

# U.S. Budgets for National Security and International Affairs

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Since September 2001, U.S. federal budgets for security and international affairs have climbed more than 70 percent in real terms. Compared with past decades, spending in these categories makes up a relatively small share of the U.S. economy. Nevertheless, given the nation's immediate financial and economic problems and the longer-term fiscal outlook, many observers expect future federal budgets to be tight. This paper reviews U.S. federal budgets for security and international affairs, and examines some of the constraints on those budgets that can be expected in the coming decade.

## **Three Categories of Spending for Security and International Engagement**

Within the U.S. federal budget, three categories pay for security and international affairs. The first is national defense, called budget function 050 in the federal budget. National defense includes funds for the Department of Defense (DOD), nuclear activities of the Department of Energy, and smaller military-related programs in other agencies. The national defense budget pays to raise, equip, train, and maintain the armed forces, conduct military operations, and deter attacks on the United States and its allies. It also pays about 80 percent of the nation's intelligence bills.

The second category is homeland security. Homeland security is not afforded a budget function in the federal budget. Rather, the White House Office of Management and Budget (OMB) reports funding for homeland security in each federal department and in six mission areas as part of a chapter on crosscutting programs in the *Analytical Perspectives* volume of the administration's budget submission to Congress each year (see Table 1). The homeland security category includes law enforcement to counter terrorism, border and aviation security, physical and cyber protection of critical facilities and systems, improvements to the public health infrastructure, and preparations to respond to and mitigate the consequences of attacks should they occur.

<b>Table 1. Homeland Security Funding by Agency</b> Budget Authority in Billions of Current Dollars		
<b>Homeland Security Funding</b>	<b>FY 2008 Estimate<sup>a</sup></b>	<b>FY 2009 Request</b>
Department of Homeland Security	32.7	32.8
Department of Defense	17.4	17.6
Department of Health and Human Services	4.3	4.5
Department of Justice	3.5	3.8
Department of State	2.0	2.5
Department of Energy	1.8	1.9
Department of Agriculture	0.6	0.7
National Science Foundation	0.4	0.4
General Services Administration	0.4	0.1
Other Agencies <sup>b</sup>	1.9	2.0
<b>Total, Homeland Security Funding</b>	<b>64.9</b>	<b>66.3</b>
Source: Budget of the United States Government, FY 2009, <i>Analytical Perspectives</i> (Washington, DC: The White House, February 2008), Table 3-1. Notes: Totals may not add due to rounding. <sup>a</sup> Includes funding in FY 2008 emergency supplemental appropriation request. <sup>b</sup> Includes those agencies whose FY 2008 budgets are less than \$0.3 billion.		

The third category is international affairs, called budget function 150 in federal budget documents. International affairs includes the conduct of foreign affairs and diplomacy through the State Department, economic and military aid to foreign countries, contributions to international organizations like the United Nations, and foreign information and exchange programs.

### **U.S. Budgets for National Security Since September 2001**

Between fiscal year 2001 and fiscal year 2008, annual budget authority for national security (including operations in Iraq and Afghanistan) more than doubled in nominal terms; it climbed by about 70 percent after adjusting for inflation (see Table 2). Of the three categories that make up national security, homeland security experienced the largest percentage rise, more than tripling in real terms. (Much of that increase occurred within DoD, however, in part due to recent accounting changes.) The national defense budget grew by about 70 percent in real terms. International affairs budgets grew by about 70 percent in real terms.

Across the three categories, budgets as currently appropriated for fiscal year 2009 come to about \$700 billion. That figure includes only partial costs of the ongoing operations in Iraq and Afghanistan, however; full costs of the wars will likely bring FY 2009 budgets to about \$800 billion, more in real terms than at any time in at least five decades.

As in 2001, the lion's share of spending across these categories goes to national defense (see Table 3 for a breakdown by department). For 2009, the non-war budget for national defense is about eleven times the size of the budget for homeland security (net of DoD)

or for international affairs. Including the costs of wars, the federal government budgets about 15 times as much for the military as for either of the other two categories.<sup>1</sup>

	<b>FY 2001</b>	<b>FY 2008</b>	<b>FY 2009</b>
National Defense			
Excluding Iraq and Afghanistan	318	507	541
Iraq and Afghanistan	0	186	66 <sup>a</sup>
<b>Total National Defense</b>	<b>318</b>	<b>693</b>	<b>607</b>
Homeland Security			
Total Homeland Security	17	65	66
HS Spending in DoD	4	17	18
<b>Homeland Security Net of DoD</b>	<b>13</b>	<b>48</b>	<b>49</b>
International Affairs	20	44 <sup>b</sup>	42 <sup>c</sup>
<b>Total</b>	<b>351</b>	<b>785</b>	<b>698</b>

<sup>a</sup>Included in June 2008, emergency supplemental; DOD likely to request another \$100 billion for 2009.  
<sup>b</sup>Includes \$4.8 billion in June 2008 emergency supplemental.  
<sup>c</sup>Includes \$3.7 billion in June 2008 emergency supplemental.

<b>Budget Authority Billions of Dollars</b>	<b>FY 2009</b>
DOD (Budget Function 051)	584
DOE Atomic Energy Defense (053)	17
Other Departments' Defense-Related (054)	6
<b>Total (Budget Function 050)</b>	<b>607</b>

Source: *Historical Tables of the Budget of the United States Government, FY 2009* (Washington, DC: OMB, February 2008), Table 5.1.

To put those budgets in perspective, U.S. spending for national defense comes to about 45 percent of world defense spending.<sup>2</sup> By way of comparison, in 2006, Canada devoted

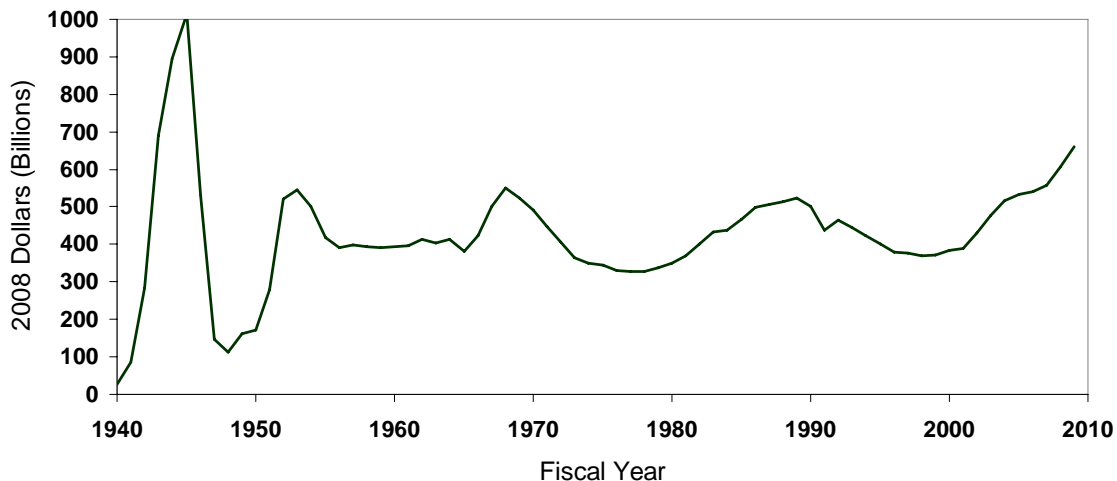
<sup>1</sup> One possible reason for such disparities is that defense and prevention are inherently less expensive than offense. If that is the case, then modest investments in those areas should yield greater payoff than marginal added investments in offense.

about 1.2 percent of GDP to defense.<sup>3</sup> The UK and France each devoted about 2.5 percent, and Europe's NATO members devoted about 2 percent of GDP on average to defense.<sup>4</sup>

In FY 2009, it accounts for about 22 percent of all U.S. federal outlays (including the costs of wars in Iraq and Afghanistan) and 4.5 percent of U.S. gross domestic product. U.S. spending for national defense is higher in real terms, but lower as a share of GDP, than at any time since World War II (see the figures below).

U.S. budgets for international affairs, on the other hand, come to only a fraction of one percent of GDP. As a share of the economy, U.S. spending for nonmilitary foreign aid (which makes up roughly one-half of U.S. international affairs spending) is less than one-half the average of European donors and nearly at the bottom of the world's major donors.<sup>5</sup> Homeland security spending outside of the DOD also comes to just a fraction of one percent of U.S. GDP.

### U.S. Outlays for National Defense (Constant Dollars)



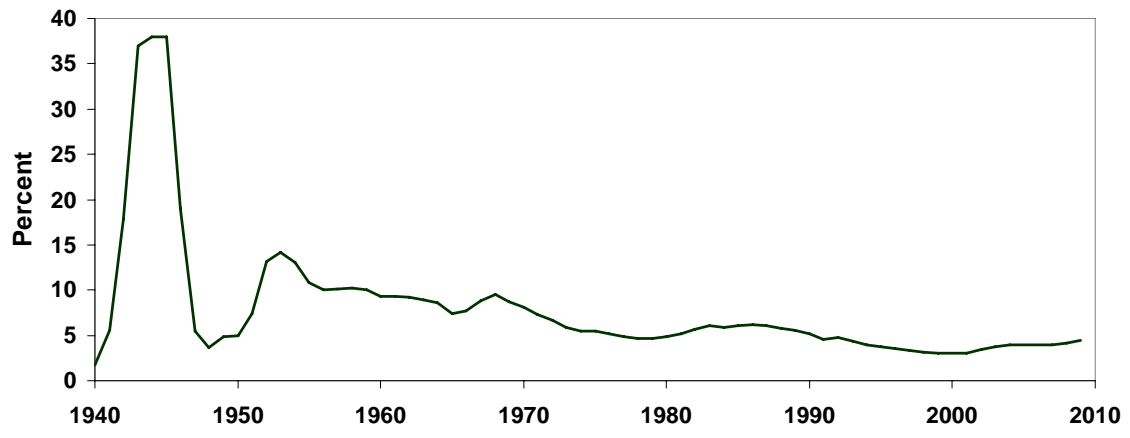
<sup>2</sup> SIPRI Yearbook 2008: Armaments, Disarmament and International Security (Oxford: Oxford University Press, 2008), Appendix 5A.

<sup>3</sup> SIPRI Yearbook 2008: Armaments, Disarmament and International Security (Oxford: Oxford University Press, 2008), Appendix 5A.

<sup>4</sup> SIPRI Yearbook 2008: Armaments, Disarmament and International Security (Oxford: Oxford University Press, 2008), Appendix 5A; Cindy Williams, "Beyond Preemption and Preventive War: Increasing U.S. Budget Emphasis on Conflict Prevention," Stanley Foundation Policy Analysis Brief, February 2006, p. 4.

<sup>5</sup> Cindy Williams, "Beyond Preemption and Preventive War: Increasing U.S. Budget Emphasis on Conflict Prevention," Stanley Foundation Policy Analysis Brief, February 2006, p. 6-7.

## U.S. Outlays for National Defense (Share of GDP)



## Budget Constraints on the New Administration

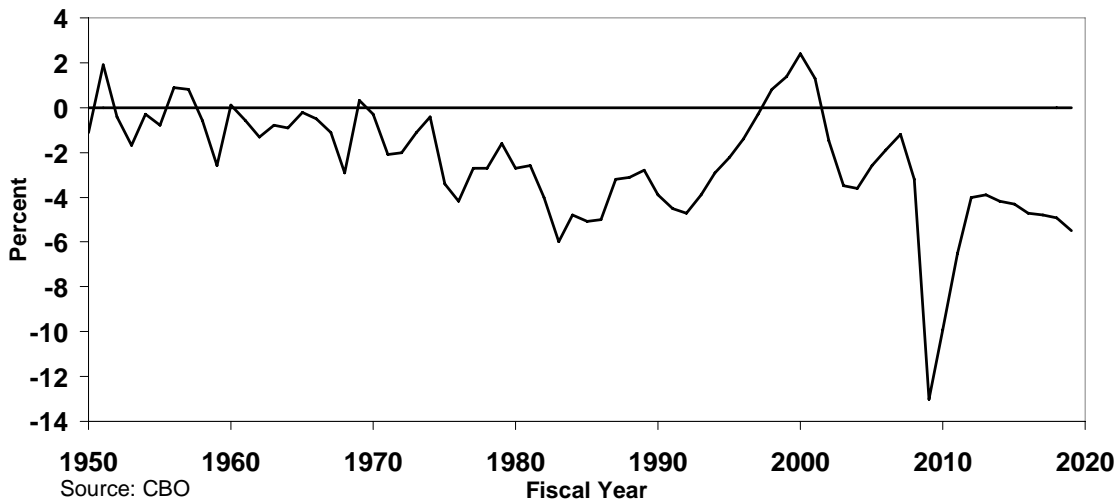
Regardless of what the presidential candidates promised, national security choices for the new administration will be constrained by budgetary realities. This section focuses on those realities in the case of the DOD.

On the one hand, the U.S. financial and economic pictures and the federal fiscal picture will exert downward pressure on the amounts available for defense. On the other hand, there will be upward pressure from inside the defense budget as DOD comes to terms with the genuine costs of planned forces and equipment. The combined pressures will make it very difficult to expand the force and will likely lead to seek lower-cost alternatives to today's plans for force structure and equipment.

### *The economic and fiscal pictures*

In the Mid-Session Review of July 2008, the White House Office of Management and Budget (OMB) projected a total federal deficit of 3.3 percent of GDP for FY 2009. That figure is nearly three times the size of the 2007 deficit of 1.2 percent in and more than twice as large as the deficit OMB estimated for FY 2009 only a year ago.<sup>6</sup> Today's deficits are lower as a share of GDP than those of the early 1980s or the early 1990s. Nevertheless they are troubling to those who hoped to balance the federal budget before restore a balanced budget ahead of the fiscal strains expected during the coming decades (see the figure below).<sup>7</sup>

**U.S. Federal Surplus (+) or Deficit (-)  
As Share of GDP**



<sup>6</sup> White House Office of Management and Budget, "Mid-Session Review, Budget of the U.S. Government, FY 2009" (Washington, DC: OMB, July 28, 2008), p. 21; White House Office of Management and Budget, "Mid-Session Review, Budget of the U.S. Government, FY 2008" (Washington, DC: OMB, July 11, 2007), p. 19.

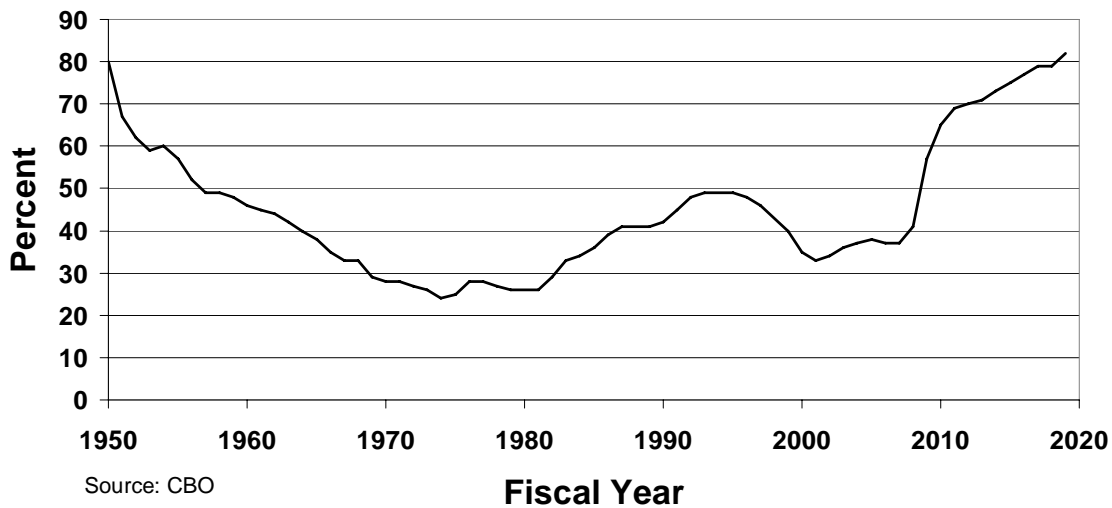
<sup>7</sup> For deficit history, see *Historical Tables of the Budget of the United States Government, FY 2009* (Washington, DC: OMB, February 2008), Table 1.2.

U.S. federal debt held by the public at the end of fiscal year 2008 was about 40 percent of GDP, consistent as a share of the economy with the average debt since 1960 (see figure below).<sup>8</sup> The CBO estimated in 2007 that if current federal tax and entitlement laws remain exactly as they stand today, then debt held by the public could reach 100 percent of GDP by 2062.<sup>9</sup> Today's revenue laws assume that the tax breaks passed in 2001 and 2003 will soon expire. Entitlement laws assume that payments to health care providers will continue to be sharply constrained. Neither candidate has suggested a return to pre-2001 levels of taxation, however. In addition, sustaining today's limits on payments to medical providers would be extremely difficult in the face of the anticipated rapid growth in the underlying costs of health care.

Under more realistic assumptions about future tax and payment policies, CBO calculated that debt held by the public would reach 100 percent of GDP as early as 2030 and become economically unsustainable within a few years after that.<sup>10</sup>

The U.S. financial crisis and the banking bailout packages of September and October 2008 will worsen that picture over the longer term. The deep and long-lasting recession that many economists now anticipate will complicate things further by suppressing revenues and increasing expenditures for unemployment benefits and other social programs.

### U.S. Federal Debt (Share of GDP)



<sup>8</sup> For FY 2009, see White House Office of Management and Budget, “Mid-Session Review, Budget of the U.S. Government, FY 2009” (Washington, DC: OMB, July 28, 2008), p. 6. For historical figures, see *Historical Tables of the Budget of the United States Government, FY 2009* (Washington, DC: OMB, February 2008), Table 7.1.

<sup>9</sup> Congressional Budget Office, *The Long-Term Budget Outlook* (Washington, DC: CBO, December 2007), p. 4, Figure 1-2. (For a description of the two scenarios represented in the figure, see Table 1-1 on page 2 of the same document.)

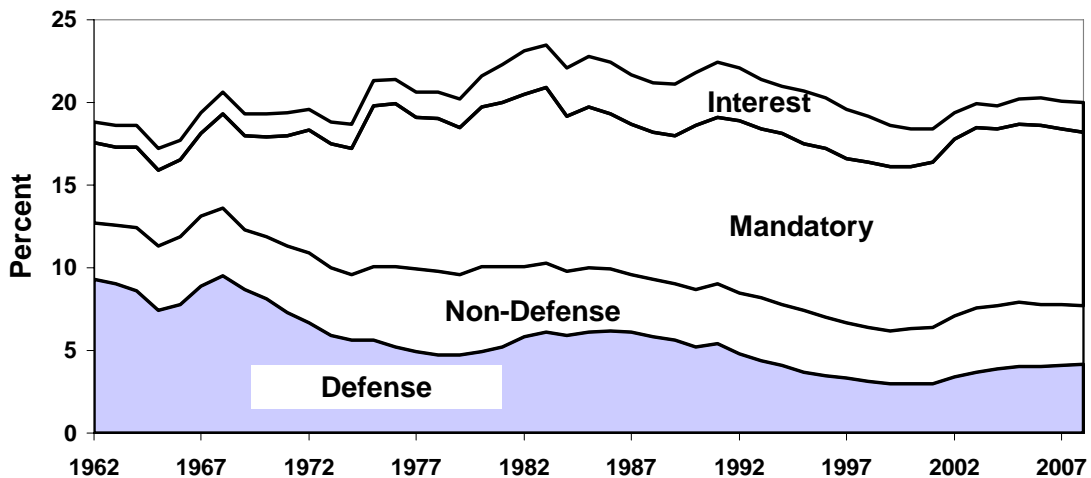
<sup>10</sup> Congressional Budget Office, *The Long-Term Budget Outlook* (Washington, DC: CBO, December 2007), p. 4.

In the short term, policy makers are likely to shy away from cuts to defense budgets. Federal expenditures, including sums spent on the armed forces, can help to stimulate the economy in time of recession. Tax increases in the near term seem very unlikely for the same reason. As a result, fiscal deficits and debt are likely to rise significantly during FY 2009 and into FY 2010, exacerbating the longer-term fiscal situation.

Spending for national security is hardly the main contributor to the growing debt. The principal source of cost growth is the federal health-care programs, particularly Medicare and Medicaid.

For several decades, total U.S. federal budgets have held relatively steady as a share of GDP. Within a federal budget of 17 percent to 24 percent of GDP, the so-called mandatory federal programs—entitlements like Medicare, Medicaid, and Social Security that do not require annual appropriations—have crowded out spending for defense and non-defense discretionary programs—those that rely for funding on annual appropriations (see the figure below).<sup>11</sup> CBO anticipates that if nationwide health care costs continue as they have to grow substantially faster than GDP, then spending for Medicare and Medicaid will grow from about four percent of GDP in 2008 to more than eight percent in 2032 and more than 12 percent by 2050.<sup>12</sup>

### Federal Outlays Share of GDP



<sup>11</sup> Medicare is the U.S. federal health care program for the elderly. Medicaid is the shared federal and state health care program for low-income people. Social Security is the federal program of workers' pensions.

<sup>12</sup> Congressional Budget Office, *The Long-Term Budget Outlook* (Washington, DC: CBO, December 2007), p. 24, Figure 2-2.

As baby boomers retire during the coming decade, Social Security budgets will also grow, from four percent of GDP in 2008 to six percent in 2032. Thereafter, CBO expects the cost of Social Security to level out as a share of GDP.<sup>13</sup>

Regardless of the source of the fiscal pressure, however, defense is likely to be one of the bill-payers as the structural imbalances created by unfunded health care and pension liabilities place increasing pressure on the economy. Unfortunately, several factors internal to DOD are at work as well, exerting upward pressure on future budgets, as the next section describes.

*Pressures inside the defense budget*

The downward pressure on the defense budget created by federal fiscal realities is complicated by upward pressure within the defense accounts.

Each year, DOD’s one-year budget submission to Congress is accompanied by a five-year or six-year plan called the Future Years Defense Program (FYDP). The FYDP for FY 2009-2013 assumes that DOD’s budgets will decline by a bit less than one percent in real terms each year between 2009 and 2013 (see table 4 below). FYDPs often understate the full costs to build and sustain the force the department plans to have. The FY 2008-13 and FY 2009-13 FYDPs are typical in that regard.

FY 2007	635
FY 2008	582 <sup>a</sup>
FY 2009	518 <sup>b</sup>
FY 2010	514
FY 2011	509
FY 2012	505
FY 2013	501

Source: *National Defense Budget Estimates for Fiscal Year 2009 (The Greenbook)* (Washington, DC: Department of Defense, Updated September 2008), p. 7, Table 1-2.  
<sup>a</sup> Includes partial costs of wars  
<sup>b</sup> Excludes costs of wars

<sup>13</sup> Congressional Budget Office, *The Long-Term Budget Outlook* (Washington, DC: CBO, December 2007), p. 32, Figure 3-1.

The largest unbudgeted defense activity is operations in Iraq and Afghanistan. The DOD received more than \$180 billion for those operations in FY 2008.<sup>14</sup> Senator Obama promised to withdraw combat forces from Iraq early in his administration, but both candidates said they would keep some forces in Iraq and Afghanistan for a period of years. The FYDP for FY 2009-13 includes no funding any U.S. presence in Iraq or Afghanistan after 2009.<sup>15</sup>

In addition, CBO finds that the FYDP for FY 2008-13 does not include some \$25 billion in non-war annual costs of DOD's 2008 plans.<sup>16</sup> (CBO's update based on the FYDP for FY 2009-2013 is not yet available, but there is no reason to expect a major departure.) One reason is that the department has not yet recognized substantial likely weapon system cost growth in its budgets. For example, CBO calculates that the Navy's shipbuilding program will cost 30 percent more in FY 2009-13 than the FYDP assumes.<sup>17</sup> Other problems include rising pay for military and civilian personnel and unbudgeted growth in health care spending for service members, military retirees, and their families.

An additional source of pressure is that some of the services' current procurement plans will result in unacceptable aging of the planned force. For example, the Army and Marine Corps are not planning to purchase enough ground combat vehicles to outfit planned forces over a sustained period.<sup>18</sup> Similarly, Air Force purchases of tactical aircraft and tankers fall short of what would be needed to outfit the force in steady state.<sup>19</sup> In the face of such shortfalls, the services can keep existing systems beyond their planned service lives, but the higher costs to operate and maintain the aging systems will exacerbate the budgetary pressures. Alternatively, they may choose to reduce force structure to levels that can be sustained with the newer equipment.

Finally, both presidential candidates made promises that will cost money. For example, Senator McCain pledged to expand the Army and Marine Corps to a total of 900,000 troops. The added troops could cost more than \$30 billion a year.

Both presidential candidates hoped to save some money in defense by cutting waste, improving efficiency, and adopting more effective procurement practices. Defense has a long history of such reforms, but political or institutional roadblocks often keep them from saving much money.

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<sup>14</sup> Amy Belasco, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11* (Washington, DC: Congressional Research Service, Updated July 14, 2008), p. 16, Table 2.

<sup>15</sup> *National Defense Budget Estimates for Fiscal Year 2009 (The Greenbook)* (Washington, DC: Department of Defense, Updated September 2008), p. 7, Table 1-2.

<sup>16</sup> *The Long-Term Implications of Current Defense Plans: Detailed Update for Fiscal Year 2008* (Washington, DC: CBO, March 2008), p. 2.

<sup>17</sup> Eric Labs, "The Navy's Surface Combatant Programs," Testimony before the Subcommittee on Seapower and Expeditionary Forces, House Committee on Armed Services, July 31, 2008, p. 2.

<sup>18</sup> *The Long-Term Implications of Current Defense Plans: Detailed Update for Fiscal Year 2008* (Washington, DC: CBO, March 2008), Figure 3-5.

<sup>19</sup> *The Long-Term Implications of Current Defense Plans: Detailed Update for Fiscal Year 2008* (Washington, DC: CBO, March 2008), Figures 3-21, 3-27.

## **Implications for Future U.S. Armed Forces**

Nobody can say for certain what these budgetary pressures will mean for the future size, shape, readiness, and equipment of the U.S. military or the growing institutions of homeland security. Decisions about how much to spend on security and how to spend it are always a complex matter, involving local and national politics, institutional forces among the services, and competing national priorities as well as perceived threats and national interests.

Reductions in defense spending in the teeth of two wars seem unlikely. As U.S. forces in Iraq draw down, however, it seems likely that the DOD will face a round of belt-tightening.

Senator Obama pledged to reevaluate each major defense program in light of current needs, gaps in the field, and likely future threats. Such a review is required by law every four years in any case; the new secretary of defense will be obliged to deliver a Quadrennial Defense Review to Congress with the FY 2010 budget in February 2010.

With a defense budget squeezed from without and within, budgetary realities are likely to compel the next secretary of defense to rethink what is possible, and to consider alternatives to currently planned force structure and modernization programs. Future budgetary realities mean that expensive new programs will be difficult to institute; some existing force structure and programs will likely be trimmed; and cost-effective alternatives, including lower-cost weapon systems, service-life extension programs for existing systems, and lower-cost alternatives to military personnel will be attractive.

Likely areas for early reductions include the “reset” accounts that currently pay to replace or refurbish equipment that was destroyed or damaged in the wars; a slowdown or curtailment of the ongoing expansion of the Army and Marine Corps; cutbacks in spending for research and development; and stretch-outs of equipment purchases. Over the longer term, external and internal budgetary pressures are likely to bring leaders to seek lower-cost alternatives in both force structure and equipment modernization programs.