



# Cato Handbook for Policymakers

**CATO**  
INSTITUTE

7TH EDITION

## 19. The Defense Budget

### **Policymakers should**

- adopt a grand strategy of restraint, which means avoiding state-building missions and eliminating most U.S. defense alliances;
- redeploy troops in Iraq, South Korea, Europe, and Japan to the United States, lessening the requirement for U.S. forces and allowing reductions in force structure;
- cut the size of the army to 25–30 brigades and cancel the Future Combat Systems;
- reduce the size of the Marine Corps to two division equivalents and cancel the Marine Corps Expeditionary Fighting Vehicle program and V-22 Osprey;
- reduce the navy to 200 ships by cutting the number of carrier battle groups to eight, naval air wings to nine, and expeditionary strike groups to six; and cancel the littoral combat ship program and the DDG-1000 destroyer program;
- eliminate six fighter air wing equivalents, thereby limiting the air force's procurement of fighters;
- eliminate roughly one-third of the Pentagon's civilian workforce and identify jobs now done by military personnel that can be done by civilians, who cost less and remain in their jobs longer; and
- cut the nuclear weapons arsenal to 1,000 warheads based on 8 ballistic nuclear missile submarines (rather than 14), and reduce the number of intercontinental ballistic missiles to 100–200.

In a literal sense, the United States does not have a defense budget. The adjective is wrong. Our military spending is for many purposes: other nations' defense, the purported extension of freedom, the maintenance of

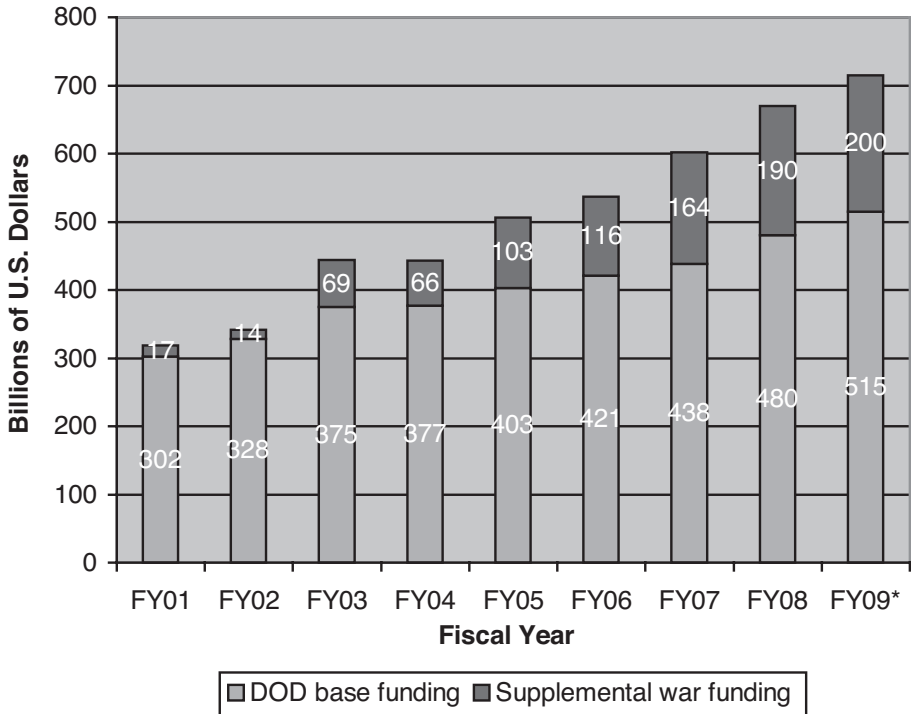
hegemony, and the ability to threaten any other nation with conquest. But the relationship between these objectives and the end they purport to serve, the protection of Americans and their welfare, is unclear. In fact, defining the requirements of our defense so broadly is probably counterproductive. Our global military posture and activism drag us into others' conflicts, provoke animosity, cause states to balance our power, and waste resources. We need a defense budget worthy of the name.

The United States faces a benign threat environment. Most wars Americans contemplate fighting could be avoided without harm to U.S. national security. The United States could adopt a far less active defense strategy, a strategy of restraint. This strategy would require far less spending. This chapter describes that defense strategy and budget, even though our current politics preclude its implementation. But before describing that defense budget, we must understand the problems with the current one.

The defense budget increased dramatically in the last eight years (Figure 19.1). A buildup that began in 1998 accelerated dramatically after the 9/11 terrorist attacks. The fiscal year 2009 baseline or nonwar request of \$518 billion is \$228 billion higher than the FY00 defense budget in current dollars, or about 43 percent higher in real, inflation-adjusted terms. Another \$22.8 billion in spending that falls outside the Department of Defense, mostly in the Department of Energy's nuclear weapons management and research programs, is usually counted as defense spending and brings the total to about \$541 billion. This will be the highest nonwar budget ever. Including war supplementals, which now include modernization funds scarcely connected to wars in Iraq and Afghanistan, the defense budget in FY09 will likely exceed \$700 billion—a total higher in real terms than in any year since World War II. Defense spending now accounts for over 22 percent of federal spending, more than Social Security and more than all other federal discretionary spending. That total still excludes \$66 billion for homeland security and \$94 billion for veterans planned for FY09, which the Office of Management and Budget does not consider defense spending.

The explosion in defense spending since 2001 results from several factors. First, the cost of personnel has risen far faster than inflation, driven by health care costs and benefits. Second, the services have allowed the cost of procurement programs to spiral out of control in case after case, mostly because they insist on pressing the technological envelope. Third, the wars in Iraq and Afghanistan now approach \$200 billion annually and have driven up personnel and operations and maintenance costs. Fourth,

**Figure 19.1**  
**Escalating “Emergency” Supplemental War Spending Impedes**  
**Accountability of Defense Funding: Defense Expenditures,**  
**FY2001–2009**



SOURCE: *Congressional Research Service*, “FY2009 Defense Budget: Issues for Congress,” February 11, 2008.

\*The \$200 billion supplemental cost in FY09 is an estimate based on recent history and force levels in Iraq and Afghanistan.

the Pentagon has failed to make sufficient tradeoffs in its force structure choices. Although increased fear of terrorism helped cause the spike in defense spending, little of the base defense budget goes to counterterrorism-related activities.

There are many problems with the current defense budget; this chapter highlights only the three most important. First, it is too large for the threats we face and therefore wasteful. Second, it fails to adhere to a strategy that would force choices among competing means of providing defense. Third, it funds the Iraq War, which detracts from American security at great expense and spends too much to remake the military, particularly the ground forces, into a force meant to fight more wars like Iraq.

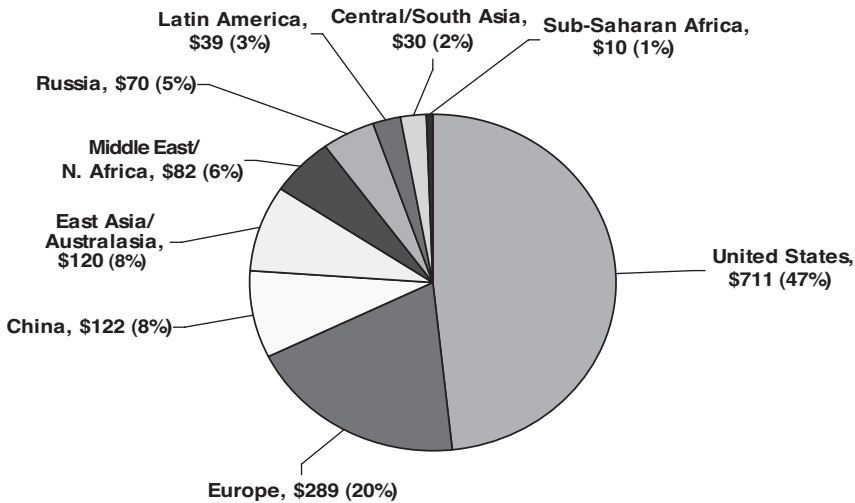
## A Benign Threat Environment

The United States is one of the most secure nations in history. Invasion and civil war, the troubles that traditionally required militaries, are unthinkable here. Yet our military spending is half the world's, as seen in Figure 19.2. No rival challenges our military superiority. That would be the case even with a far smaller defense budget. Even if larger rivals existed, nuclear weapons and our location far from potential enemies provide great security.

The closest thing the United States has to state enemies—North Korea, Iran, and Syria—together spend about \$10 billion annually on their militaries, less than one-sixtieth of what we do. They are local troublemakers, but all lack military means to strike our shores—a tactic that would only invite their destruction in any case. Russia's declining democracy is troubling, but no immediate threat to Americans. Should Russia threaten Europe, the Europeans, with a collective economy larger than ours, should defend themselves.

China may challenge American military supremacy decades hence, but there are several reasons that this possibility does not justify heavy defense

**Figure 19.2**  
**U.S. Military Spending vs. the World, 2008**  
 (billions of U.S. dollars and percentage of global total)



SOURCE: The Center for Arms Control and Non-Proliferation, February 11, 2008.

spending today. First, China's defense spending (estimated by the International Institute for Strategic Studies at \$122 billion) goes mostly toward territorial defense. Second, China's ability to become a great military power is hindered by the uncertainty of its continued rapid wealth creation. Third, China and the United States have little reason for a rivalrous military posture akin to the cold war. There is no significant ideological conflict, China's authoritarian system will not spread, and it is no opponent of capitalism. The only possible territorial conflict is Taiwan, which is a problem only so long as we claim to defend it. (See also Chapters 53, "Relations with China, India, and Russia," and 54, "East Asian Security Commitments.")

Nor can terrorism justify our current defense spending. Military forces are useful in destroying well-defended targets. Terrorists are mostly hidden and lightly armed. The trick is finding them, not killing or capturing them, which is relatively simple once they are found. True, where terrorists fight in civil wars or assemble outside the reach of friendly governments, military forces are occasionally useful. But even then our primary weapons are relatively cheap niche capabilities: aerial drones, cruise missiles, or special operations forces—not conventional force structure. Even in rare cases like Afghanistan where ground forces and air support are useful, only a small portion of our conventional force structure is needed.

The defense budget ignores this geopolitical fortune. Absent an enemy like Nazi Germany or the Soviet Union—a great power rival with expansionist intent and capability—there is no justification for cold war-level defense spending. Assessments of defense requirements like the Quadrennial Defense Review and the National Security Strategy offer vague language about uncertainty to justify this massive force structure. There are possible scenarios that might employ our force structure, but remote possibilities can justify any spending. The best hedge against the uncertain future is a prosperous and innovative economy supporting a small, capable military that can be expanded to meet threats.

Today, many defense analysts and officials—most notably Defense Secretary Robert Gates and Chairman of the Joint Chiefs of Staff Mike Mullen—argue that the United States should set a floor for defense spending equal to 4 percent of gross domestic product. This argument makes little sense. Yes, defense spending as a percentage of GDP is near a post-World War II low and military spending consumed larger portions of our wealth during past wars—over 35 percent during World War II and nearly 15 percent during the Korean War. Defense spending has

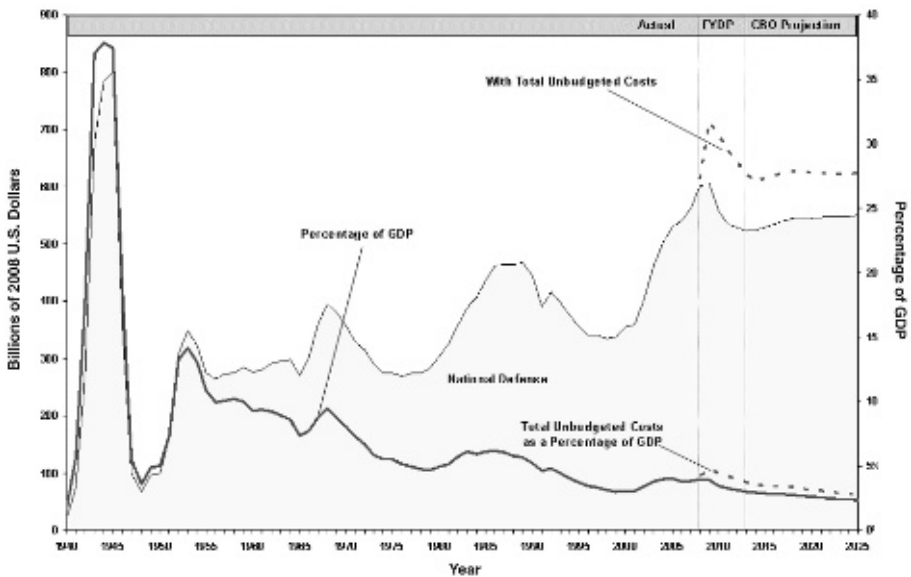


remained between 4 and 5 percent of GDP during the Iraq War, by contrast. But this measure does not account for the fact that the country has grown far wealthier over the past five decades. Our GDP is more than six times bigger than it was in 1950. Defense spending has grown absolutely over this period, but the economy has grown so much that defense is a smaller portion of GDP, as Figure 19.3 demonstrates. The amount of spending devoted to defense should fluctuate with threats, not economic growth, as proponents of fixed-ratio spending would have it. And as we have seen, threats do not justify such spending.

### Strategy Should Drive Force Structure

The second problem with the defense budget is its failure to adhere to a strategy. There is no dearth of Pentagon documents using that word, but the real thing is absent. Because resources are limited, strategy is choice—the prioritization of resources among competing demands. In the United States, strategy should prioritize threats, causing choice among the military services and the platform communities within them. For example,

**Figure 19.3**  
**Past and Projected Spending for National Defense, 1940–2025**



SOURCE: Congressional Budget Office, “The Long-Term Impact of Current Defense Plans,” March 2008.

NOTE: CBO = Congressional Budget Office; FYDP = fiscal year defense plan.

the Eisenhower administration's massive retaliation strategy saw the defense of industrial centers in Western Europe and East Asia from communism as the principal American security challenge. To defend these areas at reasonable cost, it threatened nuclear strikes against the Soviet Union in defense of allied states in Europe and Asia. Because bombers delivered nuclear weapons then, this strategy gave the air force roughly half the budget, leaving the army and navy to fight over the remainder. Likewise, today some analysts call for an offshore balancing strategy that would eschew occupations of foreign countries and overseas basing in favor of a navy-dominated strategy that threatens force from the sea. This strategy would give the navy and marines greater shares of the budget, cutting back on allocations going to the air force, and especially the army.

But the Bush administration has avoided such choices in its defense budget. Initially, the administration, led by Secretary of Defense Donald Rumsfeld, advocated a technologically transformed military that might have marginally reduced the role and budget of the army, had peace held. However, the administration's response to 9/11—invading and occupying Afghanistan and Iraq—demanded tremendous manpower for policing duties. If these wars were seen as harbingers of a new reality, as the administration sometimes said, the obvious course was to grow the army and marines budgets and cut spending on the navy and air force, which are less relevant to counterinsurgencies. Capability suited to possible future enemies might have been sacrificed to deal with the current ones.

Instead, the Bush administration and Congress tried to have it all. They chose to pay for the wars through supplemental appropriations that are subject to limited congressional oversight. This mechanism protects regular defense spending mainly intended for conventional combat from being cut to pay for the wars. The air force and navy budgets continue to grow despite their limited relevance to the wars under way, and their procurement priorities have not changed. In fact, excluding supplementals, the Bush administration has essentially kept the budget shares of each service fixed since it took office, following in the footsteps of administrations since Kennedy's. Budget categories less associated with the wars, procurement and research, developing, testing, and evaluation, have each grown by over 50 percent in real terms during the Bush administration. (Most war costs fall in the operations and maintenance account.) This lack of prioritization explains the seeming paradox of having a huge budget that cancels few defense programs (the army's Crusader artillery system and Comanche helicopter are rare exceptions) but will still fall \$100 billion a year or so



shy of the funds needed to meet its own requirements, according to Congressional Budget Office estimates. (See the dotted line Figure 19.3.)

Only in 2007, when it proposed the expansion of the ground forces, did the Bush administration acknowledge that it had an army-centric approach to defense. Under the expansion plan, which will take at least three years, the marines will grow by 27,000 to 202,000 and the army by 65,000 soldiers to 547,000. According to the Congressional Budget Office, the cost of the expansion will exceed \$100 billion and will add \$14 billion in annual spending once it has been accomplished. Both the FY08 defense budget and the administration's proposed FY09 defense budget contain funds for this growth. The increased spending, however, is accomplished mainly by topline budget growth rather than coming at the expense of the other services—the army's share of defense spending will grow by only 1–2 percent, once war-related spending is excluded.

## **Planning of More Iraqs**

The problem with this partial effort at aligning the defense strategy with the defense budget is that the administration has the wrong strategy—the third problem. It is true that the ground forces are overstretched. But the solution is doing less, not adding forces for more wars of occupation. The U.S. experiences in Iraq and Afghanistan demonstrate the difficulty and prohibitive cost of reordering foreign societies. Occupying Afghanistan was hard to avoid, but it is an exceptional case. Large-scale counterinsurgency and state-building campaigns are not needed to prevent anti-American terrorism. History is full of failed states, and only a handful gave rise to terrorism. Most are inhospitable to everyone, terrorists included. In those rare instances where terrorists targeting Americans do gather, the U.S. military can prevent havens without running the state. Using only a small portion of our intelligence and strike capability, along with local allies, we can deny terrorists havens. In fact, as political scientists have documented, occupations are likely to provoke terrorism directed at the United States, not prevent it.

## **New Criteria for Determining the Size of U.S. Forces**

U.S. defense planners today suffer from strategic incontinence. They envision the U.S. military as a tool to contain China; transform failed states so they resemble ours; chase terrorists; keep oil cheap; democratize the Middle East; protect European, Asian, and Middle Eastern states from

aggression and geopolitical competition that might require them to develop military power independent of ours; popularize the United States via humanitarian missions; respond to natural disasters abroad; and more. The forces needed to accomplish this litany of aspirations can never be enough, so analysts want more of everything, and higher and higher defense spending. Instead, our military budget should defend us. That is a relatively cheap and simple task.

That budget should reflect a strategy befitting our circumstance and strengths: an “island nation” remote from trouble that has the wealth and technical know-how to replace manpower with technology, not an imperial power bent on forcing its way of life on far-off states that we struggle to comprehend. We should avoid the tendency to confuse foreign disorder with foreign threats. We should also reduce our commitments to defend others. The rationale for our cold war alliances has disappeared; the alliances should follow suit. (See “Transatlantic Relations,” Chapter 55.)

The need for disengagement is particularly acute in the Middle East. We often hear that U.S. military forces are needed to promote stability and cheap oil in the region. The truth is close to the opposite. Our troops there tend to produce destabilizing nationalist or sectarian backlash, a problem exacerbated in recent years by the burgeoning of communications technology that draws more people into regional or international politics. Oil’s price is little affected by U.S. troop presence in supplier nations, except insofar as the wars we participate in or threaten there drive its price up. (See “U.S. Policy in the Middle East,” Chapter 52.)

Avoiding civil wars, abandoning cold war alliances, and leaving the Middle East would dramatically reduce the odds of war, allowing considerable reductions in the size and cost of our military. Still, restraint is not pacifism. International relations are unpredictable, and attacks on the United States must be deterred or met with force. Under a strategy of restraint, the United States would retain a powerful military that is dominant in air, land, and naval combat.

According to the latest Quadrennial Defense Review, the U.S. military is designed to conduct two overlapping major combat operations, with the possibility of decisive victory in a prolonged irregular warfare campaign in one theater. A restrained defense strategy requires a force designed to wage only one major conventional campaign. That force could still participate in irregular missions, but the need to preserve the force for other purposes would make leaders less likely to use it recklessly. A smaller force would also encourage the United States to share occupational burdens with allies, as in Afghanistan.

Far from requiring more troops, a strategy of restraint would allow the ground forces to shrink. The army would need only roughly 30 brigade combat teams, as opposed to the current planned 48, and the marines only two division equivalents (or Marine Expeditionary Forces), instead of three. In a land war, the National Guard and reserves would augment these forces. With fewer burdens, the National Guard could focus on homeland security missions. Special operations forces would take the lead in training foreign military forces and hunting terrorists in ungoverned regions in the rare cases where U.S. forces are required.

The navy could shrink to eight carrier battle groups, and six expeditionary strike groups requiring roughly 200 ships. Today's naval platforms are significantly more capable (and expensive) than the prior generation of naval ships and aircraft, so a smaller force is sufficient given the absence of blue-water rivals. This reduction is more likely to occur if it is implemented gradually as ships retire and are not replaced one to one.

The air force should be reduced to 14 fighter air wing equivalents or fewer from the current 20 and its support and training infrastructure reduced to reflect the change. Three factors permit this reduction. First, the increased range and precision of carrier-based airpower have greatly lessened the need for land-based tactical airpower. Second, the absence of rivals investing in an airpower that can challenge ours lessens force requirements needed to gain air superiority. Third, improvements in airpower, principally precision targeting, make each airframe far more capable than in the past. While buying fewer short-range aircraft, the air force should continue on its current track to buy intelligence, surveillance, and reconnaissance assets in the air and in space, in particular unmanned aerial vehicles. Under restraint, the air force will fly fewer missions, but a higher percentage of its missions will begin in the United States. Hence, a higher portion of the air force budget should go to long-range assets: bombers, air-refueling tankers, and airlift.

## **Suggested Reforms**

Over the next few years, Congress should push the Department of Defense to implement a defense budget based on restraint. These changes, outlined below, should eventually allow reductions in the nonwar defense budget to about \$350 billion a year in today's dollars. Even these cuts will leave the U.S. military with a great margin of dominance over all other militaries. Additional reductions are certainly possible. Most of these savings would be achieved by cutting force structure from the services,

which reduces the operating cost of the military and ultimately the need for new equipment and manpower.

- Redeploy troops from Iraq, South Korea, Europe, and Japan to the United States. Leaving Iraq would save roughly \$130 billion a year. The savings achieved by leaving Europe, South Korea, and Japan would be small because our allies pay some costs. The savings would come largely by lessening the requirement for U.S. forces, allowing reductions in force structure. These changes are discussed below.
- Instead of increasing the size of the army to 48 brigades, cut it to 25–30 brigades, cutting procurement and personnel to match the resized force. This reduction would take several years to accomplish, but upward of \$15 billion to \$20 billion annually would be saved immediately by avoiding the cost of the expansion alone.
- Cancel the Future Combat Systems. FCS, a family of 14 major systems, down from 18, including vehicles, weapons, and a communications system, relies on many unproved technologies. Its lifetime price tag has grown from \$99 billion to \$160 billion. It is premised on two bad ideas: that the army must deploy in a great hurry, hence on aircraft, and that the resulting light vehicles can avoid close fights with improved sensors and communications. Recent history shows that the army will have time to deploy via sealift, but will need heavy vehicles once it arrives. Ground forces still find most enemies by contact, and even insurgents can destroy light vehicles and sometimes tanks. Thus, heavy vehicles should remain the principle army combat vehicles and a mix of heavy and Stryker brigades will suffice. The army should break off and retain pieces of FCS that can stand alone.
- Reduce the marines to roughly two division equivalents rather than expanding to three.
- Eliminate the Marine Corps Expeditionary Fighting Vehicle program and cease purchases of the V-22 Osprey tilt-rotor aircraft. The EFV is an armored amphibious vehicle intended for amphibious landings under fire. Such landings are central to the marines' identity, but none have occurred since 1950. The vehicles are also overpriced and unreliable. The tilt-rotor Osprey is a good idea for attacks from the sea, but it has a terrible safety record and is far over budget. It also cannot carry heavy loads, meaning that it would drop off the marines it carries without sufficient means to maneuver under fire.
- Reduce the number of carrier battle groups to eight (and naval air wings to nine) and expeditionary strike groups to six, allowing the

fleet size to fall to 200 as ships retire. This change should be accomplished by speeding retirements of older ships and slowing procurement of new ones. One objection to this reduction in force structure is that it limits the places U.S. forces can be, what the navy refers to as “presence.” This complaint has some validity, but there is little evidence that U.S. forces stabilize the regions they patrol.

- Instead of buying more DDG-51s to replace the disastrous DDG-1000 program, as the navy wants, keep the number of planned DDGs at the current level. The navy should also terminate the costly littoral combat ship program and consider a cheaper class of frigates, such as a version of the Coast Guard National Security Cutter or a foreign-built ship.
- Slow submarine procurement to allow a gradual decline in the number of attack submarines to roughly 40. Absent more significant challenges to American command of the seas, more boats are unnecessary. Production might be ramped up should sensor and missile technology threaten to overcome the defenses of surface ships.
- Eliminate six fighter air wing equivalents, thereby limiting the air force’s needed procurement of fighters.
- Hold the number of F-22 Raptors to the 183 already purchased and close the production line. The F-22 is the world’s preeminent air-to-air fighter, but the F-35 Joint Strike Fighter will be the world’s second-best. That is good enough in a world where air-to-air challengers are disappearing. Moreover, the F-35 has substantial air-to-ground capability, a far more useful capability. The air force should fill out its reduced requirements with Joint Strike Fighters or F-18E/Fs, if F-35 development is too slow.
- Close the C-17 production line to limit congressional demand for more of these aircraft.
- The reductions in conventional force structure and U.S. military commitments should allow a matching reduction of roughly one-third in the Pentagon’s civilian workforce. Even so, the Pentagon should accelerate efforts to identify jobs now done by military personnel that can be done by civilians, who cost less and remain in their jobs longer.
- Refocus the investment in missile defense programs away from procurement and toward research and development, reducing spending to \$2 billion to \$3 billion annually. Cancel the components with excessive cost overruns, such as the airborne-laser program.

- Cut the nuclear weapons arsenal to 1,000 warheads based on 8 ballistic nuclear missile submarines (rather than 14), and dramatically reduce the number of intercontinental ballistic missiles. Eliminate bomber-based nuclear weapons, and use all bombers for conventional missions.
- Double nonproliferation funding in the Departments of Energy and Defense.

## Conclusion

Our current defense budget achieves the rare feat of being both excessive and insufficient. We spend too much because we choose too little, allowing a series of expensive goals and programs to continue without a means of choosing among them. Congress should push the Pentagon to institute a strategy of restraint that prioritizes national security dangers and cuts national security spending. This budget would encourage our allies to defend themselves. It would lessen our proclivity to occupy foreign countries under the misguided perception that we can and should remake them. It would diminish the destabilizing perception abroad that the United States has become a revolutionary power and would demonstrate that we have returned to spreading liberal values by example, not force. Most important, this defense budget would husband our power rather than waste it preparing for and fighting conflicts that are not ours.

## Suggested Readings

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