

War and famine. Peace and milk. — Somali proverb

25th Anniversary “Is War Over?” Issue

“In the Cold War, when companies profited by producing weapons, it didn’t matter whether those weapons actually were ever used. Now, through privatization of roles within conflict situations, companies profit from conflict... it’s actually in the companies’ interests to lobby for increased conflict.”

J. Paul Dunne, page 8

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The Financial Legacy of Iraq and Afghanistan: How Wartime Spending Decisions Will Constrain Future National Security Budgets

Linda Bilmes

So many decisions over the last ten years have made structural changes in the defense budget. Costs related to those decisions are rising very fast and will continue to grow so rapidly that the “peace dividend” won’t materialize.

Wars always have a long tail. The peak year for World War I veterans’ benefits was in 1969; for World War II, 1976; and for Vietnam we haven’t actually gotten there yet. For the First Gulf War, which was a very short conflict, we’re presently expending \$5 billion per year in disability pay.

However, in the Iraq and Afghanistan Wars there are an unusually high number of long-term costs. I’m going to focus on four areas of deferred costs that are directly related to decisions that we made about the wars. The Pentagon itself acknowledges that these things are related to national security strategy.

1. MILITARY HEALTH CARE AND BENEFITS

The areas where the Pentagon is most stressed deal with soldier benefits and deferred maintenance, not weapons systems or troop readiness. Military pay and military health care are one-third of the department’s budget. Costs are up almost 90 percent since FY 2001, the year that we invaded Afghanistan, while active duty and strength has grown by less than three percent.

As the Department of Defense draws down the total defense budget, it needs to include changes in compensation lest the cuts fall disproportionately on forces, training, and modernization, which could

in turn undermine security strategy.

Active-duty military members and their families are eligible for the Tricare system, which provides health care through private providers both to active duty and to retirees, currently about 10 million people. After leaving military service, they may become eligible for benefits under the veterans’ system. If they have a disability, they can apply for disability benefits.

1a. Tricare co-pays, deductibles, and other costs have not been increased for the past decade

In 2001, the cost for private insurance premiums for an average family of four was about \$2200. In FY2011, it is up to \$4000. During the same period the cost of insuring a family of four under the Tricare system has gone down from the real cost of \$582, to \$460.

Anyone who studies basic economics would see that more of the people who are eligible for the Tricare program are actually going to join. Indeed, the percentage has gone from 29 percent to 52 percent; there has been an exodus from private insurance into the Tricare program because of this growing cost differential.

One of the main reasons that the co-pay has not been changed, even though the Pentagon has tried several times, is because of the political environment around raising any kind of fees for the military. None of these things are unknown to the Pentagon. They have been proposing for some years, every

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ABOUT THIS ISSUE

On Friday, January 4, 2013, at the AEA/ASSA meetings in Los Angeles, EPS presented the second of two sessions: "Is War Over? The Economics of National Security after Iraq and Afghanistan." This issue is comprised of edited transcripts from the session. To see EPS participation at this and past AEA/ASSA meetings, visit

<http://epsusa.org/events/aea.htm>.

Panel Moderator



Michael Lind is policy director of the Economic Growth Program at the New America Foundation. His groundbreaking study, *The American Way of Strategy: US Foreign Policy and the American Way of Life*, was published by Oxford University Press in 2006. Mr. Lind has been an editor or staff writer for numerous publications. From 1991 to 1994, he was executive editor of *The National Interest*. His most recent book is *Land of Promise: An Economic History of the United States* (2012).

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The Financial Legacy of Iraq and Afghanistan (continued)

year, changes in the budget—enrollment fees and deductibles, incentivizing generic drug use, etc. This year, for the very first time, Congress set a tiny increase: under \$25 per year to the medical coverage, but the differential stays very wide.

1b. Implementation of Tricare for Life, a supplemental program to Medicare for military retirees

Tricare for Life, for military retirees, was enacted in 2001 and has experienced rapid growth. Although a lot of Tricare requirements are pegged to Medicare, Tricare for Life is not, and it can negotiate with providers. In line with the rest of the country's demographics, the population of military retirees who qualify for Tricare for Life is going to increase over the next few years; so we can expect additional pressure on the system.

1c. Decision to expand the program to include reservists and guards

A second pressure on the system is the expansion of Tricare to reservists. Currently, some reservists are covered under the new Tricare Reserve Select program, but overall, only 70 percent of reservists have health insurance.

Tricare membership is accelerating as the ObamaCare mandates kick in. Soldiers and their families will take up Tricare as it turns out to be cheaper than getting health care through the open market or through state plans. According to Rand, the number of reservists who get health insurance under ObamaCare, will increase to 89 percent, and most of these people will come in through the Tricare system. In fact, the Tricare rates are lower than the penalty for not having insurance and lower than what you can purchase in the state exchanges, even if you qualify for subsidies. Half the reservists say that having this insurance plan is very important to their decision to stay in the Reserves.

1d. Significant expansion in the amount of work encompassed by Tricare

The VA has had a major expansion over the last ten years including very

substantially expanded benefits, coverage, access, outreach, eligibility; enormous budget increases; huge investments in personnel and clinics, rural health care, women's health care, mental health care, suicide prevention, disability pay, claims processing, training; instituting a five-year free health care for new veterans. The presumptions of the system changed so that it becomes easier to claim for conditions such as Post Traumatic Stress Disorder. However, VA is still dealing with a massive backlog of claims.

At the same time, we see hundreds of different bills in Congress for expanding coverage to embrace a widening variety of costs.

According to Rand, the number of reservists who get health insurance under ObamaCare, will increase to 89 percent, and most of these people will come in through the Tricare system.

1e. The concurrent receipt enables working-age military retirees to qualify for veterans' benefits

There is growing pressure to provide long-term care for war veterans that serve less than the 20 years required to receive health care as part of a retirement plan. There's a lot of pressure to change the structure of the pension plan so that it benefits Afghan and Iraq vets, which will add another layer of cost. Serving two or three tours of duty in Iraq and Afghanistan means you're going to have some things wrong with you. Since there's no way to get a pension unless you stay in for 20 years, which you're not going to, getting some disability benefit has been another way of getting some revenue in.

We've had about 2.2 million troops deployed to the war zone during these

wars, of which about 1.6 million have been discharged. Already about 700,000 have filed claims for disability with the Department of Veterans Affairs. Ninety-seven percent of those claims are approved to some extent. They are expecting another 1.5 million claims this year. The VA budget has more than doubled from \$60 billion in 2004 to now \$125 billion in 2012; and this next year they're going to request \$140-something billion. The Defense Department is between \$650-700 billion a year, so they're really gaining. Overall, the biggest growth in the national security budget is in the VA and in the Tricare system.

2. PERSONNEL AND PAY

There are also costs related to soldier pay. In 2004 and 2005, the Bush administration adjusted military pay scales higher as part of an effort to increase recruiting. The Congressional Budget Office found that military pay outpaced the income growth in the private sector by more than 25 percent in the last ten years. Because Congress approved these increases, lawmakers must repeal them as well.

The Pentagon has tried to get the pay increases rolled back but Congress has not been willing and is unlikely to be willing. Military personnel is currently about 20 percent of the base budget, \$107 billion a year. It's grown 30 percent since 2000. In 2004, when the Army and Marines were facing significant recruiting shortfalls, a key decision was made, mandating pay increases at employment cost index plus .5 percent. It had always been at the same as the employment cost index. Since 2006, recruitment goals have been met, but the employment cost index plus .5 percent has continued to be the way that pay increases have been set. Every year the Pentagon requests that they shift back, and every year Congress refuses to do this. Another interesting point adding to pressure and constraints is the way the military retirement system works. If you stay in the military for 20 years, you get a pretty generous pension. If you leave at 19½ years you get zero; so it's a totally

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The Financial Legacy of Iraq and Afghanistan (continued)

binary system. Only 17 percent of the troops actually stay long enough to get that retirement benefit; and the vast majority of infantry and enlisted personnel who have fought in the Iraq and Afghanistan wars don't stay for 20 years, and will not qualify for military pensions.

One of the reasons for the huge volume of claims is that the VA disability system has essentially become a default pension scheme. The continuing burden on the VA system, the unfairness of the fact that the military retirement system doesn't cover more than 80 percent of service members, is another issue that I believe over the next ten years will attract some attention, and further pressure on the national security budget.

3. REPLACEMENT OF ORDINARY EQUIPMENT AND ONGOING OPERATIONAL COMMITMENTS

There are higher costs related to maintenance. Equipment used in the war needs to be repaired or replaced. Until this equipment is evaluated, there is no way to estimate how much this will cost.

The military has very substantial ongoing obligations because of the way that decisions were made in the wars. One of the main decisions we made in terms of the equipment was not to replace equipment on a regular basis, but to do repairs on the fly. We now have a massive fleet of equipment and vehi-

cles that needs to be replaced or replenished. There is a legacy of 23,000 MRAP vehicles, as well, which you recall were introduced in Iraq because they worked very well for IEDs. They don't work very well in Afghanistan but they're still being used, and they may not be used very much in the future; but we have billions of dollars in the pipeline for the MRAP vehicles. An enormous amount of reset costs will be required over the next ten years to repair and replace the ordinary stuff — helicopters, and fixed-wing aircraft, and trucks, and tactical vehicles.

There are a lot of ongoing pledges to support leased facilities in Kuwait and Afghanistan, and ongoing contractor support. Congress has been on the military's case about oversight on the contractors, so there will be increased costs associated with contractors and oversight contractors.

The 2013 budget request provides funds for, "friendly forces who wish to participate in US military operations but lack the financial means." Whenever you see that there are four Romanians in the coalition in Afghanistan or whatever, we are paying for them to be there, usually far above just the basic cost.

There's also continued support for Afghanistan itself, with a request for close to \$100 billion this year. We have pledged, along with international countries, some \$10- to \$20 billion per

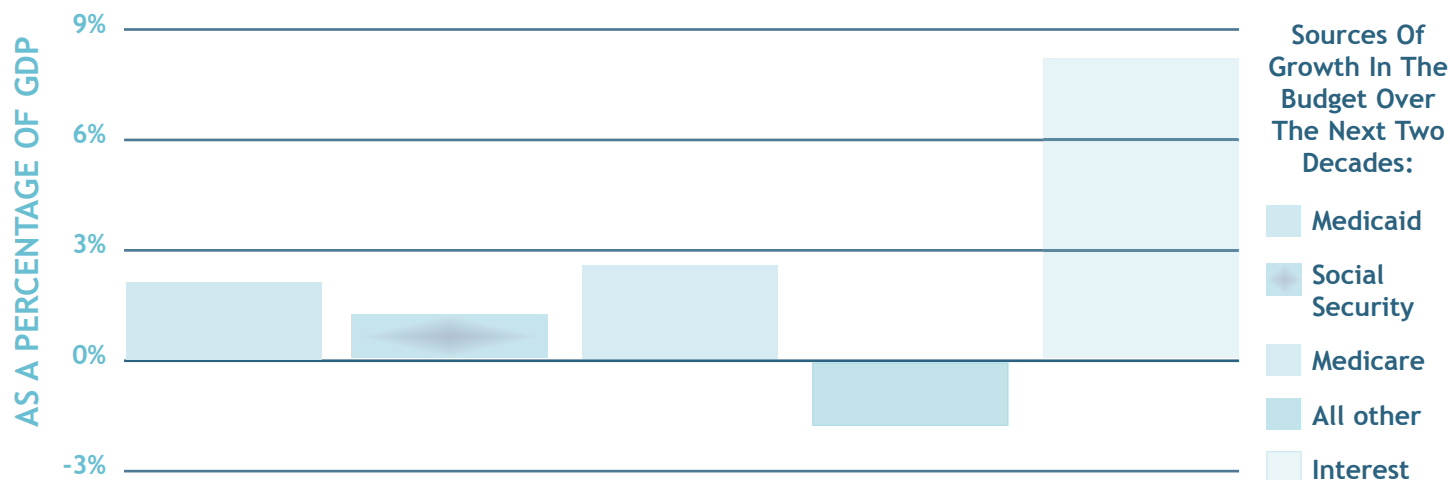
year over the next decade in Afghanistan. There's still ongoing support in Iraq. We spent \$10 billion there this past year, and there's \$4 billion requested for next year as well.

4. FINANCING WAR OPERATIONS USING DEBT

Finally, a key decision that we made was to finance the war using debt. We're all familiar with the national debt growth; but looking at the numbers puts it in perspective. In 2001, the total debt was less than \$6 trillion; it's now at \$16 trillion. We have spent about \$2 trillion in real terms in direct outlays, not counting any long-term outlays. Right there, around 20 percent of the increase in debt is attributable to money we've spent on the wars. Additionally, looking at the budget for the next two decades, interest charges are a big source of growth (below).

There's also a substantial impact on the Pentagon budget. Under almost any scenario we're on a downward slope in defense spending. Medical costs are 8 percent of the budget now; under sequestration they would grow to 18 percent of the DOD budget by 2017. The core DOD budget, which is now 16 percent of the total US budget, would go down to ten percent. That is a major impact. I'm going to leave you with that point, and I think this leads directly into Richard's comments.

PROJECTED GROWTH IN BUDGET DUE PRIMARILY TO INTEREST ON THE DEBT, HEALTH CARE



The Utility of War Spending: How Much is Too Much?

Richard Kaufman

Some of you may remember the book written during the MacNamara period, *How Much Is Enough?* Although it was not written for the purpose that the title suggested, in DC it came to be a way of thinking about how to fulfill the requests of the Pentagon and satisfy the perceived needs of defense spending. In my view, we have to turn that around and think about whether we are spending too much, instead of whether we are spending enough.

My remarks will be about defense spending and its limitations as a measure of military power. The conventional wisdom here in the US is that the US military is the best in the world; but there are facts that point in another direction. The disastrous wars of Vietnam, Iraq, and Afghanistan show how flawed is the idea that our nation, which allocates the most resources to the military, is militarily superior to all others and will prevail or achieve its goals in all its wars.

Further, the Iraq and Afghanistan wars suggest that it may no longer be possible to accomplish very much with military force, and a similar statement could have been said about Vietnam. In the wake of those experiences and the rise of asymmetrical insurgency warfare and organized terrorism, our nation should be thinking about a far different, less expansive, less global, and less expensive force structure with more realistic missions.

Since 1948, defense spending averaged about \$450 billion annually in inflation-adjusted dollars; but it has risen or spiked to much greater levels on several occasions. The spikes mostly represent the added costs of wartime expansions for Korean War in the early 1950s, and Vietnam in the late 1960s and early 1970s. However, a spike occurred in the 1980s not because of a new war, but because of policy decisions of the Reagan administration. Reagan administration officials argued that the spike coincided with the breakup of the Soviet Union because it, in effect, caused the breakup of the Soviet Union.

The argument goes like this: Reagan decided to replace the reactive policy of

containment with a more aggressive policy. The purpose was to put pressure on the Soviet political and economic system. This, it is said, was accomplished with the massive US defense buildup which forced the Soviets to do the same; that is, to increase its own defense spending in order not to fall behind the US militarily.

The disastrous wars of Vietnam, Iraq, and Afghanistan show how flawed is the idea that our nation, which allocates the most resources to the military, is militarily superior to all others and will... achieve its goals in all its wars.

The Soviet economy was already in a weak state; and when Moscow allocated more resources to its military, that would bring about additional economic strains. Steps were taken by the administration other than a defense buildup to put pressure on the Soviets, including the support of anti-Soviet forces in Afghanistan and reduction of the flow of Western technology to the USSR; but the major US initiative for applying pressure on the Soviets was Reagan's massive military buildup.

This thesis is recounted in a 2011 article in *The Harvard National Security Journal*. The author, Ty Cobb, a member of Reagan's National Security Council, later became CEO of the organization called Business Executives for National Security. Cobb states in his paper that Mikhail Gorbachev, who became the Soviet leader in 1985, "knew that he needed to redirect resources away from the defense sector to rejuvenate the stagnating Soviet economic system."

The idea that President Reagan brought about the Soviet economic col-

lapse and ended the Cold War with his military buildup is disputable. Nevertheless, there is a certain logic to it. What cannot be disputed is that the defense program, for all the security it can provide, consumes resources that can otherwise be allocated more productively. An overblown, excessive military establishment is an unnecessary addition to the defense burden on the economy which weakens economic performance. That is true for the US as well as for other nations, including the former Soviet Union, because the defense involved direct expenditures plus opportunity costs of what could have been purchased instead of defense goods and services.

In 2008, Hillary Clinton (then a US senator) said that assuming the war in Iraq cost over \$1 trillion, "that is enough to provide health care to all 47 million uninsured Americans and quality pre-kindergarten for every American child, solve the housing crisis once and for all, make college affordable for every American student, and provide tax relief to tens of millions of middle-class families."

The costs of the wars in Iraq and Afghanistan, unfortunately still in progress, are now estimated at \$3 trillion, up to possibly \$5 trillion, plus more than 133,000 civilian lives and 6,500 American lives. I think we all can support wars that are truly in self defense or in defense of our allies. Wars of choice that border, if not cross, the line into wars of aggression are another matter.

William Nordhaus discussed this and the problem of excessive defense spending in a paper he presented to the annual ABA meetings in 2005. Large national security budgets, he wrote, lead to loose budget controls and loose controls over spending on programs. "At best an excessive military budget is simply economic waste. At worst it causes economic problems, rather than solving them, and military problems as well, by tempting leaders to use an existing military capability." That is, they use that capability for warfare.

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The Utility of War Spending: How Much is Too Much? (continued)

Consider the use of drones. These hi-tech weapons are enabling the Obama administration to conduct what amounts to war by remote control in multiple countries, without congressional approval or budgetary explanation. Mike Intriligator and Linda Bilmes wrote perceptively about this in a 2011 paper entitled, "How Many Wars Is the US Fighting Today?" They state among their findings that the US is increasingly employing drones in Pakistan, Bosnia, Serbia, Yemen, and Somalia, as well as Afghanistan and Iraq against suspected terrorists. The media is now referring to these uses as drone wars.

Returning to the defense budget trend line (below), during the Iraq and Afghanistan wars, defense spending has soared above the \$700 billion mark. The rapid growth of defense spending has at least slowed under Obama. If the plans to withdraw us from Afghanistan are implemented, spending will decline significantly, and further still if military sequestration goes forward. Even then, defense spending will remain higher than the average yearly amount spending during the Cold War.

What if we get into another war? Will annual defense spending reach a billion dollars? When do we get off the Iraq-Afghanistan war spike? Other than war-

fare, a major reason that defense spending is so high has to do with the business of defense. In particular, exorbitantly expensive weapons largely are a result of a flawed procurement process, cost overruns, performance failures, and production bonuses. The syndrome is facilitated by the defense contractors and their congressional allies who impede corrective measures and decisions to cancel Cold War weapons that are no longer needed and may never have been necessary. There is a strong likelihood that the unusual business of defense will go on as before.

The cost history of fighter aircraft over the past several decades is illustrative. Official figures place the cost of the F-14 aircraft at \$38 million each. The F-16 cost \$60 million each. The F-22 costs \$143 million each. The F-35 now underway could cost more than any of its predecessors, but these high figures do not tell the full story.

As I said, they are the official figures. They do not include total research and development or contemporary modifications. When these items are included for the F-22, the Government Accountability Office (GAO) estimates the costs at \$412 million — for each one. The usual justification for such high costs is that the new weapons are more hi-tech and

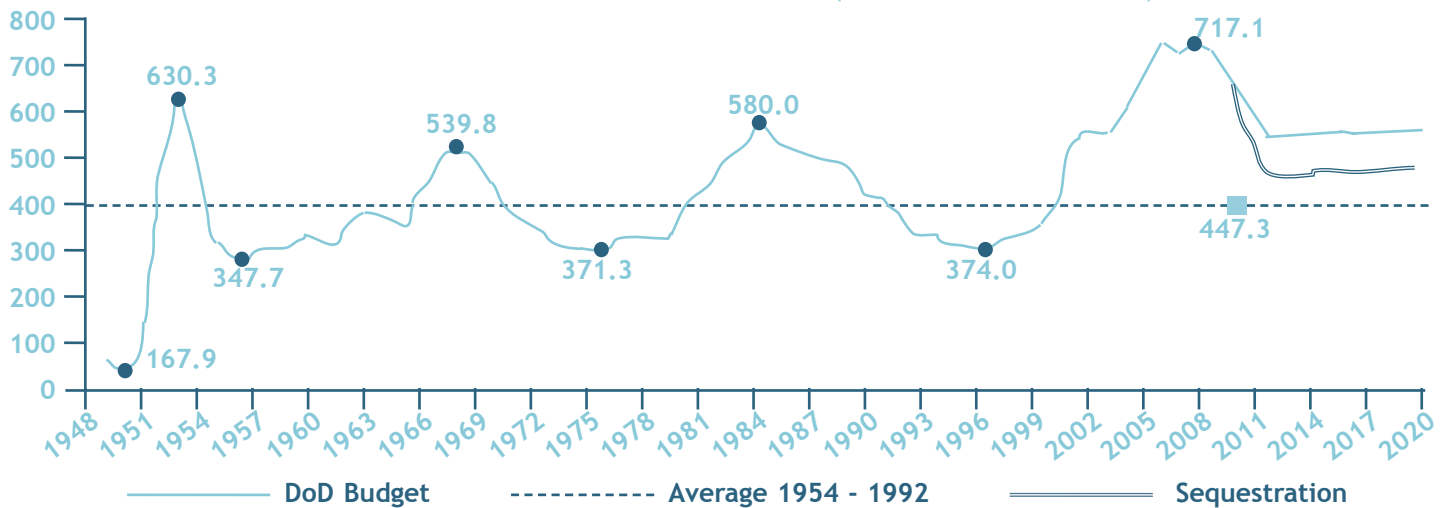
a great deal more effective.

However, a consequence of the high costs and often disappointing performance of these weapons is that the military services buy fewer of the new weapons than originally planned, and they retain more of the older weapons. The result has been the aging of major weapons inventories, higher maintenance costs, and lower readiness.

These problems exist across the board. Winslow Wheeler, a highly respected military analyst, concludes that, despite the huge sums spent on navy ships and aircraft, the navy plans for the future are unaffordable and unlikely to meet threats at sea. According to Wheeler, "Shrinking inadequate forces at unaffordable prices are replicated in each of the other military services."

When Obama assumed the presidency in 2009, the Iraq defense buildup was already the largest and longest in US history. That year, in a speech before the VFW, Obama sharply criticized the Pentagon and Congress for wasting money "with doctrine and weapons better suited to fight the Soviets on the plains of Europe than insurgents in the rugged terrain of Afghanistan. Twenty years after the Cold War ended," he added, "this is simply not acceptable."

DoD BUDGET AUTHORITY 1948-2022 (Billions of 2012 USD)



Sources: DoD & Office of Management and the Budget, Project on Defense Alternatives

The Utility of War Spending: How Much is Too Much?

He was also critical of the way weapons are purchased, of no-bid contracts that make contractors rich, and billion-dollar cost overruns on projects that run years behind schedule. Nevertheless, the defense budget went up that year. Although the huge budget increases have slowed, the public is still paying for the post-9/11 defense budget spike. Ever-increasing defense spending, ratcheted up periodically by new wars, is obviously not the answer.

In recent years, several responsible private groups have advanced detailed proposals for reducing the defense budget. It has been pointed out that the normal practice when a war ends is to reduce the defense spending to something like peacetime levels.

Following each of the wars in Korea, Vietnam, and then the Cold War, defense spending was cut by about 30 percent. The boldest of the recent proposals do not go that far. There are also those who would maintain or increase present levels. The more militaristic elements of our government can be seen as determined to do to us, with defense spending and with military buildup, what Reagan administration officials believe was done to the Soviet Union.

Earlier I had referred to William Nordhaus, who observed that excessive military budgets lead to waste and wars of choice. In those wars, the US has attacked countries that had not directly attacked the US. Iraq and Afghanistan, like Vietnam, were strategic blunders; and the costs of those wars, including fatalities, should be considered part of the costs of acquiring military capabilities far beyond the requirements for self-defense.

Now proposals to seriously reduce the size of the defense program have been criticized on economic grounds. Defense Department officials and various business groups argue that the proposed reductions in the budget, together with military sequestration, would cause the loss of a million jobs, set back the economy, and could contribute to another recession.

These fears are not supported by the historical record. After World War II, for example, there was a massive demobilization and a very large reduction in military spending that dwarfs anything now contemplated. The defense cuts were so large that many were concerned that the Great Depression would recur. Extensive hearings were conducted in

Congress and throughout the federal government. There were consultations with the White House and business organizations, and members of the House and Senate; the Employment Act of 1946 emerged as part of a series of steps taken to prevent an economic disaster; and there was no economic disaster.

I mentioned earlier that federal spending was cut by about 30 percent following our recent wars and following the Reagan buildup. The economy was able to absorb those cuts. Substantial defense reductions were announced very recently by Defense Secretary Leon Panetta; those, together with what is mandated through military sequestration, would amount to just about 15 percent of the defense budget. That is well within the ballpark of previous postwar adjustments.

If we go through a postwar adjustment process, it will require government measures to assist individuals, communities, and businesses affected by the cutbacks. These are manageable problems and, in the long term, the US economy will perform better with a smaller military burden and without the futile quest for global military superiority.

From the Director

I am so pleased and proud to welcome you to the Silver Anniversary volume of our newsletter, EPS Quarterly.

Volume 1, Number 1, published in the spring of 1989, mentioned that our young organization had over a hundred members in five countries. We now have over 1000 members in 52 countries. That first issue also announced our first international affiliate; today, there are EPS affiliates in 16 countries.

Over the last 25 years, our organization has brought you not only news of EPS, but also thought-provoking articles, sometimes devoting entire issues to specific topics. Interestingly, our first issue quoted Lloyd J. Dumas on the problems facing communities whose economies were heavily dependent on

military-oriented activity. Dr. Dumas said, "People in such communities – even those who have serious doubts about the wisdom of pursuing the ongoing arms race – often feel compelled to support it on ground of their personal economic security. They do not wish to be sacrificed on the altar of disarmament, and thus stand as a continuing internal obstacle to the effective pursuit of national policies aimed at reversing the arms race. It is not enough to educate about the economically burdensome character of the arms race. It is vital to demonstrate that there are viable economic alternatives for the use of the labor and capital resources that are currently locked in the military-serving sector of the economy, and that there are

sound transitional strategies for getting from here to there."

Substitute debt (and the sequester) for arms race and this statement is still valid today. A lot has changed in the last 25 years, but the need for rigorous economic peace research and substantive exploration of the issues remains. As always, if you have any thoughts, issues, or work that you would like to bring to our attention for future volumes, please be in touch.

In commemoration of this Silver Anniversary of the EPS Quarterly, all of our available newsletters from the past 25 years have been posted on our website. We hope that you will enjoy them when you visit <http://epsusa.org/publications/newsletter/newsletter.htm>.

Economics of US National Security: A View from the Outside

J. Paul Dunne

From the viewpoint of countries outside the US, the fiscal debate over tax spending and debt seems strange within the context of national security, as though the only form of government spending the US will allow is defense spending, with huge allocations to the military sector.

According to the Stockholm International Peace Research Institute (SIPRI), the US accounts for around 40 percent of total world military expenditures; as much as the next 20 countries combined. It appears very disproportionate, especially as it's based on a defense structure that was put in place with the justification of another super-power and an arms race.

From the outside, it really is incredible. There's been an increase recently in world military spending. The USA relative to the rest of the world presents an incredible asymmetry. There is a slightly longer version of military burden, or share of GDP, in the US, from 1988 to 2009. There was a decline after the end of the Cold War, and then an increase after 9/11; but this is proportionate.

The end of the Cold War gave the opportunity for disarmament, and the world did actually see massive reductions in military spending as a share of GDP. There was also economic growth, although a lot of that was to do with the Warsaw Pact countries. However, countries haven't gone back to pre-Cold War expenditures in any way. Not only does the nature of present-day conflict not require the same resources as a super-power confrontation, it also requires very different use of resources. Threats remain, but the resources still being used seem somewhat disproportionate to those threats.

Though we'd hoped for some form of disarmament after the Cold War; this clearly isn't happening. Continuing high levels of global military spending are actually being driven by expenditures within North America. Despite what you would expect, the Middle East actually has declining military shares of GDP, whereas Europe is fairly flat.

International military spending, then,

is being dominated by the US to a massive extent. That's not to say there isn't growth in other parts of the world in military spending; there's growth in China, for example, but it must be put into perspective. First of all, relative size of economy is important. The US currently spends about 5 percent of GDP on its military; China is still only spending 2 percent of GDP, even though it's growing. This doesn't necessarily mean that what's happening in other parts of the world is a threat; it's simply that these countries are actually growing, and therefore if they spend the same proportion of their GDP on military spending, they increase the resources devoted to the military. To put this into perspective, Japan has a one-percent limit on its military spending, but the growth of the Japanese economy was so large (until the last 10 years) that Japan became a major military player in the region, because one percent of its GDP was a large amount.

Not only does the nature of present-day conflict not require the same resources as a super-power confrontation, it also requires very different use of resources.

From 2002 to 2011, US military spending grew quite a bit, and a number of other countries have also shown a big increase; but even the countries that are growing still are not a threat in any way.

Richard made the point that having a large amount of military spending comes at a cost. There's an opportunity cost involved; the resources could be spent on something else. There's a great deal of literature on military spending and growth. Careful analysis has not produced consensus, but dominant results suggest it's either unclear or negative.

The literature certainly doesn't support a positive role for military spending. In fact, the dominant result has shown more clearly in the post-Cold War situation that military spending has a negative effect on growth. Especially in the US, given the nature of modern major arms production, reducing the size of the defense sector will not be costless; but you shouldn't expect negative economic effects, especially if those expenditures are reallocated to more positive activities. These are the arguments that were made for the peace dividend post-Cold War, and in general those arguments still hold.

Most of the military spending is being driven not by threats, but by vested interests. I'm not talking just about the US; we've got the same issues in Britain and Europe. Very seldom are there successful reviews which ask, "What do we want to do, and how do we want to do it? What resources do we need for it?" We're still dominated by Cold War technology and attitudes. So, if countries are spending more internationally, it's usually because of economic growth. Nobody is actually increasing military spending in response to a threat. There is no real arms race at the moment.

The nature of the military-industrial complex has changed as well. There has been a lot of restructuring, a concentration of the major players, with increased links with civil technology. Instead of the military-to-civilian-use spin-offs that we used to see, now spin-in of civil technology into military production is more likely.

There has also been growth in military services and private military companies. In the Cold War, when companies profited by producing weapons, it didn't matter whether those weapons actually were ever used. Now, through privatization of roles within conflict situations, companies profit from conflict. We're not only getting pressure to maintain levels of military spending, but it's actually in the companies' interests to lobby for increases in conflict.

There's another externality: US dominance creates problems with the inter-

Economics of US National Security: A View from the Outside

national arms trade. Most other countries try to maintain their defense industry, but they can't really compete with the US. They lack the economies of scale, so the only way they can actually get costs down is to push for export orders. If they're going to export, their competition is usually the US, with better, cheaper equipment to sell. They can't compete on price, so they sell to countries that the US won't sell to and maybe doesn't want them to sell to. They sell to dodgy regimes, bribe people, introduce corruption into the system, or they use offset deals, which are themselves a form of corruption. In a sense, if the US were to think about being a bit less dominant, it might allow more cooperation and improve the situation for everybody else in the global industry.

Richard also mentioned the changing nature of conflict. This is important. Large confrontations are unlikely in future, so why is the US spending so much on the military? Most conflicts are asymmetric; most wars are civil, and the nature of war has changed. There's an increasing role for less formal armies, a lack of battlefield engagement; and there's an increased involvement of civilians as victims. Rather than fighting each other, many militias just go and kill civilians.

In that case, the type of equipment, the forces, and training needed for peacekeeping and peacemaking are different from what we have at the moment, but nobody's asking, "What are the different requirements?" Even though conflicts are declining, there are still a lot of them. For the countries involved, the costs of these conflicts

actually dwarf the costs for the recent economic crisis. Despite it being a dreadful crisis, it's nothing to what countries go through when they have a conflict.

Maybe the world should be putting resources to solutions and towards dealing with these sorts of conflicts. Perhaps money ought to be put into looking at where there are problems, trying to prevent conflicts from happening in the first place; and if they do happen, having sensible intervention plans; and if that doesn't work, post-conflict reconstruction. The international benefits from reducing the costs of conflict would be huge. All of these things should be interlinked and running at the same time, to give us a way to negotiate and lead countries to negotiations, rather than to conflict.

From the outside, then, the dominance of the US in terms of military spending is overkill, striking, and it is an issue of concern. It's not necessary for any national security needs, or what we would consider a sensible international role within the geopolitical situation. Historically it is very high, and there needs to be recognition that the Cold War has ended, that there's no longer a super-power, that large military spending is not going to deter the terrorists anyway. The military budget must reflect threats, rather than internal power and profit dynamics; and there is an opportunity cost. It could lead to economic decline; but there's also the possibility of a peace dividend if these costs are reduced.

Some of you will recall Paul Kennedy's argument that all super-pow-

ers actually declined by a dynamic where military spending allows them to become super-powers, to become hegemons. The military spending starts to have a negative effect on the economy, and they become less powerful. They can't afford so much, and then decline. The next one comes along and goes through the same process. We could be looking at a similar process for the US if things continue as they are.

There is still an important role for the US in the international community, but one that's less threatening, less influenced by a large military-industrial complex, that's cooperative and engaged in the prevention of conflict. The problem is, though, that the discourse of international relations provides the context within which the debates on economic security tend to take place.

The new orthodoxy is a mercantilist realist type of thing, where war is the result of anti-capitalist sentiment and groups, and the solution to conflict is a global neoliberal system where military action creates and maintains the right conditions. This justifies producing the means of destruction and high military spending, through the necessity of a hegemonic role for the US.

Such a world view is not what we expected at the end of the Cold War, and it's certainly not uncontested. This limited view of the world is being brought into question with the continuing problems in Iraq and Afghanistan. The challenge for economists is to develop an alternative to this new orthodoxy, one that supports initiatives that strive for peace and security. It's a challenge that's being taken up by EPS.

Call for Papers : 17th Annual International Conference on Economics and Security Stockholm, June 14 & 15, 2013

SIPRI (Stockholm International Peace Research Institute) is pleased to announce the 17th Annual International Conference on Economics and Security. The conference is co-organized by SIPRI and Economists for Peace and Security. The conference program will include research papers selected based on the call for proposals, with a mix of plenary sessions and parallel workshop streams on particular research areas. Some of these sessions will seek to bring together SIPRI researchers and conference participants on issues related to SIPRI's areas of research. To present a paper, please send a title and an abstract of less than 300 words before April 1, 2013.

Further information about the call for papers can be found at:
http://www.sipri.org/research/armaments/milex/ICES2013/call_for_papersold.
Papers should be sent to Sam Perlo-Freeman at: perlo-freeman@sipri.org.

Panel Discussion with Audience

Michael Lind: You can't understand US military spending apart from the hegemonic strategy. There is a reasonable, plausible theory, which an intelligent person can accept, for having the US spend six times as much as its nearest competitor. Since we didn't invite anyone to represent the intelligent neo-con's defense of this strategy, let me just take a minute to explain it.

Its supporters argue that reduction of the US military to purely defensive North American purposes will create power vacuums in the Middle East, Europe, and Asia to be filled by greater military rivalries and more defense spending in those regions. Their argument is that the US military's major purpose in 2012 is not to defend the United States of America from attack, but to defend the industrial nations from threats within their regions, to be a global cop.

Basically, the United States offered a bargain to the defeated Axis powers after World War II: if you guys concentrate on civilian industrial economic production, we will be your military. As a result, in the 1950s the US became the Japanese and German militaries. It appears that the US, under presidents of both parties, made the same attempted bargain with China after the end of the Cold War: you allow us to be the military hegemon, and you just make stuff. You be like the Germans and the Japanese, and we'll buy your stuff. We'll run a permanent trade deficit.

I think this hegemonic strategy is mistaken because it assumes that, in the absence of this US security guarantee, there would be a pre-World War I type arms race scrambling among the major powers of East Asia and Europe; I think that's anachronistic. It would be perfectly fine to see our spending go back to 3 percent or down to 2 percent in the long run as a share of GDP, which is where it was trending before 9/11.

Richard, Paul, and Linda, what would you say to this thoughtful, intelligent, imaginary neo-conservative?

Richard Kaufman: I would say that the general American public would support a policy of self-defense against foreign invaders or aggression of any sort, but

they would have serious reservations about this conservative thesis. There's a reasonable argument that it's in our own best interests to be prepared to defend ourselves and our allies; but simply policing the world is highly questionable. I don't think the American voter would support it, and I don't think it would survive the political process. There was a little bit of that in this recent election, with Romney's ideas about Iran and other areas which he thought would greatly increase the defense burden. It brought a pretty negative response. We've had experiences now with unnecessary wars in Vietnam, Iraq, and Afghanistan.

There's no reason to have a hegemony. The international community might be able to offer a realistic global police system. The world has changed. The UN is quite different than during the Cold War.

Michael Lind: That's true, but ever since World War II, the Cold War and post-Cold War strategies have been defended in terms of imminent attacks on the US, whether it was the Soviets or, in the case of Al Quaida, a real attack. This fear of attack did a lot to justify the actual military we have.

I wonder, Paul, if you agree that your case is strengthened if you can persuade people that the withdrawal of the US fleet from the other side of the Pacific would not lead to a Sino-Japanese-Indian arms race that could escalate into a great power rivalry; or maybe we should just not care?

J. Paul Dunne: Who was the hegemon before America? It was Britain, and look what happened to Britain. It could happen to America as well. Britain at its most dominant was spending not much more

than the US in terms of GDP to maintain its navy throughout the world. It could be that these mounting burdens are, in a sense, creating the end of US hegemony. If you don't deal with those issues, you're no longer going to have your hegemony, and you'll no longer have your economic power.

There's no reason to have a hegemony. The international community might be able to offer a realistic global police system. The world has changed. The UN is quite different than during the Cold War. Other countries are becoming involved; they actually want to make decisions, and to try to come together, debate, and create policy.

Linda Bilmes: I would take your question in a different direction. We know that the US military budget is two-thirds military equipment and maintenance, and one-third personnel and health care. Even at the outset, comparisons to other countries are not quite as lopsided as they seem.

The one-third that is growing fast is the personnel and health care costs. Whether you have a neo-con-ish view of the role of the military or not, with the budget shrinking from within as well as from without, what are the implications in terms of what will US military policy be?

The implications that we can already see are a significant shift away from personnel forces to smaller force levels; a significant shift in favor of more unmanned vehicles, unmanned drones, and robotics; and, as Richard pointed out, a shift to purchasing fewer weapons because of the escalation of costs. We will have aging traditional weapons, fewer people, and more drones. If the neo-cons are right about roles that the US military will be called on to carry out over the next 20 years, the way we are headed will be completely undermining those kinds of responsibilities.

Michael Lind: You could make the case, though, that this pivot towards East Asia, which would essentially be an offshore naval arms race with China, is more suited to the kind of drone hi-tech capital-intensive thing than the manpower-intensive occupation of Muslim countries.

Panel Discussion with Audience

Raul Caruso (from audience): I'd like to make a point about Paul's discussion. As war is becoming much more hi-tech, the relationship between military spending and economic growth is increasingly negative. Every engineer diverted from civilian production to the military does not generate production. When war was made with high numbers of troops, and the salaries of the troops translated into consumption, perhaps the effect on growth could be contested.

My second point : every time I join a panel discussion about Asia and security, everybody mentions China, forgetting India. India is the second importer of arms in the world, is a neighbor of Pakistan, and they have the bomb.

Michael Lind: Over the last few years, there's been a definite realignment of US towards India and a hardening of US attitudes towards China's trade practices, its mercantilist export promotion policy at the expense of trade deficit countries like the US. For most of the 2000s, the business community in the US was very pro-China; the Pentagon, looking for threats, was very concerned, with some reason, because China is engaged in cyber war against the US and against NATO. It did shoot down one of its own satellites just as a warning to other great powers;

there is a little level of strategic competition going on with China.

What was remarkable to me in this election was that both Romney and Obama competed to be tough on China's trade practices. This may not be translated into policy; but competition between the trade doves and military hawks is being replaced by trade hawks allied with the military hawks. I think it's a somewhat dangerous period for US-Chinese relations. The pivot away from the Middle East towards Asia is not about containment, because you can't contain China. It's a naval balancing policy; a competition for the Pacific, which would be largely hi-tech — drones, submarines, aerial drones, satellites.

The Trans-Pacific Partnership is a more or less transparent attempt by the US to encircle China, in the guise of having free trade in the Pacific. But since China is not party to this trans-Pacific alignment, it looks like the US rounding up allies, from India through Vietnam, all the way up to traditional allies. Linda?

Linda Bilmes: Michelle Flournoy, former under-secretary of policy in the Pentagon, frequently makes these two points. First, she would like the word "pivot" banned from the Pentagon. The word used is "rebalancing," as the con-

cept of the word "pivot" has many connotations that are not the strategic purpose of rebalancing. She talks about rebalancing being more like a policy of globalization, as opposed to being focused only on European white guys.

The second point she makes is that whatever the US does in Asia, whether it's with India, Korea, Japan, Australia, or anything in the Pacific, China always thinks it's about China. One of the biggest challenges is that bilateral relationship with China, and persuading China that not everything that the US does in Asia is about China.

I think the perception of the pivot being a bilateral, anti-China policy is certainly not the full story.

Michael Lind: Since Paul raised the British example, the United States did not find Britain's domination of the Caribbean intolerable in most of the 19th Century, when the US was a weak, developing country. Once the US became the world's largest economic power in terms of GDP in 1900, suddenly presidents of both parties were saying, "Good God, what are the British doing in our hemisphere?"

It's possible that India at some point will say, "Why is Diego Garcia an American base?"

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UPCOMING EVENTS

• **April 15, 2013** SIPRI's US Military Expenditure Data release event will take place at the UN in New York City. The purpose of this project is to monitor, describe and analyse trends and developments in military expenditure worldwide.

For details about the database, see
<http://www.sipri.org/research/armaments/milex>.

• **May 24 – 25, 2013** The Eurasian Peace Science Conference will be held at Koc University, Istanbul, Turkey, hosted by the Center for Conflict Studies.

For more information about the conference, see
http://conflictstudiescenter.ku.edu.tr/upcoming_conference.html.

• **June 13 – 15, 2013** The 17th Annual International Conference on Economics and Security will be held at SIPRI, Stockholm, Sweden.

The conference programme will include research papers selected based on the call for proposals. It will combine plenary sessions and parallel workshop streams on particular research areas. Some of these sessions will seek to bring together SIPRI researchers and conference participants on issues related to SIPRI's areas of research.

Further details about the conference call for papers can be found at
http://www.sipri.org/research/armaments/milex/ICES2013/call_for_papers.

• **June 24 – 26, 2013** The 13th Jan Tinbergen European Peace Science Conference will be held in Milan, Italy.

The Jan Tinbergen Conference is interdisciplinary. Presentations that address any issue relating to peace and security broadly defined are welcome. As in the past, the conference strives for a multi-disciplinary program comprising contributions with a wide range of theoretical and methodological approaches, including strictly theoretical work, game theory and formal modeling, statistical and econometric analysis, qualitative studies, and experiments.

Find out more about the conference when you visit
<http://www.europeanpeacescientists.org/jan.html>.