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Robert C. Moot

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Many of the Military Establishment's present critics assert that the money required for our domestic needs can be found simply by cutting the defense budget to its pre-Vietnam level. Unfortunately, a reduction of this magnitude, considering inflation and added personnel costs, would reduce the Defense Establishment to its 1949 level—an era when the Soviets had no strategic nuclear capability and virtually no navy. Such a curtailment of defense forces could very well place the security of our Nation in jeopardy. We must, therefore, obtain the funds for new domestic initiatives either through additional taxation or by reevaluating those sections of the budget which are now considered to be uncontrollable.

DEFENSE SPENDING: MYTHS AND REALITIES

An address delivered at the Naval War College

by

The Honorable Robert C. Moot

Assistant Secretary of Defense (Comptroller)

There has been much talk in recent months about setting new national priorities. I think this kind of talk is basically healthy. And, of course, you gentlemen will spend some time on this topic in the spring. We should constantly be reviewing our Federal programs, discarding old ones, including new ones, and changing priorities to meet the country's needs as effectively as possible. To many people, however, a new set of national priorities means just one thing—cut the military budget and reallocate the funds to the long-suffering civilian sector of public spending. The critics of the military will assure you, not once but many times, that the defense budget is the logical source of ready cash. They claim that by cutting the war-swollen defense budget, in-

flation as well as all other domestic ills can be cured.

It may come as a surprise, but this just is not true. The budget situation that the critics are describing simply does not exist today. Trends in Government spending have changed over the past two decades, and our critics continue to address past history rather than current facts.

To illustrate, let us consider all Government spending in three pieces. The Department of Defense (including military assistance) is one piece; Federal civilian agencies, added together, are the second piece; and State and local governments, added together, are the third. Back in 1953, when spending for Korea peaked, defense spending was clearly dominant; nearly half of all Government

spending was for defense; the other two components (all Federal civilian agencies and all State and local governments) barely equaled the defense spending total. The situation is drastically different today, for defense has dropped from 50 percent to 20 percent of total Government spending. Spending by Federal civilian agencies is twice that of defense, and spending by State and local governments is also twice as high as defense spending. The figures are, roughly, \$136 billion for Federal civilian agencies and \$145 billion for State and local governments versus \$71.8 billion for defense. Defense spending no longer dominates total Government spending.

To continue the illustration, let us take the matter of budget growth, beginning with 1964—the last full peacetime year. Defense spending is up \$21 billion from 1964 to 1971, the current fiscal year. Federal civilian agencies are up \$65 billion in the same span, and State and local spending is up about \$75 billion, both roughly doubling. It is worth noting that State and local spending has grown more since 1964 than the total 1971 defense budget, which includes wartime costs. Almost the same growth pattern is true for Federal civilian spending. We have added the equivalent of two new defense budgets, in 7 years, to Government spending—but in civilian, not defense, programs.

Let me be more specific and quote one of our critics, the former Chairman of the Federal Reserve Board, Marriner S. Eccles. In a recent interview¹ dealing with the Nation's economic problems he said:

In the past five years, we have had an expenditure on Vietnam alone of over \$125 billion. Our total federal deficit for the same period is around \$75 billion. So if

we didn't have Vietnam, we would have a surplus of over \$50 billion. We would have no inflation. We would have been able to avoid cutting back on many of our essential domestic needs.

If you want the real culprit for this country's mess, it is Vietnam, not the Federal Reserve.

Now, let us look at the facts: The cumulative increase in the defense budget since 1964, the last peacetime year, is \$116 billion. What Mr. Eccles does not understand or does not recognize is the further fact that public spending *other* than defense *increased* \$442 billion in the same period. Defense no longer dominates public spending and cannot therefore be blamed for all problems which emanate from public spending. If the public spending increase is only 20 percent due to defense needs, 80 percent of the blame should be elsewhere. It goes without saying that the facts also refute Mr. Eccles' assumption that resources have been cut back for essential domestic needs.

The defense budget for 1971 is equivalent to 7 percent of the gross national product, which is 34.6 percent of the Federal budget total. These are the lowest defense shares since 1951 and 1950, respectively—since before the Korea buildup. In peacetime 1964, for example, defense spending was 41.8 percent of the Federal total and 8.3 percent of the GNP. Many people seem to have a permanent impression that defense spending is a fixed 50 percent or 80 percent or 90 percent of the Federal total. Actually, defense has not had half of the Federal budget since 1958, a milestone that was passed with little fanfare.

As any comptroller knows, manpower impacts need to be considered as carefully as dollar impacts. Defense clearly has been a major factor in manpower in the past, as anyone of

¹ *Dun's*, September 1970.

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World War II vintage knows. During the Korean buildup, defense manpower requirements for all purposes grew by 5.5 million. The total labor force grew by only 2.5 million. This meant that there were three million less in the labor force in 1953 for all civilian pursuits than there were in 1950. During the Southeast Asian buildup, defense manpower grew by 2.6 million, but labor force growth was 6.8 million, leaving 4.2 million additional people for other activities. From pre-Vietnam 1964 to 1971, the labor force will grow by about 11 million. However, defense manpower will only be about 500,000 above the 1964 level, so that 10.5 million additional workers will be available for other purposes—four times the number of the corresponding period in the 1950's. All of the figures I have used include defense-related employment in industry, in addition to military and civilian personnel of the Department. The relative impact of defense on the Nation's labor force has changed over the years.

Just considering military personnel, on 30 June 1964 the number of military was 2.7 million. This peaked at 3.5 million in 1968. By 30 June 1971 the number will be 2.9 million—roughly 9 percent above the prewar level. Defense clearly does not dominate the labor force the way it did in the past. We do have some impact, and we have contributed to the recent surge in unemployment, which is a point I shall cover presently.

I mentioned earlier that defense spending has grown by \$21 billion from pre-Vietnam 1964 to 1971. With the phasedown in Southeast Asia, it is fair to ask, should we not see the defense budget returning to the prewar level of about \$50 billion? And should not this produce a peace dividend of some \$21 billion which can be applied to non-defense programs? The answer, unhappily, is no—unless we cut military strength far below the prewar level. In

fact, such a defense budget level, even with absolutely no special war costs, would involve lowering our military strength to the level of the late 1940's—to the level that prevailed before the Soviets developed nuclear weapons, before Korea, and before NATO.

The reason is quite simple; pay and price increases since 1964 have eaten up \$16 billion of the \$21 billion added to the defense budget since then. In real terms—that is, in dollars of constant buying power, our budget for FY 1971 is only \$5 billion, or 7.5 percent, higher than the prewar level of 1964.

Pay increases alone account for \$8 billion. Payments to retired military personnel are up \$2 billion, with a growing retired population and automatic increases tied by law to increases in the cost of living. And another \$6 billion is involved for increased prices of goods and services purchased by the Department. And that, in brief, is the story of the defense budget increase since peacetime 1964. Pay raises, increased retired pay, and higher purchase prices account for a total of \$16 billion, which adds not one man nor one weapon. The 1964 program—the same number of men, the same number of ships and aircraft, the same amount of jet fuel—would cost \$66.8 billion today. Our 1971 budget is \$71.8 billion. We are fighting the war within a budget that is \$5 billion above the peacetime level, in real terms. This does not come close to covering our war costs. The incremental cost of the Southeast Asian conflict is more than double this \$5 billion increase in our budget. Funds available to the Department for nonwar purposes are lower than they have been in 20 years when the distortion of inflation is removed.

The question of incremental war costs versus full war costs has caused much public confusion. You are one of the few audiences who can quickly grasp the significance of the difference.

Full war costs are the total costs of Southeast Asian operations, including all costs for military pay, B-52 sorties, fleet operations, and so forth. Incremental costs are the difference between total war costs and the cost of normal peacetime operations. Thus combat pay for regular Army troops in Vietnam is an incremental cost, while their basic salary is not. The cost of ammunition fired above the normal training allowance is an incremental cost, as is the extra aviation gasoline and munitions used in B-52 operations. There are many more examples.

Southeast Asia costs peaked in FY 1969, when full costs were about \$29 billion and incremental costs were about \$22 billion. Last month Secretary Laird stated that both the full and incremental cost of the war would be halved after all currently announced troop withdrawals have been accomplished. This means that the additional cost due to the war will have been reduced by some \$10 to \$11 billion after the announced figure of 150,000 troops have been withdrawn by 30 April 1971. It is a very fair question to ask where this money went. Part of the answer can be seen in the budget totals for fiscal years 1969 and 1971. The fiscal year 1969 budget was \$78.7 while fiscal year 1971 is planned for \$71.8, which is \$6.9 billion less. This is a large and readily apparent portion of the peace dividend. The other portion is not as apparent. You will recall that inflation added \$16 billion to the DoD budget from FY 1964 to FY 1971. As everyone knows, inflation has accelerated in recent years, and the rise from FY 1969 to FY 1971 alone accounts for \$5.9 billion. This \$5.9 billion in inflation costs must be added to the \$6.9 billion of current dollar cuts to get the total real program reduction—\$12.8 billion. The reduction in the incremental war cost of \$10 to \$11 billion is included in this total reduction. Funds have not been diverted from war costs to nonwar programs.

Nonwar programs, in fact, have also been sharply reduced since 1969.

This defense cutback is very real. We had 3.5 million military on 30 June 1968. We will have 2.9 million on 30 June 1971, for a reduction of 600,000. Civilian employment will be cut 11 percent from the 1968 peak, and purchased goods and services will be down 30 percent. We have to go all the way back to 1946 to find a year when we bought fewer aircraft than FY 1971. I think everyone recognizes that 1946 was not a year with emphasis on the procurement of new military hardware. We have laid up nearly 200 ships, and the Navy still has 47 percent of its ships more than 20 years old. These are some of the consequences of fighting a war with a peacetime-level budget.

Most of the military and DoD civilian cutback planned through 30 June 1971 has already occurred. However, because of a 6- to 8-month production pipeline, there is a greater time lag between defense reductions in procurement and the impact on the economy. We estimate that defense-related employment in industry will fall by well over one million from the 1968 peak with more than one-half of the cut still to come. Indeed, a recent report by the Bureau of Labor Statistics attributed the recent surge in unemployment in large part to defense cutbacks.

Total defense-related employment, including that of industry, has decreased by 958,000 jobs from June 1969 through June 1970. During this same 12-month period, the ranks of the unemployed have increased by 1,137,000, driving the national unemployment rate from 3.4 percent to 4.7 percent. While our information is incomplete, we know that not all of the defense reductions go directly into the unemployment total. As an example, many of the military who have been released return to school. However, I think everyone agrees that the defense reductions have had a big influence on the increased

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unemployment rate, and the reductions which are planned for the remainder of the fiscal year will keep the upward pressure on unemployment.

Now let us turn back, for a few moments, to rising prices and the inflation trend. As I said earlier and despite common beliefs, defense spending is not the cause. I believe these additional facts will help illustrate this. Let us look at this matter by comparing two periods in our history—first, 1950 to 1956, covering the complete Korea cycle. From 1950 to 1956 *annual* defense spending rose by \$26 billion; all other Government spending by \$13 billion. During Korea, defense was clearly the dominant factor. Second, let us look at the Vietnam period. From 1964 to 1971, defense spending rises by \$21 billion; all other Government spending rises by \$122 billion. Earlier we were talking of cumulative increases in public spending, now we are talking of annual rates. Prices are undoubtedly higher today than they were in 1964. If you think that higher Government spending is the answer, try to bear in mind that defense accounts for only a small portion of the Government spending increase since 1964. Clearly, defense had a decisive impact in the 1950's; it does not have such an impact today—prices continue to rise as defense is being sharply cut.

Our tax policies in the 1950's were very closely attuned to shifts in defense spending. Major tax increases were enacted in anticipation of Korean war costs. This has clearly not been the case in the 1960's. The Southeast Asian buildup began while the economy was being stimulated by the 20 percent tax reductions of 1964, and even though taxes were not raised until defense spending had peaked, our price experience was no worse than during Korea. One shudders to contemplate what our price experience would have been in the 1950's had our tax policies then been established with such indifference to

defense spending trends. Such a course was possible (if not desirable) in the 1960's because defense spending was no longer dominant.

You may have heard another statistic that would cause you to question some of the points I have made. Some people say that defense takes 80 percent of the controllable part of the budget. That has gained some currency lately, but how does it square with the facts? I first have to point out that the correct figure is now about 65 percent, not 80 percent, but that is a minor point. About half of Federal spending, or roughly \$100 billion in FY 1971, is subject to annual control through the appropriation process. That is, the President asks for specific appropriation amounts in the budget; Congress provides appropriations in specific amounts; thereafter, the President allows (or does not allow) the agencies to spend the money the Congress has provided.

The uncontrollables are not subject to the same restraints, but represent payments authorized under basic legislation which is not subject to annual review. The payments are made (often according to a formula prescribed by law), and the funds are automatically available unless Congress takes positive action to change things. This is roughly the other half of the FY 1971 budget or \$100 billion. The defense uncontrollable cost is military retired pay, which is about 4 percent of our budget in FY 1971. The law prescribes what a military retiree will be paid. Unless the law is changed, there is nothing that can be done by the President or the Secretary of Defense or through the appropriation process, to alter this fact. The man must be paid. Over 70 percent of civilian spending is in this uncontrollable category, compared to 4 percent of defense spending.

This condition is a matter of extreme concern in Federal budgeting. The uncontrollable items are very difficult to change in a given year, and spending in

this area has grown sharply—often through the operation of formulas set years ago. In a time of budgeting stringency or economic necessity, one must control what can be controlled and make cuts there regardless of the fact that huge increases in the uncontrollable area are of lesser priority. It simply takes too long and is too difficult to make the changes. As President Johnson observed in his last budget, "... national priorities are arbitrarily distorted by the fact that outlays for some Federal programs are sheltered in basic law from meaningful annual control." Since defense is 65 percent of the controllable portion of the budget, defense still must bear the brunt of short-term reductions even if it means that some military readiness must be sacrificed. The fact is that we just cannot go on much longer with an allocation and review process that only covers half of Federal spending.

All I have said here today has been said repeatedly by Secretary Laird and other leaders both in the executive and legislative departments. Yet critics of defense do not appear to hear. Ignoring what has been done, they say that we must start to reorder our national priorities and start to cut the defense budget to its proper level in the context of these priorities. They say that the Pentagon must be forced to plan more realistically and manage more effectively, so that billions (10 to 15) can be diverted from the swollen defense budget. And these funds should be reallocated to the real business of America: halting inflation and curing urban blight, crime, pollution, inadequate health care, inadequate housing, and all other domestic problems. The argument is quite compelling, and I have not embellished it much from the way it is usually presented.

Unfortunately, by ignoring the facts and addressing the past rather than the present, our critics do the country a disservice. Let me explain why. The

Peace dividend produced by reductions in defense to date has already been returned to the country or used to offset inflation. We have made additional reductions in the defense baseline force and have announced that our baseline force plans ultimately involve a cut well below that prewar level. In real terms, that is in constant dollars, defense spending has been cut over \$17 billion since 1968, and the President has reallocated these funds to nondefense programs. The critics, however, assume that nothing has changed and talk about cutting from today's level. War costs have been and are being rapidly phased out so such reductions must be applied to the peacetime baseline forces. Suppose you wanted to cut that baseline or nonwar budget by \$15 billion. This would reduce our military to about 1.8 million men—1.8 million men is the number of men we had under arms in June 1941—6 months before Pearl Harbor. In other words, a \$15 billion cut in the baseline force would result in a pre-Pearl Harbor level of defense, a level about in line with the lowest point in the demobilization period of the late 1940's—pre-NATO, pre-Korea, and prior to Soviet nuclear weaponry.

In broad terms, that's what a \$15 billion further cut in the defense baseline budget would mean. On the non-defense side, how big is that \$15 billion? Nondefense total governmental spending is \$245 billion this year, and it has been growing at about 10 percent per year. At that rate, it will grow about \$150 billion in the next 5 years. So that \$15 billion or 20 percent cut in defense would be equal to, roughly, 6 percent of nondefense spending this year. It would be equal to about 10 percent of the 5-year increase in such spending.

The defense budget simply is not, and cannot be, the central element in our resource allocation problems for the years ahead. It should be scrutinized carefully, and it should be placed in priority review with other needs. But

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defense spending cutbacks cannot be assumed to be the source of all resource needs. Our national security is too important for such erroneous reasoning to be accepted. We are dealing with a gross national product that will be growing some \$350 billion or more in the next 5 years, toward \$1.4 trillion; total governmental spending growing perhaps \$150 billion to some \$465 billion; and revenues of the same magnitude. In this context, the size of the defense budget does not loom as large. In the context of all of these facts, it does not seem logical to me to make massive cuts in defense and seriously weaken national security for what must be only a marginal increase in domestic spending. Recent votes in the Congress on the Defense Authorization Bill for FY 1971 indicate that a significant majority of the Congress understands and agrees with this reasoning.

By emphasizing these facts, I am not denying that there have been waste and mismanagement in the Department of Defense. Obviously there have been. President Nixon and Secretary Laird have **attacked** this problem in several ways; **one** of the most important was the appointment of the Blue Ribbon Defense Panel. As you know, the panel's report was released recently. It contains many thoughtful recommendations that will be adopted. But, in addition to special approaches, we as managers must continue the **attack** on inefficiency and waste at all times. The taxpayer should receive a dollar's worth of defense for

every dollar spent and should get no more defense than he needs.

I do want to reiterate, however, that defense reductions, based on either force cuts or improved efficiency or both, cannot be the principal source of funding for new domestic initiatives. The orders of magnitude are just too far apart. I am concerned about people recognizing this, because the country cannot and should not start reordering priorities from a false premise. As a Nation, we need to look where the money is. Some of it is in defense, and defense should be scrubbed. But the hard questions are in areas such as health insurance, veterans' benefits, farm subsidies and in the billions in tax subsidies that never appear on the expenditure side of the Federal budget.

BIOGRAPHIC SUMMARY



The Honorable Robert C. Moot has had a long and distinguished career in Government service. Following service with the U.S. Army in World War II, he entered the Civil Service in 1946. In 1962 he became Comptroller for the Defense Supply Agency, and in 1965 he was appointed as Deputy Assistant Secretary of Defense for Logistic Services. From 1966 to 1968 he served as Deputy Administrator and then Administrator of the Small Business Administration, and in 1968 Mr. Moot assumed his present position as Assistant Secretary of Defense (Comptroller).

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