representative Trent Franks (R-AZ) have introduced companion bills (S.J. Res. 10 and H.J. Res. 23) that would make such a commitment. This commitment would require Congress to add \$26.4 billion in budget authority to the core defense budget in FY 2010 and a total of about \$397.4 billion over the five years from FY 2010 through FY 2014.

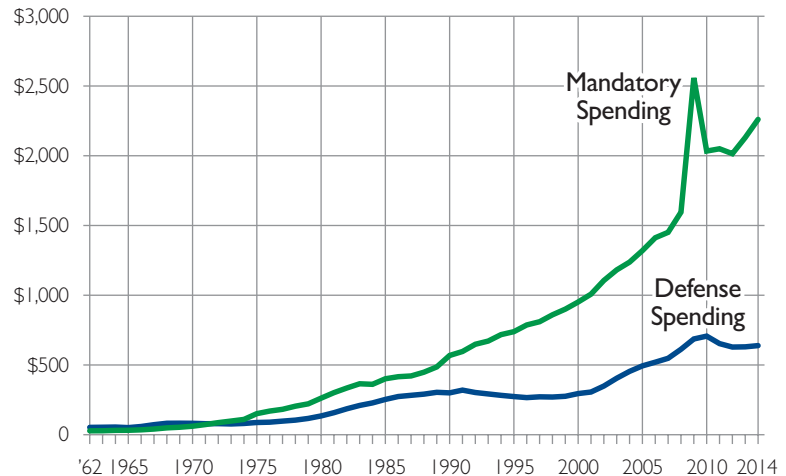
The larger core defense budget would go toward maintaining the building blocks to support a comprehensive defense posture, with a special emphasis on developing and deploying the next generation of weapons and equipment that U.S. forces will need to fight effectively in the future.⁵ Protecting the lives and freedom of the American people is certainly worth 4 percent of national income.

The Administration's FY 2010 Defense Budget Request

The Obama Administration's budget request for FY 2010 through FY 2014 reflects the continuing presence of a number of external and internal

Mandatory Spending Has Outpaced Defense Spending

Outlays by Budget Enforcement Act Category, in Billions of Dollars, 1962–2014



Note: Figures for 2009 to 2014 are estimates.

Source: Heritage Foundation calculations based on data from Office of Management and Budget, *Historical Tables: Budget of the United States Government, Fiscal Year 2010* (Washington, D.C.: U.S. Government Printing Office 2009), at <http://www.gpoaccess.gov/usbudget/fy10/hist.html> (June 15, 2009).

Chart I • B 2286  heritage.org

pressures on the defense budget. The external pressures are exerted by the rapid projected growth in spending for Social Security, Medicare, and Medicaid and any additional retirement and health care entitlements that Congress may add to the existing programs. If the future growth in entitlement spending is not limited, it will crowd out needed defense funding.

1. U.S. Office of Management and Budget, *A New Era of Responsibility: Renewing America's Promise* (Washington, D.C.: U.S. Government Printing Office, 2009), at <http://www.gpoaccess.gov/USbudget/fy10/pdf/fy10-newera.pdf> (May 19, 2009), and news release, "DoD Releases Fiscal 2010 Budget Proposal," U.S. Department of Defense, May 7, 2009, at <http://www.defenselink.mil/releases/release.aspx?releaseid=12652> (May 19, 2009).
2. U.S. Office of Management and Budget, *Historical Tables: Budget of the United States Government, Fiscal Year 2010* (Washington, D.C.: U.S. Government Printing Office, 2009), pp. 199–200, Table 10.1, at <http://www.gpoaccess.gov/USbudget/fy10/pdf/hist.pdf> (May 19, 2009).
3. Baker Spring and Mackenzie M. Eaglen, "Quadrennial Defense Review: Building Blocks for National Defense," Heritage Foundation *Backgrounder* No. 2234, revised and updated February 9, 2009, at <http://www.heritage.org/Research/NationalSecurity/bg2234.cfm> (May 19, 2009).
4. News release, "House Passes Budget Conference Agreement," Committee on the Budget, U.S. House of Representatives, April 29, 2009, at <http://budget.house.gov/PRArticle.aspx?NewsID=1686> (May 19, 2009).

The internal defense budget pressures are primarily the results of 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 the core defense program.

Despite the ongoing wars, the defense account is continuing to lose ground in the total federal budget to domestic mandatory spending programs (for example, Social Security, Medicare, and Medicaid). The FY 2009 budget request would continue this trend through the entire five-year budget period.

External Budget Pressures. Social Security, Medicare, and Medicaid spending has absorbed ever-larger portions of the federal budget since the 1960s. (See Chart 1.) In general terms, this growth has come at the expense of the defense budget, but this trend cannot continue indefinitely. Indeed, the United States is facing a fiscal crisis because spending on Social Security, Medicare, and Medicaid is forecast to grow faster than the overall economy between 2005 and 2030. (See Chart 2.)

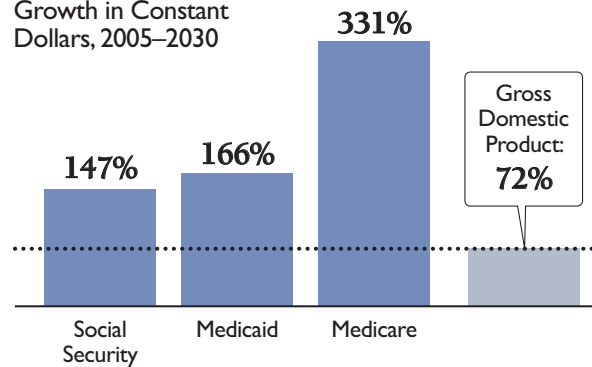
Outlays for Social Security, Medicare, and Medicaid for the current fiscal year are projected to total 10 percent of GDP.⁶ By comparison, the proposed defense benchmark (4 percent of GDP) is only 40 percent of total spending on the three major entitlement programs.

The implications for national defense are clear. Spending 4 percent of GDP on national defense will quickly become impossible unless Congress moves to limit the future growth of Social Security, Medicare, and Medicaid. Some Members of Congress will likely argue that any spending limitation on these programs is tantamount to a draconian cut, but it is nothing of the sort. It is really a matter of limiting further growth.

Given the size of the Social Security, Medicare, and Medicaid programs, proposals to limit future

Entitlement Spending Expected to Outpace Economic Growth

Growth in Constant Dollars, 2005–2030



Note: Social Security and Medicare projections are based on the intermediate assumptions of the 2005 Trustees' Reports. Medicaid projections are based on the CBO's December 2003 long-term projections for federal spending on Medicaid under mid-range assumptions.

Source: Government Accountability Office analysis based on data from the Social Security Administration, Office of the Chief Actuary; Centers for Medicare and Medicaid Services, Office of the Actuary; and the Congressional Budget Office.

Chart 2 • B 2286  heritage.org

spending will take time to implement. Thus, Congress should start now.

Internal Budget Pressures. The military faces a variety of internal budget pressures ranging from increasing personnel costs to the imbalance between the modernization account and the operations and support accounts.

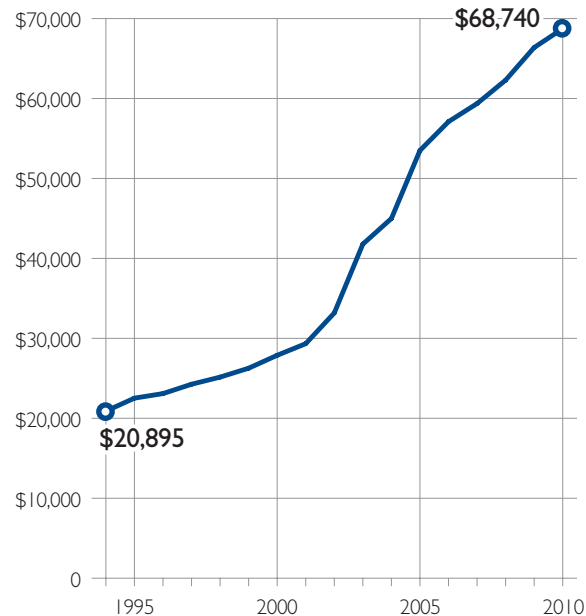
Military Retirement Benefits. The success of the all-volunteer military depends on a well-designed compensation package that attracts highly qualified people to military service. It also depends on limiting the spiraling increases in manpower costs. (See Chart 3.)

While offering a generous compensation package will meet recruitment needs, a well-designed package would focus on compensating military personnel in ways that meet their needs most

- James Jay Carafano, Baker Spring, and Mackenzie M. Eaglen, "Providing for the Common Defense: What 10 Years of Progress Would Look Like," Heritage Foundation *Background* No. 2108, February 19, 2008, at <http://www.heritage.org/Research/NationalSecurity/bg2108.cfm>.
- U.S. Office of Management and Budget, *Historical Tables*, pp. 56–73, Table 3.2.

Spending on Military Personnel

Spending per Service Member, by Fiscal Year



Note: Figures for 2009 and 2010 are projected.

Source: Heritage Foundation calculations based on data from Congressional Quarterly, Office of Management and Budget, *Historical Tables: Budget of the United States Government, Fiscal Year 2010* (Washington, D.C.: U.S. Government Printing Office 2009), at <http://www.gpoaccess.gov/usbudget/fy10/hist.html> (May 19, 2009).

Chart 3 • B 2286  heritage.org

directly. This tailored and more affordable approach would also ensure that taxpayers receive the best return on their investment in the military. Such a modern military compensation package would recognize that military service personnel, like their civilian counterparts, are part of a highly mobile national labor force.

Above all, the military compensation package that best supports the all-volunteer force in the 21st century will be flexible. In general terms, this flexibility is best achieved by favoring cash compensation over in-kind and deferred benefits and by designing the remaining benefits around defined-contribution plans. Labor mobility makes trying to

design benefit packages to meet the unique needs of every servicemember difficult and inefficient. Cash compensation, however, would provide servicemembers more freedom to use their compensation in the ways that best meet their needs.

The military should reform its current retirement system by adopting a new structure in which the military contributes to each servicemember's retirement account. The plan should also permit both the servicemember and his or her employers—civilian government and private sector—to contribute. Finally, the plan should allow the servicemember to bequeath the assets to the servicemember's heirs upon his or her death without paying estate or death taxes.⁷

Military Health Care. A key problem with the U.S. health care system is that it often precludes individuals from assuming at least some responsibility for making decisions about their own care. The military health care system takes this to an extreme by encouraging beneficiaries to treat health care as a free good or service and to consume it at whim rather than according 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.⁸ Greater individual control would also impose more discipline on service members and their dependents who use the system's resources.

Pentagon leaders should seek congressional authorization to move health care coverage for military dependents to the Federal Employees Health Benefits (FEHB) system on terms consistent with the benefits available to federal civilian employees. This would permit the military health care system to focus on serving members of the military and meeting the unique needs of military medicine.

For future military retirees, the military should seek congressional authorization to create a system of defined-contribution plans with individual accounts for military members. The funds in these

7. Carafano *et al.*, "Providing for the Common Defense."

8. James Jay Carafano, "A 'Rucksack' for U.S. Military Personnel: Modernizing Military Compensation," Heritage Foundation WebMemo No. 1020, February 14, 2007, at www.heritage.org/Research/NationalSecurity/em1020.cfm.

accounts should be used to pay private health insurance premiums, deductibles, and out-of-pocket medical expenses. As with the defined-contribution retirement system, servicemembers, retirees, civilian government employers, and private employers should be permitted to contribute to these accounts. Eventually, all military dependents would be covered under the FEHB system, and all new recruits would be in a defined-contribution health care plan.⁹

Today's Needs Versus Tomorrow's Military. In recent years, spending on today's forces has tended to crowd out investment in tomorrow's forces. The funding for operations and support activities (the operations and maintenance account plus the military personnel account) has taken an increasing share of the overall Department of Defense (DOD) budget. Conversely, spending on modernization (the research and development account plus the procurement account) has received a decreasing share of the DOD budget. (See Chart 4.)

Specifically, operations and support activities will absorb roughly 60 percent of DOD budget authority for the core program in FY 2010, not including funding for overseas contingencies operations. Modernization activities absorb somewhat less than 35 percent. By comparison, the two activities approached parity in the 1980s, when operations and support absorbed slightly more than modernization.

The trend of operations and support receiving larger shares of the core defense budget is driven largely by the increasing *per capita* compensation costs for military personnel and the higher operational tempo. During the 1990s, the gross cost of compensating America's soldiers, sailors, airmen, and Marines was held in check by a 24 percent reduction in man-

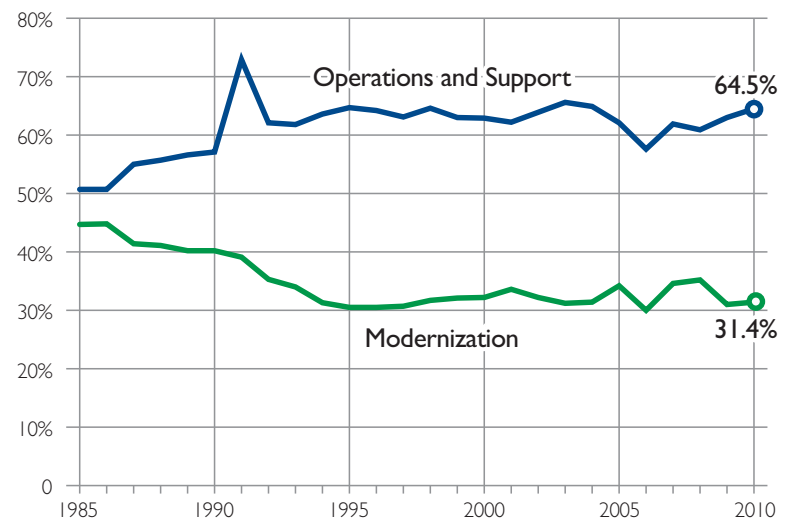
power. However, this pressure valve on manpower costs is closing because of the ongoing steps to increase personnel levels in the ground forces.

Meanwhile, per capita military compensation costs continue to rise, more than doubling in the past 10 years. (See Chart 3.) A major contributing factor is the cost of military health care. The FY 2010 defense budget allocates more than \$47 billion to providing health care benefits to military personnel and their dependents.¹⁰

The trend of the modernization accounts receiving smaller shares of the core defense budget began with the Clinton Administration's "procurement holiday" in the 1990s. The procurement holiday left an enduring imbalance between the procurement account (the account for purchasing new weapons and equipment) and the account for research and

Operations and Modernization in the Defense Budget

Percent of the Department of Defense Budget, in Budget Authority



Notes: Figures for 2009 and 2010 are estimates. Budget authority for operation and support in 1991 includes foreign contributions to cover the cost of Operation Desert Storm.

Source: Heritage Foundation calculations based on data from Office of Management and Budget, *Historical Tables: Budget of the United States Government, Fiscal Year 2010* (Washington, D.C.: U.S. Government Printing Office 2009), at <http://www.gpoaccess.gov/usbudget/fy10/hist.html> (June 15, 2009).

Chart 4 • B 2286  heritage.org

9. Carafano *et al.*, "Providing for the Common Defense."

10. News release, "DoD Releases Fiscal 2010 Budget Proposal."

development of new weapons and equipment technology. The Obama Administration's defense budget would exacerbate the problem.

In the 1980s, procurement consumed more than 70 percent of the modernization budget. The total defense budget for FY 2010 would still leave procurement at slightly more than 60 percent. (See Chart 5.) As a result, procurement of essential new weapons programs must be stretched out, which increases unit costs, reduces the numbers of new weapons available to the military, and prevents their timely delivery. For example, the Obama Administration is:

- Capping purchases of the F-22 Raptor tactical fighter at 187 aircraft.
- Abandoning the existing plan to procure the Future Combat Systems for the Army.
- Delaying acquisition of the Navy's next-generation cruiser.¹¹

The Criticisms of Increasing Defense Spending

A variety of arguments are being made against increasing funding for the core U.S. defense program. Most are derived from a foreign policy position that would have the U.S. play a diminished role in world affairs. Nevertheless, the direct arguments in favor of shrinking the defense budget should still be dismissed for their lack of merit. These arguments include:

Argument #1: The U.S. spends more on defense than the next 14 countries combined.¹²

Comparisons with other countries on defense spending can be subjective. Former Massachusetts Governor Mitt Romney (R) described the

Procurement vs. Research and Development

Budget Accounts as a Percentage of Total Defense Acquisition Spending



Note: Figures for 2009 and 2010 are estimates.

Source: Heritage Foundation calculations based on data from the U.S. Department of Defense and Office of Management and Budget, *Historical Tables: Budget of the United States Government, Fiscal Year 2010* (Washington, D.C.: U.S. Government Printing Office 2008), at <http://www.gpoaccess.gov/usbudget/fy10/hist.html> (May 19, 2009).

Chart 5 • B 2286  heritage.org

difficulty in a national security speech on June 1, 2009:

The argument is also made that our defense spending is grossly disproportionate to that of either China or Russia. In 2007, China's defense budget was reported to be \$45 billion, about one-tenth our own. But we need to look more closely at the numbers. China, for instance, doesn't include in its budget the cost of strategic defense, research and development, or procurement from other countries. When those are added in, you get a budget in the range of \$100 billion to \$140 billion, and if those figures are adjusted for

11. Robert Gates, "DoD News Briefing with Secretary Gates from the Pentagon," U.S. Department of Defense, April 6, 2009, at <http://www.defenselink.mil/transcripts/transcript.aspx?transcriptid=4396> (May 21, 2009).

12. Travis Sharp, "U.S. Defense Spending vs. Global Defense Spending," Center for Arms Control and Non-Proliferation, February 26, 2009, at http://www.armscontrolcenter.org/policy/securityspending/articles/022609_fy10_topline_global_defense_spending (May 21, 2009).

Purchasing Power Parity, the amount continues to climb.

But even then we're not finished. Think about it: A soldier costs China a fraction of what it costs us. China spends about \$25 billion for troops, while we spend \$129 billion for ours, and yet they have one-third more soldiers than we do. That kind of disparity also holds true for the cost of building submarines, artillery pieces, tanks, and other military platforms. Taking into account the difference in costs, our advantage over the Russians and Chinese is not 10 to one; it's more like two to one. They are closer to half our level than they are to one-tenth.¹³

Argument #2: U.S. weapons are far superior to those of any other nation.

This argument is true today, but inadequate defense budgets will necessarily shrink this lead. Many U.S. combat systems are aging. According to former Senator Jim Talent (R-MO), the Air Force's entire inventory of aircraft now averages 25 years of age.¹⁴ This is about three times the age of the inventory during the Vietnam War.

Further, Congress needs to pay attention to the fact that qualitative superiority serves the nation's security. War is not a spectator sport in which evenly matched opponents are sought to provide exciting contests. U.S. security policy should never subscribe to the notion that the nation seeks an even competition with its enemies. As former Secretary of Defense William Cohen famously stated when he was attempting to restore funding to the procurement account in the late 1990s, "I've said many times before we never want to engage in a fair fight. We want to be unfair in our favor, so that's why we want to keep our military the best in the world."¹⁵

Argument #3: The U.S. can easily handle the potential threats posed by a China or Russia that turns hostile.

This argument is not true because both China and Russia are examining asymmetrical military capabilities that will exploit U.S. vulnerabilities that will persist in the absence of modernization programs. For example, China is seeking anti-satellite weapons to exploit the vulnerability of U.S. military satellites. To lessen this vulnerability, the U.S. will need to invest in systems that permit the military to monitor what is going on in space (space situational awareness), build new more responsive military space systems, and build defensive and offensive counterspace systems.

Evidence also indicates that both the Chinese and the Russians are perfecting systems and plans for conducting cyberwarfare against the United States.¹⁶ The U.S. military will need to acquire computer systems that are more resistant to cyber attacks. These acquisitions will require a commitment to funding.

Argument #4: The cuts to the U.S. military procurement budget have been modest.

This argument is simply inaccurate. During the procurement holiday of the 1990s, the procurement budget was reduced by almost two-thirds in inflation-adjusted dollars from the level in the mid-1980s. The 2008 procurement funding level was still 38 percent below the level of the mid-1980s.

Argument #5: Secretary of Defense Robert Gates is focused on acquiring modern weapons.

This is true in only a narrow area of military capabilities. Secretary Gates believes that the wars of the future will have the same characteristics as the wars the U.S. is fighting today. Thus, he is focusing the military's modernization effort on the counter-

13. Mitt Romney, "The Care of Freedom," Heritage Foundation *Lecture No. 1122*, June 3, 2009, p. 4, at <http://www.heritage.org/Research/NationalSecurity/hl1122.cfm>.

14. Jim Talent, "Elephants in the Room: Of Course the Pentagon Cuts Are About Budget Pressure," Heritage Foundation *Commentary*, April 23, 2009, at <http://www.heritage.org/Press/Commentary/ed042309b.cfm>. First appeared in *National Review Online*.

15. William Cohen, in PBS, "Dept. of Defense Newsmakers," *NewsHour with Jim Lehrer*, May 19, 1997, at http://www.pbs.org/newshour/bb/military/may97/qdr_5-19.html (May 19, 2009).

16. Peter Brookes, "The Cyberspy Threat: Foreign Hackers Target Military," Heritage Foundation *Commentary*, April 29, 2009, at <http://www.heritage.org/Press/Commentary/ed042909b.cfm>. First appeared in the *New York Post*.

terrorism and counterinsurgency missions. This narrow focus will not serve U.S. security interests.

Tomorrow's wars will likely have characteristics that differ sharply from today's wars. Consequently, the U.S. needs to maintain the basic building blocks of a broad-based military capability that can respond to new and unexpected threats, as well as to the threats that the U.S. faces today.¹⁷ This will require a similarly broad-based modernization effort.

Argument #6: Historical comparisons with today's defense budget are inappropriate because the U.S. no longer faces the Soviet Union's war machine.

While the Soviet war machine no longer exists, the end of the Cold War did not suddenly make the world a benign place. In fact, the pace of U.S. military operations is higher today than it was during the Cold War. The U.S. has fought three major conflicts (Operations Desert Storm, Enduring Freedom, and Iraqi Freedom) since the end of the Cold War. Two of them are ongoing, and more than 180,000 U.S. military personnel are deployed to combat zones today. The current operations in particular have required quite large supplemental appropriations bills. The nature of the military challenges the U.S. faces today are different, but that does not mean that the challenges are less important or that meeting them is less costly. The historical comparisons remain valid.

Prerequisites for Sustained Defense Funding

Maintaining a healthy national defense program involves three prerequisites. Congress needs to:

1. **Make a sustained commitment to robust funding for national defense.** This is axiomatic. A robust defense program cannot be maintained without sustained funding. Congress should, therefore, establish a floor of 4 percent of GDP for national defense and firmly resist all attempts to go below this floor for the next 10 years.
2. **Move to limit future growth in spending on Social Security, Medicare, and Medicaid.** In the long run, projected spending growth in

these three entitlement programs will make it impossible for Congress to provide at least 4 percent of GDP to national defense. Even in the short term, entitlements will make allocating adequate resources to national defense incrementally more difficult.

3. **Spend the defense budget wisely.** This will require rebalancing the internal defense accounts to meet long-term needs. Specifically, Congress should increase funding for the core defense programs, increase the overall defense budget in a way that permits sufficient growth in the modernization accounts, and increase the share of the modernization accounts devoted to procurement.

What Congress Should Do

To close the growing gap between defense needs and defense budget authority, Congress needs to address the external and internal pressures on the defense budget in five broad areas.

Providing the Necessary Resources. Providing adequate funding for national defense begins with recognizing that the Obama Administration's five-year defense budget request falls short. The Administration's budget for FY 2010 through FY 2014 would create a roughly \$400 billion defense funding gap between budget authority in the core defense program and the benchmark of 4 percent of GDP. (See Chart 6.)

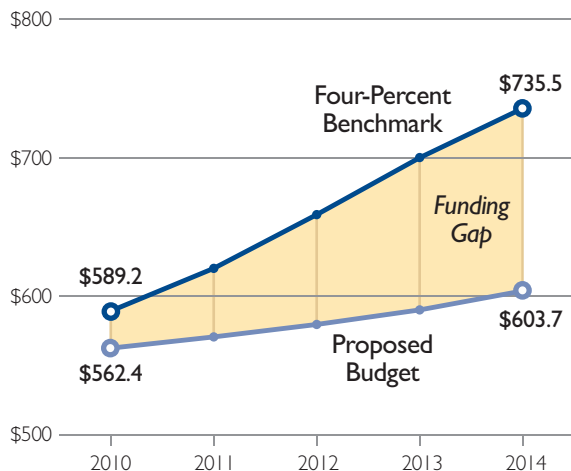
To remedy this problem, Congress should:

- *Close this gap by adding the necessary budget authority to the five-year national defense account.* The appropriate defense budget target should have been \$589.2 billion for FY 2010. Since Congress has already adopted a budget resolution that will provide only \$562 billion in the core defense program in FY 2010, Congress will need to make up ground over the remaining four years. Specifically, the defense budget target should be \$620 billion for FY 2011, \$658.8 billion for FY 2012, \$699.9 billion for FY 2013, and \$735.5 billion for FY 2014. These targets reflect the investments needed to sustain the core defense program. They do not include the sepa-

17. Spring and Eaglen, "Quadrennial Defense Review."

Funding Gap in the Core Defense Budget

Spending in Billions of Dollars, by Fiscal Year



Source: Heritage Foundation calculations based on data from Office of Management and Budget, *Historical Tables: Budget of the United States Government, Fiscal Year 2010* (Washington, D.C.: U.S. Government Printing Office 2009), at <http://www.gpoaccess.gov/usbudget/fy10/hist.html> (June 15, 2009).

Chart 6 • B 2286  heritage.org

rate funds that the Obama Administration will request for overseas contingency operations. However, Congress could go some distance toward reducing the shortfall by incorporating the funding for operations in Afghanistan and Iraq into the core defense program and thus raising the overall spending level, unless President Obama's new plan for expanded operations in Afghanistan constitutes a new operation that justifies continued supplemental appropriations.¹⁸

- *Make a clear commitment to sustain adequate defense funding beyond the five-year budget period.* Congress can do this by including report language associated with the FY 2010 defense

authorization bill in which Congress pledges to allocate at least 4 percent of GDP to the core national defense program for the foreseeable future. This would be an appropriate interim step until Congress enacts a law along these lines, such as S.J. Res. 10 or H.J. Res. 23.

Limiting Future Growth in Entitlement Spending. Social Security, Medicare, and Medicaid spending has absorbed ever-larger 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. Spending 4 percent of GDP on national defense will quickly become impossible unless Congress limits future entitlement spending. Specifically, Congress should:

- *Limit spending on Social Security, Medicare, and Medicaid* in a way that limits overall federal expenditures to 20 percent of GDP, including 4 percent of GDP for defense.
- *Resist the temptation to enact new retirement and health care entitlements.*

Rebalancing Military Compensation. Absent reform, future increases in the per capita cost of military compensation will crowd out needed spending on military modernization because the overall size of the military is increasing. Ultimately, rebalancing military compensation will require a number of significant reforms. Ample evidence suggests that the current compensation system is weighted too heavily in favor of in-kind and deferred compensation over direct cash compensation.¹⁹

To begin rebalancing military compensation, Congress should:

- *Reform military retirement benefits as outlined in various proposals to adjust the indexing of Social Security benefits.* If retirees receiving Social Security benefits are asked to accept less generous

18. Supplemental appropriations bills for operations in Afghanistan and Iraq are to be phased out at the end of FY 2009, but the Obama Administration budget will continue to maintain a separate account for these funds apart from the core defense program.

19. Congressional Budget Office, "Military Compensation: Balancing Cash and Noncash Benefits," *Economic and Budget Issue Brief*, January 16, 2004, at <http://www.cbo.gov/ftpdocs/49xx/doc4978/01-16-DoDCompensation.pdf> (February 27, 2007), and Cindy Williams, "Paying Tomorrow's Military," *Regulation*, Summer 2006, pp. 26–31, at <http://www.cato.org/pubs/regulation/regv29n2/v29n2-1.pdf> (February 27, 2007).

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 identical to the formula applied to Social Security benefits. The military retiree community is much smaller than the population of Social Security recipients and has unique characteristics.

- *Phase in a defined-contribution retirement program over the next 10 years.* The military should change from its defined-benefit system to a defined-contribution program in which the military would contribute to each servicemember's retirement account.²⁰ The plan should also permit the servicemember and his or her civilian government and private employers to make contributions. Finally, the plan should contain an intergenerational element that allows the servicemember to bequeath the assets in the account to the servicemember's heirs upon his or her death without paying estate or death taxes. After the 10-year transition period, all new military recruits should be covered under this new retirement system.
- *Move the military health care system away from a defined-benefit plan and toward a defined-contribution plan.* While the DOD touts its \$47 billion health care system as providing high quality care, this claim is far from obvious.²¹ The system is clearly one of the most generous, but may be one of the most inefficient. The military should seek congressional authorization to move health care coverage for military dependents to the Federal Employees Health Benefits system on terms consistent with what is available to federal civilian employees. This would permit the military health care system to focus on serving members of the military and meeting the unique needs of military medicine.

Increasing Military Modernization Funding.

The Obama Administration's FY 2010 budget request provides \$186 billion to the modernization program in the core defense budget.²² Moderniza-

tion funding after FY 2010 is uncertain because the Obama Administration did not provide budget authority figures for modernization in the latter years of the budget period. This is a cause for concern because the almost 6 percent increase in operations and support accounts from FY 2009 to FY 2010 could be continued beyond 2010. Under the Administration's inadequate defense budget numbers, modernization funding could drop to less than 25 percent of the total core defense budget by FY 2014, assuming the overall percent of the core defense budget devoted to the smaller accounts, such as military construction, family housing, and the Department of Energy, remain about where they are today.

- *Congress should close the gap in the proposed five-year defense budget.* Spending 4 percent of GDP on defense would leave sufficient room to reach a \$200 billion target for modernization in FY 2014. This kind of future funding for modernization would provide the military with the new weapons and equipment that it will need to be a fully capable force a generation from today.

Increasing the Procurement Account's Share of Modernization Spending. The Obama Administration's FY 2010 budget request for the core defense program is unclear about whether it would rebalance the internal structure of the modernization program. The request does not specify funding levels for these accounts beyond FY 2010. The \$107.4 billion in FY 2009 budget authority for procurement constitutes just under 58 percent of the entire modernization program, but this is partially the result of the Administration's decision to reduce funding for research and development in FY 2010 below the FY 2009 level.

Accordingly, Congress should:

- *Incrementally increase the Obama Administration's procurement request for the core defense program* and resist all temptations to shift resources away from procurement. It should sustain this rebalancing action in future defense authorization and appropriation bills.

20. Carafano *et al.*, "Providing for the Common Defense."

21. News release, "DOD Releases Fiscal Year 2010 Budget Proposal."

22. *Ibid.*

- *Ensure that procurement receives at least 60 percent of the increased modernization budget.* Closing the budget gap 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 individual liberty, and the Constitution assigns to the federal government the primary responsibility to “provide for the common defence.”²³ In this context, expending 4 percent of GDP in the defense of freedom is entirely reasonable.

Projected growth in entitlement spending, not defense spending, remains at the core of the looming

fiscal crisis facing the federal government. Current defense expenditures—even spending 4 percent of GDP on defense—will not jeopardize either the health of the economy or the prosperity of the American people.

Paying 4 percent of the economy for defense is worth the price. Indeed, if the United States fails to invest adequately in defense, it will pay a price in currency that is far more valuable than money. It will jeopardize the freedom, safety, and security of its people and its standing in the world.

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23. U.S. Constitution, Preamble.