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## THE NEW GUNS VERSUS BUTTER DEBATE

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### Introduction

As the economy begins to emerge from the deepest recession since the Great Depression, the federal government faces a dire fiscal situation. In fiscal year (FY) 2009, the budget deficit rose to a record high of \$1.4 trillion, and it is forecasted to reach as high as \$1.6 trillion in FY 2010. These record deficits are due in no small part to increased spending on fiscal stimulus programs and a sharp reduction in tax revenues due to the recession. But underlying the current fiscal situation is a structural deficit that the economic downturn has only exacerbated. A telling indicator of this is that one of the fastest growing items in the budget is net interest on the national debt. According to OMB projections, in FY 2018 the federal government will begin spending more on net interest payments than on national defense for the first time in modern history.<sup>1</sup>

In the recently released fiscal year 2011 budget request, the administration proposed a freeze in non-security-related discretionary spending. While the base defense budget was one of the few discretionary accounts to receive a real increase, the rate of growth in defense spending slowed by half compared to the average rate of growth seen over the previous decade. The defense budget may have avoided a cut for the time being, but as Congress and the administration focus more attention on deficit reduction in the coming years, it will likely put downward pressure on everything in the budget, including defense spending.

Within the defense budget, a debate has been developing for some time between funding the personnel-related areas of the defense budget, such as pay, pensions, healthcare, and other benefits, and the equipment-related areas of the budget, such as research and development and procurement. Over the past decade, overall growth in the base defense budget has allowed the Department to support increases in both people and equipment costs without having to choose between the two. However, as the fiscal situation of the

<sup>1</sup> OMB, *Budget of the United States Government, Fiscal Year 2011, Summary Tables* (Washington DC: GPO, February 1, 2010). (accessed at <http://www.whitehouse.gov/omb/budget/fy2011/assets>)

federal government continues to deteriorate in the coming years, sustained growth in the defense budget is unlikely. When the defense budget ceases to grow above the rate of inflation, the Department will have to make difficult choices between competing priorities, such as personnel and equipment. This is the new guns versus butter debate—a choice between taking care of the people who serve or the equipment they need to fight and prevail in current and future conflicts.

### **Background: Guns versus Butter Revisited**

The guns versus butter debate has been a recurring theme in previous periods of fiscal austerity. The traditional argument is that a dollar spent on defense is a dollar not available for domestic programs. This is not true during periods of relative prosperity, since both defense and domestic spending can rise simultaneously, funded by increasing revenues or borrowing. But in times like the present, when the deficit and debt have reached historic highs and spending is under increased scrutiny, the battle over the budget quickly becomes a zero-sum game. In recent history, the guns versus butter debate has arisen during periods of economic and military transition: the end of the Cold War and the peace dividend of the early 1990s; the Vietnam War and the Great Society of the 1960s; and World War II and the New Deal. The current budget debate, however, does not fit the traditional guns versus butter model in several distinct ways.

***The new guns versus butter debate is about how to spend dollars within the defense budget.***

First, it does not come at a time of rapid military build-up or during a drawdown at the end of a conflict—times when one would expect a significant increase or decrease in defense spending. The size of the military has remained relatively flat over the past decade between about 1.4 and 1.5 million in end strength, with recent increases in the size of the Army and the Marine Corps largely offset by cuts in the size of the Air Force and Navy. And with the military still engaged in two ongoing wars, one of which may have yet to reach its peak in intensity, significantly reducing the size of the military to rein in costs is not a viable option. In short, this is not a time of rapid build-up or drawdown in the size of the military.

Second, the current situation also differs from the traditional guns versus butter model because the increase in the defense budget over the past decade has not mirrored previous military build-ups. Unlike the Cold War, the recent rise in defense spending arguably produced a “hollow” build-up because it did not result in the procurement of large quantities of equipment. In fact, the inventory of military equipment has become older and smaller due to the lagging pace of procurement. The increased cost of defense over the past decade is attributable to other factors, including the wars in Iraq and Afghanistan, rising personnel-related costs, and cost overruns in military acquisition programs. Cutting procurement is therefore not an easy way to rein in the defense budget, as it was at the end of the Cold War, because procurement now makes up a smaller proportion of the defense budget and many critical systems are nearing the end of their service life and need replacement or upgrade.

For these reasons, the current debate is less a question of whether to spend federal dollars on defense or on other domestic programs, although this is surely a contributing factor in the discussion. Rather, the new guns versus butter debate is about how to spend

dollars within the defense budget. It is a question of funding the “butter” items within the budget, such as pay, pensions, healthcare, and other personnel-related costs, or funding the “gun” items in the budget, such as new weapon systems, research and development, and on-going military operations.

### **The “Butter” Budget**

The “butter” portion of the defense budget, as the term is used here, refers to funding that is used for the care and welfare of people, most of which is through the operation and maintenance (O&M) and military personnel (MILPERS) budgets.<sup>2</sup> O&M and MILPERS fund the cost of military personnel and most DoD civilian personnel, bases and facilities, and benefits, such as pensions and healthcare. Since FY 2000, the total military personnel and healthcare cost per active-duty troop has risen 73 percent in real terms, from \$73,300 in FY 2000 to \$126,800 in the FY 2011 request.<sup>3</sup> A key factor underlying this rapid rise in personnel costs is the increasingly important role DoD plays as an employer, healthcare provider, and educator for millions of Americans.

### **Employment**

The Department of Defense is the single largest employer in the United States. With a total of 2,250,000 full-time civilian and military personnel (not including part-time members of the Guard and Reserve), DoD personnel make up 51 percent of the total federal government workforce.<sup>4</sup> DoD employs more Americans than Wal-Mart (1,400,000<sup>5</sup>) and the US Post Office (599,000<sup>6</sup>) combined. Because of the sheer size of DoD’s payroll, changes in pay and benefits have a significant impact on the overall budget.

In recent years, Congress has focused particular attention on military pay raises, due to the stresses the wars in Iraq and Afghanistan have placed on members of the military and their families and the need to induce people to enlist and re-enlist. The FY 2004 National Defense Authorization Act mandated that military pay raises equal or exceed the Employment Cost Index (ECI) in all future budget submissions. Military pay raises have varied considerably from the ECI in the past, with raises falling below the ECI for much of the 1980s, tracking more closely during the 1990s, and exceeding the ECI nearly every year

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2 While most personnel-related funding is through O&M and MILPERS, not all O&M and MILPERS funding is personnel-related. O&M in particular funds a variety of other activities, including maintenance of equipment, military operations in Iraq and Afghanistan, and the peacetime operation of air, sea, and land forces.

3 Calculated by dividing the total of the Military Personnel (MILPERS) budget and Defense Health Program budget by the end strength for the same fiscal year.

4 DoD, *National Defense Budget Estimates for FY 2011* (Arlington, VA: DoD, March 2010) p. 216-21. (accessed at [http://comptroller.defense.gov/defbudget/fy2011/FY11\\_Green\\_Book.pdf](http://comptroller.defense.gov/defbudget/fy2011/FY11_Green_Book.pdf))

5 Walmart Corporation, Corporate Factsheet (Bentonville AR: Walmart, March 2010). (accessed at <http://walmartstores.com/download/2230.pdf>)

6 Includes 343,300 mail carriers, 75,800 clerks, and 179,900 mail sorters. Data current as of 2008 from the Bureau of Labor Statistics, *Career Guide to Industries* (Washington DC: GPO, 2010-11 Edition). (accessed at <http://www.bls.gov/oco/cg/>)

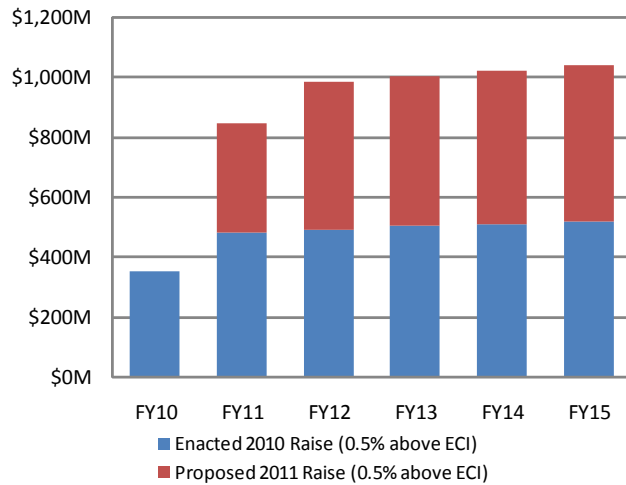
since FY 2000.<sup>7</sup> Pay raises for DoD civilians have, in most years, tracked closely with military pay raises. The FY 2011 budget request proposes a military and civilian pay raise equal to the current ECI, 1.4 percent, but Congress may again choose to increase the raise above the ECI, as it has done in recent years.

The budget impact of pay raises in excess of the ECI is relatively small in the year they are enacted, but because of compounding and cumulative effects, the long-term budget

impact is significant. According to the CBO, the 0.5 percent pay increase above the ECI enacted in FY 2010—a 3.4 percent raise instead of 2.9 percent—cost an additional \$351 million in the FY 2010 budget. However, because pay raises compound from year to year, next year’s raise—even if it does not exceed the ECI—will be higher because it will be applied to a higher base pay. And the cost will continue to accumulate year after year from this single-year raise above the ECI, costing an additional \$2.4 billion over five years even if no additional raises above the ECI are enacted.<sup>8</sup>

Increasing pay above the ECI year after year further magnifies the future budget impact because raises accumulate. For example, an increase of 0.5 percent above the ECI in FY 2011—a 1.9 percent raise instead of the ECI level of 1.4 percent—would add to the previous increase enacted in the FY 2010 budget. The CBO estimates the cost of this additional raise in FY 2011 would be \$367 million in FY 2011 and \$2.4 billion over the next five years.<sup>9</sup> Therefore, the additional cost of raises above the ECI in both FY 2010 and FY 2011 would total some \$850 million in FY 2011 alone and \$4.9 billion over the next five years (FY 2011 to FY 2015). If pay raises above the ECI continue to be enacted in future years, the cycle of cumulative and compounding costs would continue to spiral upward.

**Estimated Cost of Pay Raises Above ECI for FY 2010 and FY 2011**



## Healthcare

DoD provides healthcare and health insurance coverage to 9.6 million eligible beneficiaries, including active-duty troops, retirees, members of the Guard and Reserve, and

<sup>7</sup> Military pay raises are compared to the ECI for the 12-month period ending the September before the budget request is released, as required by law. ECI data are from the Bureau of Labor Statistic’s Employment Cost Index Historical Listing, Table 9. (<http://www.bls.gov/web/eci/ecicois.pdf>) Military pay raise data are from DoD, *National Defense Budget Estimates for FY 2011* (Arlington, VA: DoD, March 2010) p. 56. (accessed at <http://www.bls.gov/web/eci/ecicois.pdf>)

<sup>8</sup> CBO, *S. 1390 National Defense Authorization Act for Fiscal Year 2010* (Washington DC: CBO, July 14, 2009) p. 8. (accessed to [http://comptroller.defense.gov/defbudget/fy2011/FY11\\_Green\\_Book.pdf](http://comptroller.defense.gov/defbudget/fy2011/FY11_Green_Book.pdf))

<sup>9</sup> CBO, *Evaluating Military Compensation* (Washington DC: CBO, April 28, 2010) p. 8. (accessed at <http://www.cbo.gov/ftpdocs/104xx/doc10459/s1390.pdf>)

dependents. The Department currently operates 59 hospitals, 364 military medical clinics, and 275 dental clinics around the world and employs 130,000 medical professionals.<sup>10</sup> Private-sector care is funded through the TRICARE program. In recent years, military healthcare costs have grown at a pace significantly above the rate of inflation. The Defense Health Program in particular increased at a real annual rate of 6.9 percent from FY 2000 to FY 2010. The president's budget request grows the Defense Health Program by another 4.8 percent in FY 2011. Total military healthcare costs are up 3.4 percent in real terms for FY 2011 to a total of \$50.7 billion—nearly one tenth of the total DoD base budget.

The continuing increase in military healthcare costs is due to a combination of factors: new and expanded benefits, general healthcare cost inflation, and increased usage of healthcare benefits by eligible beneficiaries. An example of a new healthcare benefit enacted by Congress is the TRICARE for Life program. TRICARE for Life provides premium-free supplemental insurance for military retirees enrolled in Medicare, and applies retroactively to retirees who retired before the benefit was enacted. As a 2004 RAND study noted, the newly added benefit “provides Medicare-eligible military retirees age 65 or older with one of the most comprehensive health insurance benefit packages in the United States.”<sup>11</sup>

**Because TRICARE fees have not increased since FY 1995, the gap between the average annual health insurance premiums paid by American workers and the cost of TRICARE Prime has widened.**

Accrual payments for this fund total \$10.9 billion in the FY 2011 request, more than one-fifth of the overall military healthcare budget and nearly as much as the funding for the Joint Strike Fighter program (\$11.4 billion, which includes \$2.3 billion in continued R&D and the procurement of 43 aircraft).

The TRICARE program has become an increasingly expensive benefit to provide for members of the military and military retirees. According to the 2010 Military Health System Stakeholder's report, the cost to the military of the TRICARE program has risen from less than \$4,000 per family in 1996 to nearly \$12,000 in 2008. However, fees for TRICARE Prime, the basic HMO-like healthcare plan, have not increased since its inception in FY 1995. TRICARE Prime is free for active-duty members and their dependents, with no annual premium or co-pays for use. The annual premium for military retirees is \$460 for a family, or \$38.33 per month, with a co-pay of \$12 per doctor visit and no annual deductibles. Prescription medications are free if filled at a military installation and are \$3 for generics and \$9 for brand-name if filled at an in-network TRICARE pharmacy.<sup>12</sup>

Because TRICARE fees have not increased since FY 1995, the gap between the average annual health insurance premiums paid by American workers and the cost of TRICARE Prime has widened. According to the Kaiser Family Foundation, the average annual premium for a family plan has more than doubled in the last ten years from \$1,543 in 1999

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<sup>10</sup> According to the Military Health System website (accessed at <http://www.cbo.gov/ftpdocs/114xx/doc11463/04-28-MilitaryPay.pdf>) and DoD, *2010 Military Health System Stakeholders' Report* (Arlington, VA: DoD, 2010). (accessed at [http://www.health.mil/Libraries/Documents\\_Word\\_PDF\\_PPT\\_etc/2010\\_MHS\\_Stakeholders\\_Report.pdf](http://www.health.mil/Libraries/Documents_Word_PDF_PPT_etc/2010_MHS_Stakeholders_Report.pdf))

<sup>11</sup> Michael Schoenbaum et. al., *Health Benefits for Medicare-Eligible Military Retirees: Rationalizing TRICARE for Life* (Santa Monica: RAND, 2004) p. 1.

<sup>12</sup> TRICARE costs taken from DoD's TRICARE: Summary of Beneficiary Costs publication. (accessed at [http://tricare.mil/mybenefit/Download/Forms/Summary\\_of\\_Beneficiary\\_Costs\\_Unlinked.pdf](http://tricare.mil/mybenefit/Download/Forms/Summary_of_Beneficiary_Costs_Unlinked.pdf))

to \$3,515 in 2009.<sup>13</sup> This widening gap makes the use of TRICARE increasingly attractive for military retirees. A 2007 study by the RAND Corporation found that 76 percent of military retirees have access to health insurance through a civilian employer or other group plan, yet only 42 percent of military retirees are enrolled in a civilian insurance plan. Of those enrolled in a civilian plan and paying a premium, 51 percent said they would give up their civilian plan if their premium rose by 25 percent or more.<sup>14</sup> If the cost of civilian health insurance plans continues to increase and TRICARE fees do not, DoD should expect more retirees to give up their civilian health insurance in favor of less expensive TRICARE coverage, further adding to the already rising cost of military healthcare.

Another reason for rising healthcare costs is increased usage of the military healthcare system by beneficiaries. The number of outpatient visits at military treatment facilities is projected to remain relatively flat at 34.0 million visits in FY 2011, but the number of outpatient visits to private-sector care facilities is expected to jump by more than 9 percent to 56.6 million visits.<sup>15</sup> The number of visits to dental clinics is also on the rise at over 15,000 visits per day and climbing. As a result, the cost of military healthcare on a per capita basis rose 42 percent above the rate of inflation from FY 2002 to FY 2009.<sup>16</sup> DoD projects that the overall cost of military healthcare will continue to increase at a rate of 5 to 7 percent annually through FY 2015.<sup>17</sup>

## Education

DoD is also responsible for the education of thousands of students each year, from prekindergarten through graduate degree programs. The DoD Education Activity (DoDEA) operates 191 schools at the prekindergarten-through-12<sup>th</sup>-grade level and employs over 12,000 personnel to serve 84,000 students.<sup>18</sup> If considered as a single school district, DoD's primary and secondary school system would be among the 40 largest school districts in the United States, ranking near the total enrollment of schools in a major US city, such as Baltimore, Maryland or Austin, Texas.<sup>19</sup> The budget for DoDEA totals \$2.3 billion in the FY 2011 request, up from \$2.1 billion in FY 2010. The increase in funding for DoDEA is in part due to the initiation of a five-year program to replace or modernize half of DoD's primary and secondary schools.

DoD also operates the three military academies at the undergraduate level, which together graduate about 3,000 officers annually, and the Reserve Officer Training Corps,

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13 Data on average health insurance premiums paid by workers from Kaiser and HR&ET, *Employer Health Benefits 2009 Annual Survey* (Menlo Park, CA: Kaiser, 2009), pp. 70-1.

14 Louis T. Mariano, et al., *Civilian Health Insurance Options of Military Retirees: A Pilot Study* (Santa Monica: RAND, 2007) pp. 28-47.

15 DoD, *Operation and Maintenance Overview: Fiscal Year 2011 Budget Estimates* (Arlington VA: DoD, February 2010) p. 194. (accessed at [http://comptroller.defense.gov/defbudget/fy2011/fy2011\\_OM\\_Overview.pdf](http://comptroller.defense.gov/defbudget/fy2011/fy2011_OM_Overview.pdf))

16 DoD, *2010 Military Health System Stakeholders' Report* (Arlington, VA: DoD, 2010). (accessed at [http://www.health.mil/Libraries/Documents\\_Word\\_PDF\\_PPT\\_etc/2010\\_MHS\\_Stakeholders\\_Report.pdf](http://www.health.mil/Libraries/Documents_Word_PDF_PPT_etc/2010_MHS_Stakeholders_Report.pdf))

17 DoD, *DoD FY 2011 Budget Request Overview* (Arlington VA: DoD, February 2010) p. 3-3.

18 Data current as of September 11, 2009 from the DoD Education Activity website (accessed at <http://www.dodea.edu/home/about.cfm?cId=facts>)

19 Based on Fall 2006 Department of Education data, Thomas D. Snyder, et al., *Digest of Education Statistics 2008* (Washington DC: US Department of Education, March 2009) p. 151.

which in FY 2004 produced 3,625 scholarship and 3,241 non-scholarship officers.<sup>20</sup> DoD also operates the largest community college in the world, the Community College of the Air Force.<sup>21</sup> In addition, the Services each fund numerous degree-awarding graduate schools, such as the Naval Postgraduate School, the Air Force Institute of Technology, and the Uniformed Services University of the Health Sciences. The Department operates a number of professional schools for members of the military and civilian leaders, including the Services' war colleges, command and staff colleges, and the National Defense University, to name a few. Service members are also eligible to receive tuition assistance of up to \$4,500 per year for college courses taken during off-duty hours, and military spouses can receive up to \$6,000 in college tuition assistance, among other education benefits.<sup>22</sup> In addition, many Service members and their dependents qualify for education benefits under the GI Bill; however, this funding is through the Department of Veterans Affairs and is not part of the defense budget.

### **The “Guns” Budget**

The “guns” portion of the defense budget is the cost of acquiring and employing military equipment. It is funded through the research, development, test and evaluation (RDT&E), procurement, and O&M accounts. RDT&E funding is generally used to pay for basic and applied research, technology and component development, and system development. Procurement funding generally supports the purchase of weapon systems that have already been developed and are in production. The O&M budget funds the cost of using that equipment, including maintenance, peacetime operations, and wartime operations, which in recent years has been handled through supplemental appropriations.

### **Acquisition**

Over the past 25 years, the share of the base defense budget allocated to acquisitions has fallen from 45 percent in FY 1985 to its current level of 34 percent. But while the share of the defense budget used for acquisitions has fallen, in recent years the amount of funding for acquisitions has risen well above the rate of inflation. Over the past ten years, from FY 2000 to FY 2010, RDT&E and procurement funding grew at real annual rates of 5.2 percent and 4.2 percent, respectively. As Secretary Gates has noted, DoD modernization initiatives have been plagued by the piling on of “exquisite” requirements, which have driven up costs, stretched out procurement schedules, and lowered procurement quantities.<sup>23</sup>

***Cost overruns in acquisition programs are a contributing factor in the lagging pace of procurements.***

Cost overruns in acquisition programs are a contributing factor in the lagging pace of procurements. In the most recent Selected Acquisition Report, DoD reported that 75 percent of the major acquisition programs had exceeded their baseline program acquisition

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<sup>20</sup> Based on DoD data (accessed at [http://prhome.defense.gov/poprep2004/appendixb/b\\_39a.html](http://prhome.defense.gov/poprep2004/appendixb/b_39a.html))

<sup>21</sup> According to the CCAF website. (accessed at <http://www.au.af.mil/au/ccaf/>)

<sup>22</sup> The My Career Advancement Account (MyCAA) program was temporarily suspended in early 2010 due to the overwhelming response of military spouses seeking financial assistance.

<sup>23</sup> Robert Gates, *Defense Budget Recommendation Statement* (Arlington, VA: n/p, April 6, 2009).

unit cost (PAUC), up from 66 percent in the previous report.<sup>24</sup> In the FY 1985 budget (at the peak of the Reagan arms buildup) DoD bought 338 tactical fighters and 23 ships, among other items. In the FY 2008 budget, which exceeded the FY 1985 by 33 percent in real terms, DoD bought just 56 tactical fighters and 7 ships.<sup>25</sup> Much of the cost overrun in acquisitions is due to overruns in RDT&E. In 2009 the GAO found that of the 96 major defense acquisition programs in the acquisition portfolio, total acquisition cost (including both procurement and RDT&E) had increased 25 percent from first estimate while RDT&E cost alone had increased 42 percent.<sup>26</sup>

Procurement funding, \$106 billion in the FY 2010 base budget, is well below its previous peak level of funding in FY 1985 of \$177 billion (both figures are in FY 2011 dollars). RDT&E funding, however, is near a record high at \$81 billion in FY 2010 compared to \$57 billion in FY 1985 (also in FY 2011 dollars). As a result, the ratio of procurement to RDT&E has fallen from a peak of 3.5 to 1 during the early 1980s to a level of 1.3 to 1 in the FY 2010 base budget. The FY 2011 budget request begins to reverse this trend by proposing a real increase of 6.6 percent in procurement and a real decrease of 6.0 percent in RDT&E in the base budget, bringing the ratio up to 1.5 to 1, due in part to more programs coming to maturity and few new-start programs. Under the Future Years Defense Program (FYDP) submitted with the budget, funding for procurement is projected to continue rising and RDT&E is projected to continue declining. As a result, the ratio of procurement to RDT&E in the base budget will increase to 2.0 to 1 by FY 2015, the highest level since FY 1990.

## Peacetime Operations

The base budget for O&M provides for the peacetime operation, training, and support of military forces around the world. The proposed FY 2011 base budget for peacetime operation of air, ship, and land forces provides a collective increase of \$3.8 billion in real terms, but this is only sufficient to fund a similar or, in some cases, significantly lower peacetime operational tempo compared to FY 2010. Air operations funds the day-to-day operation and maintenance of aviation assets in the Army, Navy, Air Force, and Marine Corps. Overall funding for air operations is up 7.3 percent in real terms to \$37.7 billion, but a key measure of operational tempo, flying hours per crew per month, is down by 26 percent and 19 percent respectively for active-duty Air Force bombers and fighters. Army and Navy flying hours per crew per month are up slightly by 2.5 and 3.6 percent, respectively.<sup>27</sup> Funding for ship operations is up 12 percent in real terms to \$10.7 billion in the FY 2011 request, while a key measure of operational tempo, the number of steaming days per quarter, remains at the same level as FY 2010. Funding for land forces O&M also grows by 3 percent in real terms to \$6.1 billion with a 5.5 percent increase in OPTEMPO

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<sup>24</sup> PAUC is calculated by dividing the total program acquisition cost, including R&D and procurement, by the total quantity of items planned. This accounts for cost increases that can occur due to an increase in quantity, which is not truly a cost overrun. For systems that do not have a projected quantity listed in the SAR, the increase in the total program cost is used instead.

<sup>25</sup> Stephen Daggett, *Cost of Current Defense Plans* (Washington DC: CRS, February 2010) p. 7.

<sup>26</sup> GAO, *Defense Acquisitions: Assessments of Selected Weapon Programs* (Washington DC: GAO, March 2009).

<sup>27</sup> DoD, *Operation and Maintenance Overview: Fiscal Year 2011 Budget Estimates* (Arlington VA: DoD, February 2010)



miles, the Army's metric for the rate of activity of weapons systems (such as tank miles or vehicle miles), and no change in USMC deployable days, the Marine Corps' preferred metric for the rate of activity of weapon systems.<sup>28</sup>

## Wartime Operations

The wars in Iraq and Afghanistan have been among the most expensive in American history, second only to World War II in inflation-adjusted dollars. From FY 2001 to FY 2010, nearly 20 percent of the defense budget was used for the wars in Iraq and Afghanistan, totaling more than \$1 trillion. In terms of the annual cost per troop, the current wars may be the highest ever, averaging \$1,186,000 per troop in Afghanistan and \$685,000 per troop in Iraq (in FY 2011 dollars). In comparison, at the height of World War II in 1945, the cost per troop was \$67,000 (in FY 2011 dollars)<sup>29</sup>, and the cost per troop at the height of the Vietnam War in 1968 was \$132,000 (in FY 2011 dollars).<sup>30</sup>

***The wars in Iraq and Afghanistan have been among the most expensive in American history, second only to World War II in inflation-adjusted dollars.***

The increase in cost on a per troop basis can be attributed to several factors. US forces in Iraq and Afghanistan are drawn entirely from an all-volunteer force that has undergone more rigorous training, is more experienced, and is better paid. The equipment troops use today, from the vehicles they drive to the sensors and unmanned systems they employ, is more technologically advanced and, therefore, more expensive to field and maintain. The operating environment in Iraq and Afghanistan, particularly the supply routes into and within these countries, drives up costs even further, especially considering the logistics trail required for modern weapon systems and the need for extensive force protection along supply routes.

Annual war funding has varied over the years based on such factors as the operational tempo and the number and composition of forces deployed in each theater. The recent surge of troops into Afghanistan comes as US forces are withdrawing from Iraq. If current plans prove true and forces return to pre-surge levels in Afghanistan in FY 2012 and continue falling in the following years, it is conceivable that war funding could be largely, but not entirely, eliminated by the end of the FYDP.

## Conclusion

The Department of Defense faces a critical question in the coming years as budgets become tight and each dollar of federal spending comes under greater scrutiny. Will DoD

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<sup>28</sup> Ibid.

<sup>29</sup> This figure is calculated using the total funding for the war effort in FY 1945 of \$810 billion in FY 2011 dollars or 35.8 percent of GDP, source: Stephen Daggett, *Cost of Major US Wars* (Washington DC: CRS, July 24, 2008) p. 2. The number of troops used is the total end strength in 1945 of 12 million, assuming a total mobilization of the armed forces, source: DoD, *National Defense Budget Estimates for FY 2011* (Arlington, VA: DoD, March 2010) p. 216.

<sup>30</sup> This figure uses the peak year of funding (1968), which is \$104 billion in FY 2011 dollars (2.3% of GDP, source: Stephen Daggett, *Cost of Major US Wars* (Washington DC: CRS, July 24, 2008) p. 2.). The total number of troops deployed to Southeast Asia as of September 30, 1968 was 785,809 (source: DoD Military Personnel Historical Reports for 1968 accessed at <http://siadapp.dmdc.osd.mil/personnel/MILITARY/history/309hist.htm>)

continue to fund the growing personnel costs needed to “preserve and enhance the All-Volunteer Force,” as was called for in the QDR? Or will it continue to fund the growing acquisition and operational costs needed to “prevent and deter conflict” and “prepare to defeat adversaries and succeed in a wide range of contingencies,” also called for in the QDR? The fiscal reality is that in a flat or declining budgetary environment, it cannot continue to do both to the same extent that it does today.

The new guns versus butter debate is also an intergenerational struggle—a question of providing benefits for those who served in the past or funding the equipment and training needed for those who will fight tomorrow’s wars. In a constrained budget environment, every dollar going to pay for healthcare, pensions, and other retiree benefits is a dollar not available to ensure tomorrow’s troops are the best equipped and trained military force in the world.

Current trends tend to favor the “butter” budget. ***The new guns versus butter debate is also an intergenerational struggle—a question of providing benefits for those who served in the past or funding the equipment and training needed for those who will fight tomorrow’s wars.*** Increases in pay and benefits have what economists call “stickiness” in that they are resistant to reductions. It is highly unlikely Congress or the administration would rescind raises or benefits enacted over the past decade while shielding the “guns” accounts from cuts. As these raises and benefits continue to accumulate they will crowd out investments in future capabilities.

Indeed, acquisition funding has traditionally proven easier to cut. While existing programs with active production lines have a large constituency that can be mobilized, new-start programs or programs still early in development do not have such a constituency. Over time, a reduction in new-starts can reduce the acquisition budget substantially as existing programs reach the end of planned production and new programs are coming online at a reduced rate. Moreover, excessive cost overruns in high-profile programs can cast all defense acquisitions in a bad light and make acquisition funding more difficult to defend both to members of Congress and the public at large.

There are also unknown factors that could influence the outcome of the new guns versus butter debate. While war funding is expected to decline in the coming years, lessening the overall stress on the federal budget, a worsening of conditions on the ground could slow the withdrawal from Iraq or extend the surge in Afghanistan. The cost of resetting the force, in terms of repairing and replacing damaged equipment, could prove to be more than currently planned and could displace funding in the base budget. The Department also began a number of acquisition reform initiatives over the past year, such as in-sourcing more of the acquisition workforce, and it is too soon to tell whether the expected savings from these initiatives will materialize.

Ultimately, the challenge for DoD, as it has always been, is finding the right balance between competing priorities. There are no easy solutions for reigning in personnel or equipment costs, and many of the solutions that do exist come with risks and complications of their own. The Department would be wise to make these decisions within the context of a coherent strategy that consciously accepts risk in some areas in order to balance risk elsewhere. As Secretary Gates said recently at the Eisenhower Library, these are the

questions that the Department must “be willing to ask and answer in order to have a balanced military portfolio geared to real world requirements and a defense budget that is fiscally and politically sustainable over time.”<sup>31</sup> In these fiscal times, with the challenging budget years that lie ahead, DoD can no longer afford to spend its way out of problems. Making the hard decisions now will make for a more efficient and effective defense in the future.

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<sup>31</sup> Remarks as Delivered by Secretary of Defense Robert M. Gates, Abilene, KS, Saturday, May 08, 2010 (accessed at <http://www.defense.gov/Speeches/Speech.aspx?SpeechID=1467>)

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## **About the Center for Strategic and Budgetary Assessments**

The Center for Strategic and Budgetary Assessments (CSBA) is an independent, nonpartisan policy research institute established to promote innovative thinking and debate about national security strategy and investment options. CSBA’s goal is to enable policymakers to make informed decisions on matters of strategy, -security policy and resource allocation.

CSBA provides timely, impartial and insightful analyses to -senior decision makers in the executive and legislative branches, as well as to the media and the broader national security community. CSBA encourages thoughtful participation in the development of national security strategy and policy, and in the allocation of scarce human and capital resources. CSBA’s analysis and outreach focus on key questions related to existing and emerging threats to US national security. Meeting these challenges will require transforming the national security establishment, and we are devoted to helping achieve this end.