

### III. The United States' military spending and the 2011 budget crisis

ELISABETH SKÖNS AND SAM PERLO-FREEMAN

The United States' budget deficit has soared since the global financial crisis in 2008, and the resulting political crisis over how to deal with it had a significant impact on the US debate on military spending in 2011. After a decade of sharp rises in military spending, the debate, particularly in the US Congress, shifted to cuts in military spending. In late July 2011 agreement was reached on legislation to reduce public spending over the next 10 years, which will also have an impact on future US military spending (unless the legislation is repealed in subsequent years).

During the 11 years following September 2001, US federal outlays (i.e. US Government expenditure) on national defence increased by 84 per cent in real terms.<sup>1</sup> This sharp increase in military spending, driven primarily by the wars in Afghanistan and Iraq (see section II above), raised the level of military spending as a share of gross domestic product (GDP) from 3.0 to 4.7 per cent and as a share of total outlays from 16.4 to 20.1 per cent (see table 4.5). The largest increases were in military construction, operations and maintenance, and procurement.

In February 2011 the US administration of President Barack Obama presented a defence budget request for the financial year (FY) 2012, which amounted to \$671 billion in budget authority (i.e. authorization to spend) for the Department of Defense (DOD): \$553 billion for the base budget and \$118 billion for Overseas Contingency Operations (OCOs), that is, for the wars in Afghanistan and Iraq.<sup>2</sup> The OCO portion was \$41.5 billion lower than the request for FY 2011, reflecting the planned troop withdrawals from Iraq during the year. However, this budget was soon made obsolete by political controversies over public finance. When the National Defense Authorization Act for FY 2012 was finally passed in December 2011, it allocated \$531 billion for the base budget—\$22 billion less than the original request and \$49 billion less than the FY 2011 budget. The OCO budget was allocated \$117 billion—almost the full amount requested.<sup>3</sup>

During 2010 and 2011 the Obama administration came under increasing pressure from the political opposition, the Republican Party, to reduce the annual deficits in the government budget. With an estimated budget deficit

<sup>1</sup> SIPRI figures for US military spending include foreign military aid spending by the Department of State in the national defence outlays.

<sup>2</sup> The FY 2012 budget covers the period 1 Oct. 2011–30 Sep. 2012. US Department of Defense (DOD), 'DOD releases fiscal 2012 budget proposal', News release, 14 Feb. 2011, <<http://www.defense.gov/releases/release.aspx?releaseid=14263>>.

<sup>3</sup> National Defense Authorization Act for Fiscal Year 2012, US Public Law no. 112-81, signed into law 31 Dec. 2011, <<http://thomas.loc.gov/cgi-bin/bdquery/z?d112:h.r.01540>>.

of over \$1.6 trillion in FY 2011 and federal government debt estimated to exceed 100 per cent of GDP in 2011, the Republican Party requested sharp cuts in spending, while rejecting any proposals to increase revenue (e.g. by removing some of the tax cuts introduced by the previous administration). Proposals by the Obama administration to reduce the deficit by \$1.1 trillion over the next 10 years, through expenditure cuts, while making targeted expenditure increases in specific areas, such as education and the environment, were rejected by the opposition.

Finally, on 31 July 2011, a compromise agreement was reached, which on the one hand would increase the government debt ceiling—and thus prevent a default by the US Government—and on the other hand would reduce the growth in government debt. The resulting Budget Control Act, signed into law on 2 August 2011, imposed a set of spending caps, which over the 10-year period 2012–21 would result in total cuts of \$917 billion to previously planned expenditure, including \$450 billion for military spending.<sup>4</sup> It also established a bipartisan Joint Select Committee on Deficit Reduction (the ‘Super Committee’), with the task of identifying ways to further cut the deficit by \$1.2–1.5 trillion over the same period. However, the failure of the committee to reach agreement by the deadline of 23 November 2011 triggered a clause in the act providing for automatic spending cuts (so-called sequestration). These automatic cuts, beginning on 2 January 2013 and totalling \$1.2 trillion over 10 years, were to be equally split between military and non-military spending. Theoretically, the Congress could change the law before January 2013, and some senators and representatives soon initiated efforts to protect the defence budget from sequestration, while President Obama stated that he would veto any effort to repeal the automatic spending cuts.<sup>5</sup>

The analysis of the need for, and implications of, defence cuts motivated primarily by economic considerations varied widely. While some saw the cuts as having a seriously limiting effect on US military capability, others believed that the cuts did not go far enough, given US national security needs and considering the end of the wars in Afghanistan and Iraq.<sup>6</sup> Gordon Adams, a former senior White House official for national security budgets (1993–97), suggested that planned defence budgets for the period 2012–21 could be reduced by 15 per cent, contributing \$1 trillion to deficit reduction and still ‘leaving in place a globally operating, dominant military

<sup>4</sup> Budget Control Act of 2011, US Public Law no. 112-25, signed into law 2 Aug. 2011, <<http://thomas.loc.gov/cgi-bin/bdquery/z?d112:SN00365>>.

<sup>5</sup> ‘Obama pledges to veto effort to undo automatic spending cuts’, CBS News, 21 Nov. 2011, <[http://www.cbsnews.com/8301-503544\\_162-57329146-503544/](http://www.cbsnews.com/8301-503544_162-57329146-503544/)>.

<sup>6</sup> Weisgerber, M., ‘Panetta: cuts more than \$350b would be dangerous’, *Defense News*, 4 Aug. 2011. See also Berteau, D. J. and Crotty, R., ‘Super Committee fallout and the implications for defense’, Center for Strategic and International Studies (CSIS), 2 Dec. 2011, <<http://csis.org/publication/super-committee-fallout-and-implications-defense>>.

**Table 4.5.** US outlays for the Department of Defense and total national defence, financial years 2001, 2005, 2007, 2009 and 2011–13

Figures are in current US\$ b. unless otherwise stated. Years are financial years (starting 1 Oct. of the previous year).

	2001	2005	2007	2009	2011	2012 <sup>a</sup>	2013 <sup>a</sup>
DOD, military	290.2	474.1	528.5	636.7	678.1	688.3	672.9
Military personnel	74.0	127.5	127.5	147.4	161.6	156.2	155.9
O&M	112.0	188.1	216.6	259.3	291.0	294.5	294.2
Procurement	55.0	82.3	99.6	129.2	128.0	139.9	124.6
RDT&E	40.5	65.7	73.1	79.0	74.9	75.9	71.8
Other DOD military <sup>b</sup>	8.8	10.5	11.6	21.8	22.5	21.8	26.5
Atomic energy, defence	12.9	18.0	17.1	17.6	20.4	19.8	20.7
Other, defence-related	1.6	3.2	5.7	6.8	7.2	8.3	8.2
<b>Total national defence outlays</b>	<b>304.7</b>	<b>495.3</b>	<b>551.3</b>	<b>661.0</b>	<b>705.6</b>	<b>716.3</b>	<b>701.8</b>
Outlays at constant (FY 2005) prices	363.0	495.3	509.2	588.2	612.0	610.9	587.9
Outlays as share (%) of GDP	3.0	4.0	4.0	4.7	4.7	4.6	4.3
Outlays as share (%) of total government outlays	16.4	20.0	20.2	18.8	19.6	18.9	18.5

DOD = Department of Defense; FY = financial year; GDP = gross domestic product; O&M = operations and maintenance; RDT&E = research, development, test and evaluation.

*Note:* In accordance with the SIPRI definition of military expenditure, SIPRI's figures for total US military expenditure include foreign military aid provided by the US Department of State, in addition to the figures shown here.

<sup>a</sup> Figures for 2012 and 2013 are estimates.

<sup>b</sup> Other spending includes the Office of Management and Budget categories of military construction, family housing and other.

*Source:* US Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2012: Historical Tables* (Government Printing Office: Washington, DC, 2012), pp. 68–74, 137–38.

capability'.<sup>7</sup> Two examples suggested by Adams of ways to achieve this are the removal of the 92 000 military personnel added over the past 10 years due to the wars in Afghanistan and Iraq; and a reduction of the US ground-force presence in Europe and Asia.

The focus of the debate was how to adjust the US armed forces to the ending of the wars in Afghanistan and Iraq: whether they should be downsized back to their size before the wars or not. The process of change was to begin with a review of national security and defence strategy, and on 5 January 2012 a Defense Strategic Guidance was presented jointly by the

<sup>7</sup> Adams, G., 'Six ways to save', *New York Times*, 9 May 2011. See also e.g. Dreyfuss, R., 'Panetta's sacred hippopotamus', *The Nation* blog, 3 Jan. 2012, <<http://www.thenation.com/blog/165411/panettas-sacred-hippopotamus>>; Taubman, P., 'No need for all these nukes', *New York Times*, 7 Jan. 2012; and Rumbaugh, R., 'Obama's defense cuts are too timid', *CNN*, 6 Jan. 2012, <<http://edition.cnn.com/2012/01/06/opinion/rumbaugh-defense-cutbacks/>>.

White House and the DOD.<sup>8</sup> Its stated aim was to identify US strategic interests and guide defence priorities and spending over the decade 2012–21 against the background of the transition from wartime to peacetime and the government spending crisis, requiring a reshaping of the armed forces.

The guidance listed the primary missions of the US armed forces where additional investment was seen as necessary. These included counterterrorism and irregular warfare; deterrence and defence (including being capable of denying the objectives of an aggressor in one region even when engaged in a large-scale operation in another region); power projection capabilities in the face of asymmetric capabilities, such as those used by China and Iran; and advanced and effective operational capabilities in cyberspace and space. In contrast, it included reductions in US conventional ground forces and in major systems designed for the cold war.<sup>9</sup>

The guidance called for a stronger military presence in the Asia–Pacific region in response to China’s increasing power, to partner with India and to maintain peace in the Korean Peninsula. The Middle East was identified as another priority area where US defence efforts would ‘be aimed at countering violent extremists and destabilizing threats’ and where the proliferation of ballistic missiles and weapons of mass destruction was seen as of particular concern to the USA.<sup>10</sup>

While the guidance did not provide information on future military spending trends, President Obama emphasized that even if defence budget growth slows over the next 10 years, it ‘will still grow, because we have global responsibilities that demand our leadership’.<sup>11</sup> Making reference to past US experience, he added: ‘We can’t afford to repeat the mistakes that have been made in the past—after World War II, after Vietnam—when our military was left ill prepared for the future. . . . I will not let that happen again.’<sup>12</sup>

One lesson from the downsizing of US forces after the end of the cold war that independent analysts have pointed to was that the long-term defence plan—for force structure and acquisition programmes—was not downsized as much as the financial plan (i.e. military spending), which caused a mismatch between commitments and budgetary plans. Ultimately, this was only resolved by the large budget increases following 2001.<sup>13</sup> If

<sup>8</sup> US Department of Defense (DOD), *Sustaining U.S. Global Leadership: Priorities for 21st Century Defense* (DOD: Washington, DC, Jan. 2012).

<sup>9</sup> US Department of Defense (note 8), pp. 4–5.

<sup>10</sup> US Department of Defense (note 8), p. 2.

<sup>11</sup> White House, ‘Remarks by the President on the Defense Strategic Review’, 5 Jan. 2012, <<http://www.whitehouse.gov/the-press-office/2012/01/05/remarks-president-defense-strategic-review>>.

<sup>12</sup> White House (note 11).

<sup>13</sup> See e.g. Gold, D., ‘US military expenditure and the 2001 Quadrennial Defense Review’, *SIPRI Yearbook 2002*, pp. 309–22.

major acquisition programmes are not cut, there is the risk of a similar mismatch again, which will put upward pressure on the defence budget in the future.<sup>14</sup>

The effects of the Budget Control Act were reflected in the plan included with the FY 2013 budget request, which cut previous plans by \$259 billion over the 5-year period FYs 2013–17 and by \$487 billion over the 10-year period 2012–21.<sup>15</sup> However, the FY 2013 budget did not take into account the possible further cuts of \$600 billion as a result of sequestration. This will be a major issue in the US defence budget debate during 2012 and beyond.

<sup>14</sup> On future acquisition plans see chapter 5, section I, in this volume.

<sup>15</sup> US Department of Defense, 'DOD releases fiscal 2013 budget proposal', Press Release no. 098-12, 13 Feb. 2012, <<http://www.defense.gov/releases/release.aspx?releaseid=15056>>.