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Opportunities for Savings: Entitlements, Defense, and Non-Defense Discretionary Spending - Opening Remarks

Thanks Sam. Well, Defense. Looking at—wouldn't be a conference on the budget without looking at the largest piece of discretionary spending which is the Department of Defense budget. I've got some charts that we're going to put up here but I like to cover four things.

One, the cost of the Iraq and Afghanistan military operations and the fact that that cost has been put on our children's credit card.

Two, I'd like to revisit the budget tools. That in the 1980s and 1990s produced a capable, deployable military and also balanced the budget. And I see Frank Raines, who as director of OMB, following Leon Panetta, was always good at giving us good direction from OMB to keep DoD on the line.

So, one, Iraq and Afghanistan. Two, budget tools that were critical in the 80s and 90s. Then three, look at a series of critical issues in today's defense budget that make the dollars more difficult to assess. And then finally, talk about sustainable security, a different way for America to interact with the rest of the globe. So first, that first issue, Iraq and Afghanistan. Next chart please.

From fiscal 2001 to 2009, from the most conservative calculation possible, the country has appropriated 941 billion for Iraq and Afghanistan. There is an additional 130 billion in terms of transition funds and additional supplementals proposed for 2010. So if you take the 2001 from 2010 that will total 1.07 trillion for Iraq and Afghanistan military operations, funded through supplementals, all charged on the national credit card. Now, about two years ago, some on the House side suggested that there be a surtax to cover Iraq and Afghanistan. Now I think I'd approach that more as the Bush tax cuts expire, a portion of that revenue needs to be directed toward this legacy bill that's there. And interestingly enough the one group that's most supportive of having the fiscal policy match the operational policy are the men and women who are serving in the armed forces today. Because one of the things that they often ask is where are the American people on this issue.

Four reasons—five reasons—for why our funding Iraq and Afghanistan need to be tied to the American people. One, readiness. We are obviously going to take care of the troops. Two, sacrifice. One and a half percent of the society is making a huge sacrifice in terms of operational deployments. It would be good if the rest of the society could back that. Three, fiscal responsibility. And I'm speaking faster than my charts. We've lost essentially the dynamic of the internal budget debate as we fund military operations through supplementals which are really not tied to the budget deficit.

Audience question: is your figure for the war alone or does it include the regular defense budget each year?

That's just the war-fighting bill. Okay. I'm happy to ask questions if you just let me finish.

Four, there's the legacy issue that will have some costs that will continue after Iraq and Afghanistan and finally governance, the tools to maintain fiscal discipline. So as the Bush tax cuts come off, we're going to want to look and see how we can deal with the legacy costs of the Iraq war, important for a variety of reasons.

Now, from fiscal 1988 to 2000 there were a series of defense budget tools that contributed to a balanced federal budget. In response to deficits, Congress approved the budget sequestration rules. There was the breakup of the Soviet Union and the downsizing of the US military under the Base force that started by the Bush administration in 1991. There was the Desert Storm and there was a unique fiscal arrangement among allies so that there was actually a financial operational fund that covered the global contribution to the cost of the 1991 Iraq war. And then, finally, a series of extensive government fiscal policies that promoted deficit reduction. Now, here, this is the next chart. Let's see if we can get that one up. There you go.

So this is essentially 1998 to 2009. We start on the furthest, the left-hand column and that's the height of the Reagan buildup in constant dollars. That's 538 billion. You can see 1988 the Graham-Rudman sequestration starting to take effect. The fall of the Soviet Union and that Bush-Cheney budget is driving things down. Then [8:35] aspened for President Clinton did the bottom-up review, which actually accelerated the budget reductions that were already in the pipeline Graham-Rudman generated the Cheney-base force. And so what you see in the 93 to 98 is really defense's contribution to the balancing of the federal budget. It's not quite adjusted annually. You know 538 billion from a 538 billion down to 358 is a sizable reduction in annual defense spending. With the budget balanced, there were some bills that were due largely on the military personnel side, but what you see is that in 2001 the final Clinton-Cowen defense budget was roughly about 3 percent GDP, 391 billion. It funded some new initiatives.

And then of course you see the George W Bush budget increases up to the current level of 734 billion projected for 2009. A 516 billion base for DOD operations with supplementals slightly above 200 billion added in for 2009. So this is the budget environment that the new administration has inherited.

Now in terms of what drives this budget—next chart please—slightly different than the Reagan budgets that the deficit reduction program encountered, what drives the current defense program is Iraq and Afghanistan requiring a larger ground force. One of the things that produced the budget reductions in the 90s was a downsizing the force from 2.4 million active duty--(sic) (11:00)--2.2 million active duty to 1.4 million.

So what's driving the current budget is that we are recruiting more ground forces because of the high-operational tempo and the wear and tear on military personnel. Second there's

the ONM that will support readiness of these troops and the fact that during the Cold War most of our troops were forward-deployed at garrisons and now our troops are operationally deployed on contingency missions and so the ONM rates turned out to be much higher for operational missions. And then the procurement systems from weapons like the F-22 that was mentioned earlier to the medical contracts. And as the civilian sector reduces spending on medical insurance and medical benefits, more and more persons are cascading into the DOD system who are eligible for it, increasing consumption and increasing cost. So those three items are driving the defense budget and as we look for savings those have to be at the heart of the debate. Now there's a budget review going on at the Pentagon right now, Paul the QDR (12:00), and so what are the key issues there?

Military personnel and ONM are at the top. You've got to look at the cost growth in systems. Congress had the debate on the F-22 earlier this year, but the fact is that current generation systems are so much more expensive they can't possibly replace on a one-for-one basis. If you look at the number of C-141s that the country had deployed for airlift versus the C-17, we're at the end of the C-17 program and we've only bought about a third of what the total force was. That's essentially just the inter-generational cost growth between systems. And then the historic underestimation of new technology as it's inserted and then the fact that the default position for foreign policy has been to deploy US forces.

And so all of these things have created a different global set of global security challenges that the QDR has to focus on. So as we look at that budget chart from the 1980s and 1990s, the first step is to reestablish those tools that really forced trade-offs, that required accountability and that moved us away from this concept that we can take all of the costs and put it on a credit card for the next generation to focus on.

Now I talked about the fact that we've gone from a Cold War where we were forward-deployed to a current environment where we are operationally, contingency deployed. And so this is one of the things that's driving the defense budget and so my last chart is thinking about a model that the Center for American progress has developed. Gail Smith, my former colleague, now serving in the administration but the model was sustainable security, to use all of the tools that are available to the United States in the national security area, not just simply the defense tools. And so when we look and see proportionally what the State Department is receiving in A.I.D. which is about 52 billion, there is a view that if we can expand some of the capabilities that State has and make them and the agency for international development and make them more operational, we'll be able to start taking the burden off of DOD and we'll be able to start focusing on problems before they are of the magnitude that require US troops.

One of the things that you can do is start look at the national security budget as an integrated piece instead of as stove pipes. And you can see clearly from this chart that a lot of—the bulk of the dollars by far go to DOD and that 50 percent of the DOD dollars go to military personnel and military operations.

So as we look at the deficit, I've not put a number on the table. Right now, spending is about 4.5 percent of GDP if we include the base bill plus supplementals and so I think challenge one will be to get it into the range of about 4 percent and then challenge 2 will be to have budget tools that will help us make trade-offs, make hard choices, and then also develop tools elsewhere in the federal government that can start to take some of the burden off our men and women in uniform who are serving.