

The Problem of Excessive Military Spending in the United States

William Nordhaus
Yale University

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Most of the papers in this session relate to the costs of war, and particularly the war in Iraq. My comment addresses a slightly different topic, which is the cost of a large military establishment, although the Iraq war colors my thinking on the subject. Before making these comments, I would like to emphasize that I am in no way an expert on military strategy or history. These are the comments of an economist who is an outsider to this area. My excuse for a foray into this subject is that I have as much experience in the uniformed military forces as does the Vice President of the United States.

One of the strange features of modern economics is how little is written on the economics of war. War is an enormous failure of collective rationality, a vast breakdown of the Coase theorem, a huge source of human misery, and the largest source of physical and environmental destruction. It is the ultimate negative sum game. To think about the economics of war invites dangerous and unpopular thoughts about American foreign policy. Yet to ignore this area is a kind of intellectual dereliction of duty by economists.

The remarks that follow touch on five points. First, I describe the numbers involved. Second, I ask whether the large military spending is justified by external threats. Third, I raise the issue of strategic and budgetary inertia. The next question I address is whether all these resources are burning a hole in our pocket. The final comment examines the role of loose budget constraints on policy outcomes.

1. It is well known that the United States spends very large sums on national defense. Total outlays for “defense” as defined by the Congressional Budget Office were \$493 billion for FY2005, while the national accounts concept of current expenditures on national defense for 2005 totaled \$510 billion.¹ The U.S. has approximately half of total national security spending for the entire world. The runners-up appear to be China with about \$50-200 billion of spending for 2004, and Russia with about \$15-50 billion in recent years.²

In one sense, the \$590 billion for national security is “small,” because it constitutes only 4.8 percent of GDP. This is a smaller fraction than the U.S. spent in earlier hot or cold war periods and a smaller fraction than many other countries. On the other hand, national security spending is “huge” by absolute standards. It constitutes about \$5000 per family. By comparison, the Federal government current expenditures in 2004 were \$14 billion for energy, \$4.7 billion for recreation and culture, and \$1.8 billion for transit and railroads. Indeed all federal non-defense consumption and investment expenditures in 2005 were \$260 billion as compared to the \$510 billion of national defense.

The first point is that excessive military spending is simply wasteful. These are resources that could go for useful consumption goods and services rather than for the forces of destruction.

2. The next question I would like to contemplate is whether the country is earning a good return on its national-security “investment,” for it is clearly an investment in peace and safety, as well perhaps in oil supply and exports. The bottom line is, probably not.

One way to judge the size of our military expenditures is by comparison with other countries. Other countries face security threats, and they respond by allocating funds to security. Is it plausible that the United States faces a variety and severity of objective security threats that are equal to the rest of the world put together? I would think not. Unlike Israel, no serious country wishes to wipe the U.S. off the face of the earth. Unlike Russia, India, China, and much of Europe, no one has invaded the U.S. since the nineteenth century. We have common borders with two friendly democratic countries with which we have fought no wars for more than a century. Only one country has nuclear weapons that can seriously threaten

our existence. One conclusion from this line of thought is that either the U.S. has a vastly exaggerated sense of threats to it; or that other countries, even the richest ones, are universally neglectful of the threats to their security.³

This simple thought experiment is of course too simple. The future might be different from the past, and we may be facing a “different kind of enemy.” If that is indeed the case, then we would presumably be restructuring our spending to better meet the enemy rather than retaining the same basic structure, a point I return to below.

Additionally, it might be that national security is a global public good that the U.S. is supplying for the rest of the world. During the cold war, some countries undoubtedly felt that the U.S. was indeed protecting them. Moreover, the U.S. did go to war to defend or liberate dozens of countries over the last century.

More recently, however, many countries, even our traditional allies in Western Europe, and especially their populations, have little confidence that the U.S. represents their best interests.⁴ They appear to believe U.S. military policy is in fact harming their security rather than enhancing it.⁵ Additionally, under the Bush doctrine, whatever the rhetoric, it is clear that the U.S. military strategy and actions are driven primarily by U.S. security issues, and alliances are primarily ones of convenience and opportunity.⁶

Another set of accounts is the extent of human and physical destruction that rains down on our opponents of convenience and opportunity. American foreign and military policy has left a long line of destruction in its wake – from Dresden and Hiroshima to Belgrade and Falluja. We take so little responsibility for our destruction that we do not even count the costs to our sometimes foes.

3. One reason that military spending is so large is because of the strategic and economic inertia in this enormous enterprise. It is not possible to reduce spending in obsolete areas quickly. Many costly programs are still in place a decade and a half after the end of the cold war. The U.S. has around 6000 deployed nuclear weapons, and Russia has around 4000 weapons (with a total of around 25,000 nuclear weapons in these two countries).⁷

There can be little doubt that the world and the U.S. are more vulnerable rather than less vulnerable with such a large stock of weapons, yet they survive in the military budget. There is a kind of security Laffer curve in nuclear material, where more is less in the sense that the more nuclear material floating around the more difficult it is to control it and the more like it is that it can be stolen and used. Similar vestiges of earlier conflicts are the many military bases in the United States and the large military presence in Western Europe.

Ballistic missile submarines (BMS) are an interesting example of strategic and budget inertia. The U.S. Navy currently deploys 14 BMS. There is no plan to replace them or to retire them.⁸ They have an effective economic depreciation rate of zero even as their current strategic importance has declined to close to zero.

Inertia is not inevitable. History shows that countries can reduce spending quickly if they so desire. Military spending declined by 74 percent in the first year after World War II and by 23 percent in the first two years after the Korean War ended. By contrast, in the five years after the cold war ended, real spending declined only 7 percent. Today's slow decline in spending on obsolete systems arises largely because there are such weak budgetary and virtually non-existent political pressures on military spending – the “loose budget constraints” I discuss shortly.

4. At best, an excessive military budget is simply economic waste. At worst, it causes problems rather than solving them by tempting leaders to use an existing military capability. During the Clinton administration, Madeleine Albright is reported to have asked Colin Powell, then Chairman of the Joint Chiefs of Staff, what's the point of having this superb military if we can't use it? Colin Powell is said to have replied, wisely if not presciently, that American soldiers are not toy soldiers to be moved around on some global game board.

Countries without military capability cannot easily undertake “wars of choice” or wars whose purposes evolve, as in Iraq, from dismantling wars of mass destruction to fighting terrorists to promoting democracy. The last five major wars that the United States undertook (Korea, Vietnam, Kuwait, Afghanistan, and Iraq) were ones in which the U.S. attacked countries that had not directly attacked the United States. Four of the five are still unresolved. Whether the U.S. and the community of nations will benefit

from the U.S.'s ability to undertake wars of choice will be debated for many years. But this is clearly one of the side effects of having a military establishment with a capability far beyond its ability to defend the homeland. To the extent that Vietnam and Iraq prove to be miscalculations and strategic blunders, the ability to conduct them is clearly a cost of having a large military budget.

5. A final concern is that the large national-security budget leads to loose budget constraints and poor control over spending and programs. The Constitution of the United States is clear on the role of public accountability in budgetary affairs: "No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; and a regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time."

The fact is that Congress exercises no visible oversight on defense spending. A substantial part of the budget is secret and much is enacted with unbelievable slack. For example, the 2004 supplemental appropriations for the Iraq war enacted the following provision: "For an additional amount for 'Operation and Maintenance, Army', \$23,997,064,000." This legislation calls to mind the story told by the distinguished analyst Aaron Wildavsky. He was discussing a civilian program with a defense analyst who laughed and said that the program would get lost in the rounding error of the Department of Defense. It is difficult to have public accountability when Congress appropriates \$2½ billion per word.

Some of the abuses in recent military activities arise because Congress cannot possibly effectively oversee such a large operation where programs involving \$24 billion are enacted as a single line item. Indeed, it is clear that the top civilian leadership is unaware of many activities on the ground. How would Congressional oversight be able to keep track of a grant of a few hundred thousand dollars to plant bogus news stories in Iraqi newspapers, or hire bogus journalists, when this sum is just a pittance in the \$70 billion annual spending on Iraq?

Even worse, how can citizens or ordinary members of Congress understand the activities of an agency like the National Security Agency, whose spending level and justification are actually classified? Even Congressional overseers are surprised when they read in the newspaper about illegal domestic spying or payoffs to foreign reporters. If power,

secrecy, and money corrupt, then large sums, appropriated and spent in secrecy, for purposes that are unspecified, can, and in current circumstances do, corrupt thoroughly.

Notes:

¹ All numbers for the United States are from the Bureau of Economic Analysis at www.bea.gov and the Congressional Budget Office at www.cbo.gov . The budget estimates for other countries are from various sources. A good roundup of estimates is at <http://www.globalsecurity.org/military/world/spending.htm> .

² The lower number is using market or official exchange rates and the higher number attempts to correct for the purchasing power of defense dollars. The numbers for China are highly speculative.

³ There is a large literature on the causes of militarized interstate conflicts. Many of the variables affecting threats and conflict mentioned here are analyzed in Bruce Russett, *Grasping the Democratic Peace: Principles for a Post-Cold War World*, Princeton University Press, 1993 and in the associated literature.

⁴ One of the best indicators is the Pew Research Center survey, "A Year After Iraq War," March 16, 2004 available at <http://people-press.org/reports/display.php3?ReportID=206> . This survey found that the favorability rating of the United States in France and Germany fell from 62 percent in 2002 to 38 percent in 2004. Additionally, when asked whether the U.S. takes into account the interests of their country, only 14 percent in France and 29 percent in Germany said that the U.S. took into account their interests "a great deal" or a "fair amount."

⁵ When asked if the war in Iraq has helped or hurt the war on terrorism, majorities of respondents in every country outside the U.S. replied hurt over helped by a margin of 14 to 50 percentage points depending upon the country. See the reference in footnote 4.

⁶ The National Security Strategy of the United States of America, September 2002, available online at <http://www.whitehouse.gov/nsc/nss.html> . A new U.S. objective in this strategy is that "Our forces will be strong enough to dissuade potential adversaries from pursuing a military build-up in hopes of surpassing, or equaling, the power of the United States." (p. 30) This objective can be used as a rationalization for a large budget.

⁷ Ivan Oelrich, *Missions for Nuclear Weapons after the Cold War*, FAS Occasional Paper No. 3.

⁸ Congressional Budget Office, *Resource Implications of the Navy's 313-Ship Plan*, December 16, 2005.