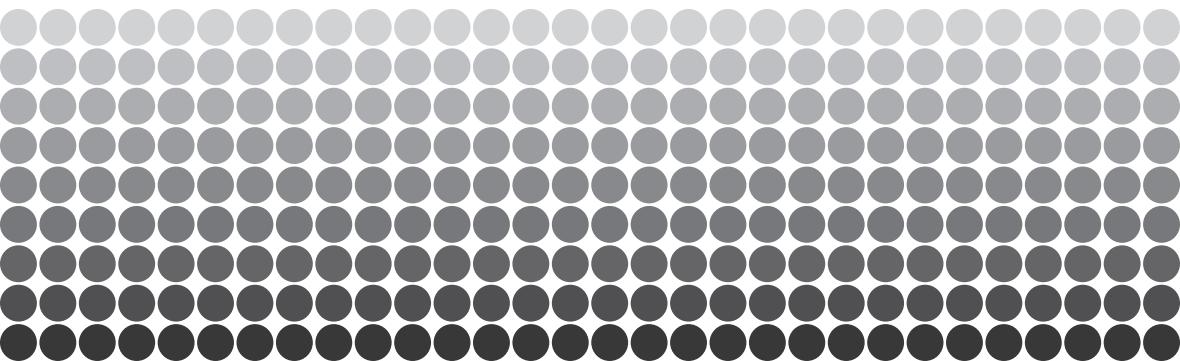


SIPRI YEARBOOK 2013

Armaments, Disarmament and International Security

US military expenditure

ELISABETH SKÖNS



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II. US military expenditure

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Military spending by the United States declined by 5.6 per cent in real terms in 2012. Together with the 1 per cent fall in 2011, this is the first clear manifestation of an adjustment of US military spending to a post-war situation. However, spending in 2012—\$685.3 billion—was still 69 per cent higher in real terms than in 2001, which marked the beginning of the wars on ‘terrorism’, in Afghanistan and, from 2003, in Iraq.

The future level and trend in US military expenditure was a prominent topic in the political debate in the USA during 2012. However, much of the decision-making process on future military spending was linked to, and subordinated to, the political process of addressing high and rising government debt, which in turn was linked to the government borrowing limit and the size of the budget deficit. These debt-related issues to some extent overshadowed the security-related issues, such as the degree and nature of adjustment of US military spending to the post-war security environment and assessments of future security threats and challenges.

The debt deal, sequestration and the impact on military spending

There was much confusion in the budget debate and process during 2012 due to the results of the 2011 bipartisan debt deal and the resulting 2011 Budget Control Act (BCA).¹ The BCA contained measures intended to reduce the projected budget deficit by at least \$2.1 trillion over the 10-year period covering financial years (FYs) 2012–21.² These measures included caps (limits) on discretionary spending and a process for automatic and largely indiscriminate across-the-board reductions, known as sequestration.³ The statutory caps were intended to result in total reductions of \$917 billion in projected spending over the 10 years, implemented from FY 2012 onwards.⁴ If the Joint Select Committee on Deficit Reduction—a bipartisan committee established by the BCA—could not reach agreement on a deficit-reduction solution by November 2011, the process for add-

¹ 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:>>. See also Sköns, E. and Perlo-Freeman, S., ‘The United States’ military spending and the 2011 budget crisis’, *SIPRI Yearbook 2012*.

² US financial (or fiscal) years run from 1 Oct. of the previous year until 30. Sep. of the nominal year.

³ Discretionary spending is budget authority that is provided and controlled by appropriation acts and the outlays that result from that budget authority. In contrast, mandatory (or direct) spending is the budget authority provided by laws other than appropriation acts and the outlays that result from that budget authority, such as the more long-term rules for pension and health care spending.

⁴ Cuts in FY 2012 expenditure were to take place in the congressional process, since the FY 2012 budget proposal had already been submitted.

Table 3.4. US outlays for ‘National defense’, financial years 2001 and 2012–17

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

	2001	2012	2013 ^a	2014 ^a	2015 ^a	2016 ^a	2017 ^a
<i>Outlays at current prices</i>							
DOD, military programmes	290.2	650.9	633.3	597.6	584.0	561.9	562.1
Atomic energy, defence	12.9	19.2	19.1	20.7	19.9	19.0	19.1
Other, defence-related	1.6	7.8	7.7	8.5	8.4	8.4	8.5
Total ‘National defense’ outlays	304.7	677.9	660.0	626.8	612.3	589.2	589.7
At constant (FY 2005) prices	363.0	580.6	553.6	518.8	497.4	469.8	461.4
As a share (%) of GDP	3.0	4.4	4.1	3.7	3.4	3.1	3.0
As a share (%) of total government outlays	16.4	19.2	17.9	16.6	15.7	14.4	13.9

DOD = Department of Defense; FY = financial year; GDP = gross domestic product.

Note: In accordance with SIPRI’s 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.

^a Figures for FYs 2013–17 are estimates.

Source: US Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2014: Historical Tables* (Government Printing Office: Washington, DC, 2013), tables 3.2 and 6.1.

itional, automatic, cuts of \$1.2 trillion over the period FYs 2013–21 was to be triggered from January 2013 onwards, unless the Congress and President Barack Obama had enacted legislation to eliminate or change the process before then.⁵

The impact of BCA on military spending is difficult to assess because of the variety of definitions (e.g. ‘defense’ versus ‘non-defense’; ‘security’ versus ‘non-security’) and the various exemptions from cuts for certain measures and time periods. However, by and large, roughly half of the cuts required by the BCA, or \$1 trillion, were to apply to military spending. Since the level of spending on Overseas Contingency Operations (OCO)—that is, foreign military operations—is not limited by the BCA, these cuts were to apply to base defence spending.⁶

The caps on discretionary military expenditure were incorporated in the defence budget proposal for FY 2013, presented in February 2012, which proposed reducing the base defence budget (i.e. excluding OCO) by \$259 billion over 2013–17 and by a total of \$487 billion over the 10 years,

⁵ Labonte, M. and Levit, M. R., *The Budget Control Act of 2011: Effects on Spending Levels and the Budget Deficit*, Congressional Research Service (CRS) Report for Congress R42013 (US Congress, CRS: Washington DC, 29 Nov. 2011), p. 1.

⁶ Labonte and Levit (note 5), p. 2.

compared with previous plans.⁷ The impact of this first round of cuts was a reduction of 21 per cent in real terms in projected outlays on the ‘National defense’ budget item over the period FYs 2012–17.⁸ However, the resultant spending in FY 2017 would still be 27 per cent higher in real terms than in FY 2001, the financial year before the ‘global war on terrorism’ began (see table 3.4), and the same level as in FY 1990, the last year of the cold war.⁹

The sequestration measure contained in the BCA originally required additional total cuts of \$109.3 billion, of which \$54.7 billion were for defence, from projected spending levels in each FY from 2013 to 2021. In FY 2017 this would still result in base defence spending 15 per cent higher in real terms than in FY 2001.

Following the failure of the Joint Select Committee on Deficit Reduction to reach an agreement, the defence budget debate during 2012 was dominated by the prospect and potential implications of sequestration, to begin in January 2013 if the Congress and President Obama also failed to reach agreement. A further complication was that sequestration would coincide with the expiry (at the end of 2012) of tax reductions initiated during the administration of President George W. Bush. It was widely feared that this combination of major spending cuts and tax increases, referred to as the ‘fiscal cliff’, would lead to an economic recession. A partial agreement was reached at the last hour of 2012 that preserved most of the tax cuts but only postponed the automatic spending cuts due to sequestration until 1 March 2013.¹⁰ It also reduced the required cuts for 2013, from \$109.3 billion to \$85.3 billion in overall spending and thus from \$54.7 billion to \$42.7 billion for defence.¹¹ By 1 March, no further agreement had been reached and so the sequestration—including military expenditure cuts—was expected to take effect, at least until any new deal was reached.

The debate on the consequences of sequestration

Many of the alarmist assessments of the defence cuts—including by the Secretary of Defense, Leon Panetta—were actually more about the seques-

⁷ 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>>.

⁸ SIPRI’s estimate for US military spending includes expenditure on foreign military aid by the Department of State, in addition to ‘National defense’ expenditure.

⁹ US Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2014: Historical Tables* (Government Printing Office: Washington, DC, 2013), table 6.1.

¹⁰ The American Taxpayer Relief Act of 2012, US Public Law no. 112-240, signed into law 2 Jan. 2013, <<http://thomas.loc.gov/cgi-bin/query/D?c112:5::/temp/-c112Ln9b2h::>>. See also Spar, K., *Budget ‘Sequestration’ and Selected Program Exemptions and Special Rules*, Congressional Research Service (CRS) Report for Congress R42050 (US Congress, CRS: Washington DC, 22 Mar. 2013), p. 3.

¹¹ Kogan, R., ‘Sequestration by the numbers’, Center on Budget and Policy Priorities, 22 Mar. 2013, <<http://www.cbpp.org/cms/?fa=view&id=3937>>, p. 1.

tration technique than about the size of the cuts.¹² In a letter to two senators, Panetta argued that sequestration would leave the USA with ‘the smallest ground force since 1940, the smallest number of ships since 1915, and the smallest Air Force in its history’, and the smallest ever Department of Defense (DOD) workforce.¹³ The sequestration mechanism leaves almost no scope to choose how to implement the cuts, which are dictated by a detailed statutory scheme.¹⁴ Thus, there is no way to make choices based on strategic security considerations. Indeed, the sequestration technique was never meant to be applied: rather, the threat of sequestration was meant to drive the two sides to a compromise.¹⁵

An important source of confusion was that the cuts required by the BCA were not in relation to actual current spending levels but rather in relation to planned, or projected, spending levels for the coming 10 years. This makes it difficult to assess the likely level of future military spending as a result of the measures contained in the BCA, with different analysts using different numbers. However, given that US outlays on ‘National defense’ increased by 68 per cent in real terms during the war period of FYs 2001–12 (see table 3.4), and considering the remaining differences in position among the various stakeholders, it is unlikely that this process will result in a return to pre-war levels of military spending.¹⁶

Throughout 2012, a number of efforts were made to put pressure on the Congress to block the sequestration. For example, the chief executive officers (CEOs) of the major arms-producing companies—such as Robert J. Stevens of Lockheed Martin—argued before congressional committee hearings that the cuts would lead to closures of defence plants, massive personnel reductions, erosion of engineering expertise, and loss of skills and knowledge in the US arms industry.¹⁷ In July, the Aerospace Industries Association (AIA) released a report estimating that, if the automatic budget cuts went ahead, 2.14 million jobs would be lost in 2013, including 1 million due to DOD budget cuts.¹⁸ This is a rather high estimate, considering that

¹² For a series of such assessments see US House of Representatives, Armed Services Committee, ‘“Shooting ourselves in the head”: what they’re saying on sequestration’, 28 Feb. 2012, <<http://armedservices.house.gov/index.cfm/defense-cuts-resources>>.

¹³ Panetta, L., Letter to Senator John McCain, 14 Nov. 2011, <http://www.mccain.senate.gov/public/index.cfm?FuseAction=PressOffice.PressReleases&ContentRecord_id=a4074315-fd3e-2e65-2330-62b95da3b0e9>.

¹⁴ US Office of Management and Budget (OMB), ‘OMB report pursuant to the Sequestration Transparency Act of 2012 (P.L. 112-155)’, 14 Sep. 2012, <<http://www.whitehouse.gov/omb/legislative-reports/>>, p. 1.

¹⁵ US Office of Management and Budget (note 14), p. 1.

¹⁶ Note that the 69% increase over this period referred to above is in terms of SIPRI’s wider definition of US military expenditure. See also note 8.

¹⁷ Pianin, E., ‘Congress plays war games with defense budget’, *Fiscal Times*, 19 July 2012.

¹⁸ Fuller, S. S. and Chumura Economics & Analytics, *The Economic Impact of the Budget Control Act of 2011 on DOD and non-DOD Agencies* (Aerospace Industry Association: Arlington, VA, 17 July 2012).

total employment in the entire US (military and civil) aerospace industry is only 625 000, and the uncertainty of such estimates was subsequently pointed out by the Congressional Research Service.¹⁹

Despite the arms industry spending significant amounts on campaigns against defence cuts (\$1.7 million by the AIA alone), industry representatives complained about their lack of impact, which they found unusual and blamed on congressional paralysis.²⁰ However, another explanation might be the difficulty of arguing that, for the sake of employment, military spending should continue at wartime levels after wars had ended. Indeed, these arms industry concerns illustrate the problems associated with permanent arms-producing companies that are highly dependent on military contracts and lack strategies to adjust to variations in military spending.²¹

In contrast, a number of security analysts and researchers argued that the size of the requested defence cuts was reasonable and that the resulting level of military spending would be sufficient to provide security to the USA and keep a sufficient lead in military capability over any other military power. One line of argument that has been pointed out by several observers is based on historical experience: after previous wars the US Government has been able to reduce military spending by more than required by the BCA (see figure 3.4), and the US military was able to accommodate the cuts.²²

Balancing the US defence budget

Panetta and others argued that the requested cuts would result in ‘hollow forces’ that lack the people, training and equipment to fulfil their tasks. This was questioned in a report by the Congressional Research Service.²³ An analysis by the Center for Strategic and International Studies, a US think tank, argued that the DOD has major problems even without the BCA, due to failures to control costs, develop realistic budgets, and close

¹⁹ Aerospace Industry Association, ‘Aerospace statistics’, Group 2, Series 12, <http://www.ai-aerospace.org/economics/aerospace_statistics/>; and Levine, L., *Sequestration: A Review of Estimates of Potential Job Losses*, Congressional Research Service (CRS) Report for Congress R42763 (US Congress, CRS: Washington, DC, 1 Oct. 2012).

²⁰ Shalal-Esa, A. and Stern, M., ‘A comedown for America’s defense lobby’, Reuters, 19 Sep. 2012.

²¹ On the efforts of arms-producing companies to adjust to government spending cuts see chapter 4, section I, in this volume.

²² On how previous US presidents managed the shift from wartime to peacetime budgets see Korb, L. J., Conley, L. and Rothman, A., *A Return to Responsibility: What President Obama and Congress can Learn about Defense Budgets from Past Presidents* (Center for American Progress: Washington, DC, July 2011).

²³ Feickert, A. and Daggett, S., *A Historical Perspective on ‘Hollow Forces’*, Congressional Research Service (CRS) Report for Congress R42334 (US Congress, CRS: Washington, 31 Jan. 2012).

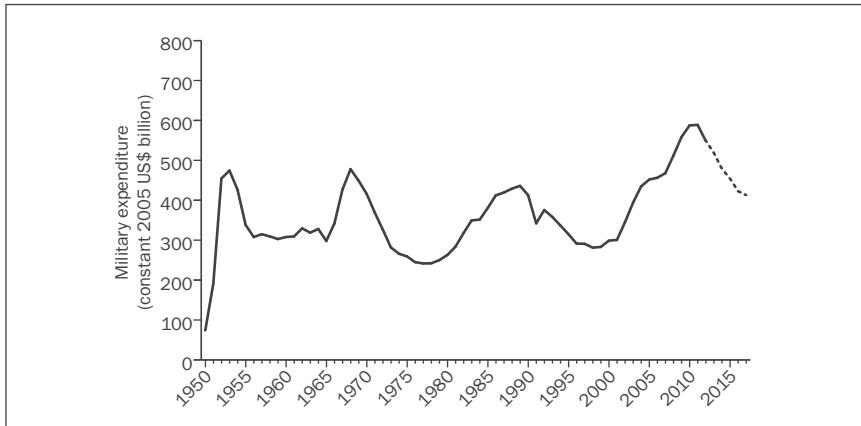


Figure 3.4. US military spending, 1950–2017

Figures are for ‘National defense’ outlays. Figures for financial years 2013–17 are estimates.

Source: US Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2014: Historical Tables* (Government Printing Office: Washington, DC, 2013).

the gap between its strategy and budgets.²⁴ Reports by the Stimson Center, the Brookings Institution and the Council on Foreign Relations, three other US think tanks, concluded that the consequences of the defence budget cuts required by the BCA would not be dramatic, but rather would leave the US force structure basically unchanged, with the USA still able to dominate any other military in the world.²⁵

Going beyond the issues of military defence, to analyse the overall balance of US security spending, the Task Force on a Unified Security Budget for the United States—formed in 2004 by a group of independent experts on US budgetary and defence issues—presented its annual report in October 2012. The report analyses three types of security tool—offensive, defensive and preventative—managed by three types of institution—the DOD, the Department for Homeland Security, and the non-military foreign engagements by the Department of State and the US Agency for International Development (USAID), respectively. It recommends a shift of resources from offensive security measures towards preventive and defensive measures, which are far less expensive.

²⁴ Cordesman, A. H., *The New US Strategy, the FY2013 Defense Budget, Sequestration, and the Growing Strategy-Reality Gap* (Center for Strategic and International Studies: Washington, DC, 3 Oct. 2012).

²⁵ Rumbaugh, R., ‘Budgeting for foreign affairs and defense: the reality of the defense buildup’, Stimson Center, 13 Feb. 2012, <<http://www.stimson.org/summaries/the-reality-of-the-defense-build-down/>>; Singer, P. W., ‘Sequestration and what it would do for American military power, Asia, and the flashpoint of Korea’, *Time*, 23 Sep. 2012; and Zenko, M., ‘Top twelve defense sequestration scare tactics’, Council for Foreign Relation, 23 Aug. 2012, <<http://blogs.cfr.org/zenko/2012/08/23/top-twelve-defense-sequestration-scare-tactics/>>.

For the DOD, the recommendations include \$71.8 billion in cuts for FY 2013 and a long-term plan for achieving the \$1 trillion in reductions over 10 years requested by the BCA that can be achieved without sacrificing US security.²⁶ The proposed cuts for FY 2013 include cuts in spending on nuclear forces (\$20 billion), health care (\$15 billion), retirement (\$13 billion), personnel (\$10 billion) and in some procurement programmes, including for the F-35 (Joint Strike Fighter, JSF) combat aircraft, the V-22 Osprey aircraft and Virginia class submarines (\$8.8 billion).²⁷ The 10-year reductions focus on savings from budget reform as well as on resetting US security along more realistic lines.²⁸

Although the proposals in the Unified Security Budget for budgetary shifts are based to a great extent on President Obama's stated commitment to a security policy with a reality-based balance between military security and other security tools, including economic and social development tools, the prospects for a full rebalancing of the security budget are probably meagre in the short-to-medium term.²⁹

²⁶ Task Force on a Unified Security Budget, *Rebalancing our National Security Budget: The Benefits of Implementing a Unified Security Budget* (Center for American Progress/Institute for Policy Studies: Washington, DC, Oct. 2012), pp. 4, 13, 17.

²⁷ Task Force on a Unified Security Budget (note 26), p. 13.

²⁸ Task Force on a Unified Security Budget (note 26), pp. 36–38.

²⁹ Task Force on a Unified Security Budget (note 26), p. 2.