

## The Post-1998 Defense Spending Surge: Can We Do More with More?

Written by Administrator

Thursday, 21 January 2010 00:00

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On January 18, 2010, Defense-Aerospace.com carried an interesting [story](#), which was really a lead into an analysis of Defense spending over the past decade by the organization,

### [Project on Defense Alternatives](#)

(PDA), which is policy think-tank associated with

### [The Commonwealth Institute](#)

. The PDA report, entitled “An Undisciplined Defense Understanding the \$2 Trillion Surge in US Defense Spending,” is a copyrighted report. Because it’s copyrighted, we’ll avoid too much cut-

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-pasting, and stay within “fair use” limits—even though the entire report can be downloaded from

[here](#)

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Why consider an analysis from some policy wonk that may well have a political axe to grind? Well, for starters, every forecast of near-term defense spending seems to point to a flat—or even declining—budget, which has obvious implications for Defense contractors. We’ve posted a number of articles on the tightening budgetary environment (for example, [here](#)), but this report struck us as exceedingly (almost painfully) detailed. Detail is good. Detail creates credibility. So even if the author is biased—and we have no reason to suspect he is—the detail in the report is worth examining.

The Defense-Aerospace.com story notes that, in 1998, DOD’s budget was \$361.5 billion

Note:

all values

in this article

are 2010 equivalent US Dollars

—i.e., adjusted for inflation. We’ll omit references to 2010 equivalency in our quotes.

) As the article reports, “

If we treat the 1998 budget level as a “baseline” and project it forward to 2010 (adjusting for inflation), we find that the total amount of funds that have been given to

DoD

above this level during the years 1999-2010 is

\$2.15 trillion

.” The article continues—

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The rebound in annual defense spending reached its recent peak in 2008: \$696.5 billion – which is 92.7% above the 1998 level. The portion unrelated to contingency operations (the so-called ‘base’ budget) was \$503 billion that year – which is 41% higher in real terms than in 1998. Total

DoD

budget authority receded slightly in 2009 and 2010. But it now seems likely that 2011 will set a new high – somewhat over \$700 billion in

DoD’s

authority to spend.

In other words, current Defense budget levels are nearly *double* what they were a decade ago, even after adjusting for inflation. Ignore the reasons why that is for a moment, and dwell on the fact that the Pentagon is currently spending at twice the rate it was ten years ago. And for giggles, remember that it is spending at these levels while having cut back significantly on DCMA contracting officers, Contracting Officer Technical Representatives, Quality Assurance Specialists, and DCAA auditors. It is any wonder DOD program execution is under fire?

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The article (and the PDA report) uses that historical perspective to assess the near term Defense budget horizon. As the article reports—

Looking forward, the Obama administration's 2010 budget plan allocates an average of \$545 billion per year to the DoD base budget for 2011-2017. In addition, it set aside a "place keeper" sum of \$50 billion per year for military operations, recognizing that actual war costs will vary. (And, indeed, the Pentagon already is expected to request at least \$163 billion for contingency operations in 2011.) ... All told, the Obama administration plans to spend at least \$5 trillion (2010 USD) on defense during 2010-2017, which is 5% more in real terms than the Bush administration authorized for 2002-2009.

If Obama Defense spending is reaching a plateau, that plateau is at least 5 percent higher than recent history in inflation-adjusted dollars. So where is the budget squeeze coming from? The PDA report suggests that one source is the sheer expense of the current war. As Aerospace-Defense.com reports, "Measured in 2010 dollars, the Korean conflict cost \$393,000 per person/year invested; the Vietnam conflict cost \$256,000; and the Iraq and Afghanistan commitments, \$792,000 so far."

Another metric reported in the PDA analysis is DOD spending per uniformed service member. According to the analysis, “For 2007-2010, [DOD budget authority] averaged \$459,000 per full-time person in uniform. This is 78% higher than the Reagan peak, 95% higher than in 1989, and nearly three times the inflation-adjusted peak during the Vietnam era.” In addition, “During the 20-year period 1981-2000, budget authority for personnel varied by only a few percent around an average of \$73,200 (2010 USD)

*per person*

. It then rose by 46% between 2000 and 2010. The increase was enough to bring total personnel expenditures back up to Cold War levels – for a military only 69% as large.”

The report discusses a number of other factors that drive Defense budgetary spending, from the all-volunteer force to the increasing reliance on contractors to support operations. As the report notes, “*between 1989 and 2005, the pool of Do D*

*contract labor has grown more than the pool of uniform and civilian employees has declined.*”

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To conclude, this seems to us to be a worthwhile analysis that provides good insight into how the Defense budget got to where it is today, and also provides some clues regarding where it may be going in the future. We encourage interested readers to read it in detail.