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Tying US Defense Spending to GDP: Bad Logic, Bad Policy

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As the war in Iraq drags into its sixth year and cumulative spending approved by the Congress for the “global war on terrorism” surpasses \$850 billion, both the American public and security experts are becoming increasingly concerned about the present and future direction of US defense spending. One proposal under consideration is to allocate the defense budget each year as a specific percentage of America’s gross domestic product (GDP). Advocates of this approach typically recommend pegging “base” Department of Defense (DOD) spending, which excludes both supplemental appropriations for ongoing military operations in Iraq and Afghanistan and Department of Energy-administered nuclear weapons activities, at four percent of GDP.

In an April 2008 speech on Iraq, President George W. Bush compared current defense spending to higher levels sustained during the Truman, Eisenhower, and Reagan administrations. He concluded that four percent of GDP “is a large amount of money, but it is a modest fraction of our nation’s wealth.”¹ Republican presidential nominee Senator John McCain (R-Ariz.), top Pentagon officials, conservative security analysts, and several members of Congress have endorsed the four percent proposal. Media reports indicate that the proposal is under consideration by high-level Pentagon officials and “may look very different by the time it reaches the White House or Capitol Hill.”²

This is not the first time national leaders have suggested that economic growth should be used to calculate the appropriate level for defense spending. During World War I, the Navy’s motto was “a dollar’s worth of

Navy for every dollar spent.”³ National Security Council report 68 (NSC-68), released in 1950, stated that while the United States was spending only 6.5 percent of its GDP on defense, the Soviet Union was spending 14 percent. NSC-68 cited this higher Soviet percentage as incentive for the United States to push for increased economic activity capable of financing a major military buildup without sacrificing America’s domestic standard of living.⁴

Calculating defense spending according to GDP resonates rhetorically and politically, which may be why proponents have adopted it as their preferred approach to accomplish a loftier goal: sustaining higher levels of US defense spending into the future. Tying defense spending to GDP successfully brings debates about future US defense policy to the forefront. As a legitimate policy option, however, the proposal should be rejected by budget experts and national security analysts alike. GDP is an important metric for determining how much the United States could afford to spend on defense, but it provides no insight into how much the United States should spend. Keeping defense budgets arbitrarily high by pegging them to GDP, which has demonstrated a long-term pattern of steady increase, avoids the difficult apportionment choices required in this age of unprecedented, diffuse, and dangerous threats.

This article will begin by summarizing the arguments advanced by the principal advocates of spending four percent of GDP on defense. Next, the fiscal year (FY) 2009 defense budget request will be analyzed in order to provide proper context for the GDP debate. Finally, substantive critiques will be made of the four percent proposal’s methodology, analytical coherence, and overall utility for future defense planning and budgeting.

The Advocates

Near the end of 2007, Senator McCain wrote in *Foreign Affairs* that the United States could afford to spend four cents of every dollar, or more, on national defense in the future.⁵ In November 2007, Secretary of Defense Robert M. Gates said that four percent of GDP should be a “benchmark as a rough floor of how much we should spend on defense.”⁶ Pentagon spokesman Geoff Morrell later reiterated Gates’s commitment to the four percent benchmark: “That is what [Gates] believes to be a reasonable price to stay free and protect

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our interests around the world.”⁷ In February 2008, Admiral Michael Mullen, Chairman of the Joint Chiefs of Staff, told reporters, “I really do believe this four percent floor is important . . . given the world we’re living in, given the threats that we see out there, the risks that are, in fact, global, not just in the Middle East.”⁸

Despite this seemingly unified front, nuances in these top policymakers’ positions exist. The McCain campaign, for example, softened its stance in July 2008, when former Navy Secretary and McCain adviser John Lehman told *National Journal*, “[John McCain] doesn’t do budgeting by targets. The number will be what it will be after he has done the thorough analysis and programming and planning That may be three percent, it may be five percent, but he’s not aiming for a target.”⁹ A spokesman for Admiral Mullen said that the Chairman’s endorsement of the four percent spending floor did not mean he believed the defense budget should be “indexed” to GDP, but rather that GDP should serve as a reference to “stimulate discussion relative to the affordability of increased defense spending in a challenging security environment.”¹⁰ Former Air Force Secretary Michael Wynne, after being relieved of his duties in June 2008, even went so far as to admit that the military services perhaps “overstepped our bounds a little bit” by advocating so publicly for the four percent baseline.¹¹

A handful of nongovernmental, conservative security analysts laid the recent groundwork for the GDP-derived defense spending baseline. The most vocal of these analysts are affiliated with the Heritage Foundation, which chose “Four Percent for Freedom” as its slogan for the proposal. In a March 2007 *National Review* cover story, Heritage fellow and former Senator Jim Talent (R-Mo.) argued that “both ends of Pennsylvania Avenue . . . need to adopt a rule that the core defense budget should never sink below four percent of the nation’s GDP.” Talent suggested that pegging the defense budget to GDP would focus public debate regarding the budget squarely where it belonged, on mandatory spending programs, and promote the more efficient use of defense dollars.¹² In April 2007, analysts at Heritage wrote that the White House and Congress “should commit now to spending four percent of [GDP] on national defense even after any drawdown of US forces in Afghanistan or Iraq.”¹³ Naval War College Professor Mackubin Thomas Owens, Harvard Professor Martin Feldstein, and Lexington Institute Vice President Daniel Gouré have all published articles endorsing the four percent proposal.¹⁴

Taking their cue from this groundswell of Pentagon support and nongovernmental advocacy, Senator Elizabeth Dole (R-N.C.) and Representative Trent Franks (R-Ariz.) introduced a joint resolution in December 2007 stating that the United States should “commit a minimum of four percent of the nation’s gross domestic product to the base defense budget.” In explain-

ing the legislation, Franks said it was “the only way we can stop the inexorable slide of national defense.”¹⁵ By August 2008, six Republican senators, one Independent Democratic senator, 25 Republican representatives, and one Democratic representative had added themselves as cosponsors to the joint resolution.

In March 2008, during debate on the FY 2009 budget resolution, Senator Jim Inhofe (R-Okla.) offered an amendment expressing the sense of the Senate that, excluding Iraq and Afghanistan war supplemental appropriations, the United States should spend 3.7 percent of its GDP on defense by FY 2010, and four percent by and after FY 2011. Senator Inhofe withdrew his amendment immediately after introducing it, but he argued that the four percent proposal would finance “the next generation of weapons and equipment . . . add predictability to the industrial base [and send] a clear message to our military, allies, and enemies that we are committed to the security of our nation.”¹⁶ In May 2008, Representative Jim Saxton (R-N.J.) offered an amendment to the FY 2009 defense authorization bill requiring that the United States devote four percent of its GDP to the DOD budget. The amendment was voted down 34 to 27 by the full House Armed Services Committee, but in the report recommending the bill to the full House, 23 Republicans wrote to express “strong disappointment, concern, and frustration” with the full committee’s failure to adopt Saxton’s amendment.¹⁷

Understanding the Numbers

Before examining the proposal to tie defense spending to GDP, it is helpful to understand how much the United States is currently spending on defense, and to place this spending in the proper context. The Bush Administration requested \$541 billion for national defense in FY 2009. This request encompasses \$515.4 billion for DOD, \$15.6 billion for Department of Energy-administered nuclear weapons activities, \$5.6 billion for non-DOD defense activities, and \$4.4 billion for additional mandatory spending. The Administration also submitted a separate \$70 billion placeholder request for ongoing military operations in Iraq and Afghanistan, but Secretary of Defense Gates later provided an updated estimate of \$170 billion for FY 2009.¹⁸

Using the more realistic \$170 billion estimate, which remains a reasonable budget projection even if troop withdrawals from Iraq commence in early 2009, a combined total of at least \$711 billion will be appropriated for national defense and military operations in Iraq and Afghanistan in FY 2009. This means the United States will spend significantly more, in inflation-adjusted dollars, for defense in FY 2009 than it did during the peak years of the Korean

War (1953; \$545 billion), the Vietnam War (1968; \$550 billion), or the 1980s Reagan-era buildup (1989; \$522 billion).¹⁹ The United States is also projected to spend more on defense in FY 2009 than the next 45 highest spending countries combined, including 5.8 times more than China (second highest), 10.2 times more than Russia (third highest), and 98.6 times more than Iran (22d highest). Indeed, the United States is expected to account for 48 percent of the world's total military spending in FY 2009.²⁰

The Office of Management and Budget estimates that the United States will generate GDP of approximately \$15 trillion in FY 2009. Calculating what percentage of GDP is spent on defense varies according to what number is selected for the numerator. Some examples from the FY 2009 request demonstrate how choosing different numerators can yield significantly different outputs.

	Total Budget	% of GDP*
Without war funding	\$515 billion (DOD request)	3.43
	\$541 billion (National Defense request)	3.60
\$70 billion war funding	\$611 billion	4.10
\$170 billion war funding	\$711 billion	4.73

Figure 1. FY 2009 Defense Spending as Percentage of GDP
* GDP is \$15 trillion (estimated)

By comparison, the United States devoted an average of 37.4 percent of GDP to defense during World War II (FYs 1943-45), 14.2 percent at the height of the Korean War (FY 1953), 9.5 percent during the peak of the Vietnam War (FY 1968), and as high as 6.2 percent during the 1980s Reagan-era buildup (FY 1986).²¹ The Congressional Budget Office recently projected that defense spending will continue to decline as a percentage of GDP, reaching two or three percent by 2025.²²

Bad Logic, Bad Policy

The proposal to tie US defense spending to GDP may be rhetorically and politically compelling, but budget experts and national security analysts should not be fooled. At least six substantive critiques can be made of the proposal's methodology, analytical coherence, and usefulness for defense strategizing and budgeting.

First, using GDP to compare current defense spending to historical spending is misleading because GDP increased substantially over the last

several decades. America's GDP is more than six times greater today than it was in 1950 in inflation-adjusted terms. Arguing that defense spending is historically low as a percentage of GDP, and therefore should be increased, is like a landlord arguing that because a tenant received a much-deserved pay raise, their rent also should be increased. If the United States devoted 37 percent of its GDP to defense today, as it did during World War II, then defense spending in today's dollars would be approximately \$5 trillion. This level of spending is clearly unnecessary, but it highlights the shortcomings of historical comparisons. Massachusetts Institute of Technology Professor Cindy Williams has argued that questions about how much the United States needs to spend on defense "cannot be answered by looking at [the defense budget's] size relative to the economy. Rather, it makes sense to compare this year's spending with the size of past budgets in dollar terms."²³ Comparing current spending to historical budgets in inflation-adjusted terms yields the real bottom line: US defense spending increased markedly under the Bush Administration and is now at its highest level since World War II.

If US GDP continues its long-term upward trajectory, as it has done in remarkable fashion since the end of World War II, then tying defense spending to GDP basically amounts to using overall wealth creation to justify ever-larger defense budgets. If the American economy doubles in size, should American taxpayers be required to double the Pentagon's budget as well? Should future generations spend three times more on defense just because they are three times wealthier? The answer is a resounding "no." Intelligent defense planning relies on requirements, tradeoffs, and a thorough evaluation of risk, not GDP, to determine need. Replacing sophisticated analysis with rigid formulas severs US defense planning from the evolving threat environment and widens the chasm between policy and successful implementation.

Second, as an arbitrary and variable figure, GDP does not necessarily provide the reliability in defense budgeting that advocates hope for, especially if the United States were to enter a recession. If GDP decreases, would the US military be supportive of a parallel reduction in its budget? Probably not, especially if the United States were at war or facing a period of increased international volatility. Advocates of tying defense spending to GDP assume that American economic growth will continue unabated, but this may prove a faulty assumption. Deputy Secretary of Defense Gordon England acknowledged this limitation in testimony before the House Budget Committee in February 2008: "If you end up in a recession, then you would find yourself in a very bad situation I have some hesitation because, while [tying defense spending to GDP] provides predictability . . . it does worry me that we're still subject to the economy itself in terms of variations."²⁴ Office of Management and Budget Director Jim Nussle similarly

lamented GDP's variability during Senate testimony in July 2007. Nussle remarked that tying defense spending to GDP would be "awkward" because GDP projections are readjusted by the government every six months, "and adjusted after that, either up or down, imperfectly making [GDP] a match to use as a denominator" for defense spending.²⁵

Tying defense spending to GDP would erode budgetary flexibility and might threaten civilian control of the military. As Nussle explained, rigidly affixing defense spending to GDP might "take the prerogative either away from the Commander-in-Chief in determining whether it should be higher or lower, or for that matter, from the Congress in its Article I responsibility of the power of the purse." Civilian control of the military, a time-honored principle in both the American government and military, would thus be undermined.

Advocates of tying defense spending to GDP often cite the erosion of the US armed forces under President Bill Clinton in the 1990s as justification for their proposal. Brookings Institution fellow Michael O'Hanlon and independent analyst Thomas Barnett, however, have both convincingly argued that this so-called erosion had more to do with appropriate post-Cold War downsizing, President Clinton's failure to successfully manage military morale, and the Pentagon's inability to formulate a coherent national security strategy. In O'Hanlon and Barnett's analyses, there never was any measurable deterioration in America's ability to meet security challenges during the 1990s.²⁶ Retaining flexibility in defense budgeting should not be viewed as weakness, but rather as the best procedure for adapting to the ever-changing international security environment.

Third, the Pentagon has proven unable to properly manage the huge influx of defense dollars it has received since 2001. Tying defense spending to GDP throws more money at the problem but does not force military leaders to make the tough apportionment choices needed to deal with shifting security challenges. A February 2008 Congressional Budget Office (CBO) study found that growth in annual Iraq and Afghanistan war funding since 2001 can be explained by the Pentagon's increased reliance on using war funding supplemental bills to purchase equipment. Due to changes in its policy guidance, CBO concluded that DOD is now using war supplemental funding to "replace damaged equipment with newer models, accelerate planned purchases of new systems, address emerging needs, and enhance the military's capability not only to continue current operations but also to be better prepared for the longer war on terrorism."²⁷ As Center for Strategic and Budgetary Assessments analyst Steven Kosiak told the Senate Budget Committee in February 2007, "Such guidance amounts to, in effect, telling the services that they no longer need to find room in the regular annual de-

fense budget to cover the full cost of their long-term plans.”²⁸ While recapitalizing equipment worn down in Iraq and Afghanistan is necessary, the Pentagon essentially opened the budgetary floodgates; in the words of one Army budget planner, “It’s a feeding frenzy. Using the supplemental budget, we’re now buying the military we wish we had.”²⁹

The Pentagon’s ability to procure weapon systems on time and on budget also has worsened during the last eight years. The Government Accountability Office (GAO) reported in March 2008 that current programs are delivered 21 months late on average, five months later than the average in FY 2000. In FY 2000, the total acquisition cost of 75 programs increased from the initial estimate by six percent; by FY 2007, the cost growth percentage had more than quadrupled to 26 percent.³⁰ “In most cases, programs also failed to deliver capabilities when promised—often forcing warfighters to spend additional funds on maintaining legacy systems,” GAO concluded.

The defense budget increased by an average annual rate of more than six percent in nine of the last ten years, a sustained growth rate not seen since World War II.³¹ More defense spending does not necessarily mean more security, however, especially if expenditures are not going toward the proper priorities. As Colonel Thomas Hammes (USMC Retired) argued in *The Sling and the Stone*, “The answer is reapportionment rather than increase [of defense spending] Our current armed forces have more than sufficient budget and manpower to deal with the current threat and [fourth-generation warfare] threats. However, they must be reorganized to fight the enemy as he is rather than remaining organized to fight the enemy of the past.”³² The United States could take some current funding away from expensive high-tech weaponry, which may be useless in future Iraq-style conflicts, and redirect it toward enhanced intelligence, diplomacy, counterinsurgency training, language competency, humanitarian assistance, and nuclear nonproliferation programs. As Secretary Gates outlined in his 2007 call to bolster America’s “soft power,” reapportioning defense funding could go a long way toward achieving the goal of a stronger, more secure America.³³

Fourth, comparing the percentage of GDP spent on national defense by different countries often represents flawed analysis. Some advocates argue that if other countries devote a higher percentage of their GDP to defense, it represents a threat to American security and proves that the United States has to increase its defense spending to maintain a relative advantage. For example, Heritage Foundation analyst John Tkacik wrote in March 2007 that in comparison to his organization’s call for the United States to spend “Four Percent for Freedom,” China’s military budget could be called “Four-and-a-Half Percent Against Freedom.”³⁴ Leaving aside the fact that the United States is set to spend 5.8 times more on its military than China in actual dollars appropriated in FY

2009, comparing America's GDP to China's GDP does not give an accurate sense of the two states' potential warfighting capabilities. As the realist scholar John Mearsheimer points out in *The Tragedy of Great Power Politics*, GDP is primarily a measure of a state's overall wealth and "does not always capture important differences in the mobilizable wealth and technological sophistication of different states."³⁵ This is important when calculating economic power as it pertains to latent military power, the socio-economic ingredients such as wealth and population that go into building a state's military capacity.

As Mearsheimer explains, equating the rapid growth of China's GDP during the last two and a half decades with a similar growth rate in its latent military power is problematic because 12 percent of China's wealth was tied up in agriculture in 2006, compared to just more than one percent for the United States.³⁶ China currently devotes more of its GDP to defense than the United States, but the United States spends more in absolute terms, gets better performance out of its investment due to a more modernized economy, and retains a clear advantage in terms of easily mobilized latent military power.

Fifth, calculating defense spending according to GDP provides no insight into societal opportunity costs or the burden increased spending places on future American taxpayers. Limited scholarly evidence supports the argument that high levels of defense spending irreparably damage a nation's economy. Virtually every study conducted during the past several decades has concluded that, in the words of Washington University Professor Murray Weidenbaum, the United States "can afford to devote to national defense the amount that the nation decides it needs to maintain national security."³⁷

The United States could spend a great deal more on defense than it does today, but that does not mean it should. Nor does it mean that higher levels of defense spending have no negative impact on the economy or society writ large. Money spent on defense is money not spent on education, deficit reduction, infrastructure, housing assistance, or other important domestic spending priorities. As a result of the Bush Administration's tax cuts, the United States is borrowing most of the money for its military budget rather than paying for it out of current tax revenues.³⁸ In comparison, Presidents Roosevelt, Truman, and Eisenhower explicitly called for cuts in nonmilitary spending to make money available for war. The Treasury secretaries decided on, and informed Congress about, the portions of wartime spending they proposed to cover through borrowing and taxation during the War of 1812, the Civil War, World Wars I and II, and the Korean War.³⁹

The current Administration practiced no such budgetary restraint, choosing instead to pass on to future generations the debt accumulated through elevated defense spending. The Administration added \$2 trillion to

the gross national debt since FY 2001, an 80 percent increase.⁴⁰ The question for policymakers today is whether current defense spending levels reflect the appropriate federal budgetary priorities. The problem comes down to opportunity cost, not potential economic ruin.

Finally, advocates of tying defense spending to GDP focus myopically on US defense expenditures but ignore opportunities for the United States to establish multilateral or bilateral diplomatic and security alliances that could reduce the demands placed on American taxpayers. The so-called security dilemma facing all nations dictates that the more a country spends on its military, the less safe it is likely to feel because its pursuit of increased military capabilities will trigger in-kind militarization by other states.⁴¹ As eminent international relations theorist Kenneth Waltz explains in *Theory of International Politics*, “Defense spending . . . is unproductive for all and unavoidable for most. Rather than increased well-being, their reward is in the maintenance of their autonomy.”⁴² Maintaining one’s autonomy, however, does not mean that a state engaged in a security competition or war cannot share the burden of defense spending with its allies. On this point, John Mearsheimer notes that in a security competition between two states, “If one of those rivals has wealthy allies and the other does not, the state with rich friends will probably have to spend less on defense than its rival.”⁴³

By maintaining good relations and working closely with its allies, particularly NATO, the United States can spread the costs of maintaining world order to other nations instead of bearing them all itself. Indeed, as former national security official Robert Hormats notes in *The Price of Liberty*, “The United States mobilized enormous sums that enabled the Pentagon to contain Soviet expansionism for over 40 years. But America’s success was due not only to its military strength.” By rebuilding war-torn Western Europe through the Marshall Plan; rehabilitating the Japanese state and economy; and working through the International Monetary Fund, World Bank, and General Agreement on Tariffs and Trade, the United States was able to “spread the costs and responsibilities for containing the Soviet Union among other countries,” Hormats concludes.⁴⁴

Recent efforts to convince NATO countries such as Germany to assume more of the burden in Afghanistan demonstrate that it is never easy to persuade allies to do more in the pursuit of shared security objectives. The “free rider” quandary is a difficult one to overcome. Just because productive relationships with American allies were strained during the Bush Administration, however, does not mean the United States cannot successfully revert to this approach in the future. Building international coalitions is challenging work, but the potential rewards—bolstered security, improved trade, and more equitable burden-sharing—are well worth the effort.

Conclusion

The debate regarding how much the United States should spend on defense has repercussions that will be felt far outside the insular US security policymaking community. The fight for budgetary resources is intensifying as mandatory entitlement programs such as Social Security and Medicare—which more than doubled as a percentage of GDP in the past 40 years—continue to experience higher annual growth than the US economy overall.⁴⁵ Retiring baby-boomers will increase entitlements from about 10.8 percent of GDP in 2010, to 14 percent by 2030, to 15.8 percent by 2060.⁴⁶ If current trends hold, mandatory spending and interest on the federal debt will account for two-thirds of government expenditures by 2015.⁴⁷

Suggesting that defense spending should be pegged at four percent of GDP is one thing; finding a way to pay for such a massive commitment against competing needs for mandatory and nondefense discretionary spending is something else entirely. Tying defense expenditures to GDP—which under an ever-expanding economy is a prescription for an ever-increasing defense budget—leaves only three choices given present budgetary restrictions: cut spending, raise taxes, or increase the deficit.

Mandatory spending programs such as Social Security and Medicare are often offered for the chopping block, disliked as they are by many conservatives. Mandatory spending reform is the “third rail” of American politics, however, meaning whoever touches it risks political death. While clearly certain entitlement programs will be reformed in the years ahead, it will be hard to convince older Americans on fixed incomes that their benefits should be cut because the United States wants to spend—come rain or shine—four percent of GDP on defense. Furthermore, a March 2008 Gallup poll found that 44 percent of Americans, the highest percentage in 15 years, think the United States is already spending too much on defense, versus only 22 percent who think the United States is spending too little.⁴⁸ As for nondefense discretionary spending, cutting funding for education, housing assistance, and environmental protection can be tremendously unpopular, especially considering how little these programs receive in comparison to defense already. Members of Congress usually do not support reducing funds for popular nondefense discretionary programs their constituents like and need. This situation leaves two choices: raise taxes, which is politically unpopular and anathema to conservatives; or increase the deficit, which threatens long-term US economic solvency and national autonomy and is opposed by a broad swath of conservatives and liberals. Given these political realities, it is difficult to see how advocates of spending four percent of GDP on defense can bring their proposal to fruition.

It was politically taboo to discuss reducing or rearranging Pentagon spending requests in the years after 11 September 2001. Any member of Congress who dared to publicly question larger defense budgets risked being called unpatriotic, “soft” on terrorism, or worse. Now, seven years later, it seems things slowly are returning to normal. The four percent of GDP proposal, as the type of political conversation starter envisioned by Admiral Mullen, is helping to reinvigorate a debate on US defense spending.

Defense planning is a matter of matching limited resources to achieve carefully scrutinized and prioritized objectives. When there are more threats, a nation spends more. When there are fewer threats, it spends less. As threats evolve, funding should evolve along with them. Defense spending should be determined according to threat-based analysis and budgetary survival of the fittest. If the Pentagon can make the case that the threats the United States faces justify larger budgets, then larger budgets should be allocated. Unfortunately, setting defense spending at four percent of GDP would shield the Pentagon from careful scrutiny and curtail a much-needed transparent national debate.

NOTES

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