

The Trillion-Dollar Defense Budget Is Already Here

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When President George W. Bush presented his budget proposals recently for the fiscal year 2008, he emphasized that the nation's security is his highest priority, and he backed up that declaration by proposing that the Pentagon's outlays be increased by more than 6 percent beyond its estimated outlays for fiscal 2007, to a total of more than \$583 billion. Although many Americans regard this enormous sum as excessive, hardly anyone appreciates that the total amount of all defense-related spending greatly exceeds the amount budgeted for the Department of Defense. Indeed, it is roughly almost twice as large.

In the fiscal year 2006, which ended last September, the Pentagon spent \$499.4 billion. Lodged elsewhere in the budget, however, other lines identify funding that serves defense purposes just as surely as—sometimes even more surely than—the money allocated to the Department of Defense. On occasion, commentators take note of some of these additional defense-related budget items, such as the Department of Energy's nuclear-weapons programs, but many such items, including some extremely large ones, remain generally unrecognized.

Since the creation of the Department of Homeland Security, many observers probably would agree that its budget ought to be included in any complete accounting of defense costs. After all, the homeland is what most of us want the government to defend in the first place.

Other agencies also spend money in pursuit of homeland security. The Justice Department, for example, includes the Federal Bureau of Investigation, which devotes substantial resources to an anti-terrorist program. The Department of the Treasury informs us that it has "worked closely with the Departments of State and Justice and the intelligence community to disrupt targets related to al Qaeda, Hizballah, Jemaah Islamiyah, as well as to disrupt state sponsorship of terror."

Much, if not all, of the budget for the Department of State and for international assistance programs ought to be classified as defense-related, too. In this case, the money serves to buy off potential enemies and to reward friendly governments who assist U.S. efforts to abate perceived threats. About \$4.5 billion of annual U.S. foreign aid currently takes the form of "foreign military financing," and even funds placed under the rubric of economic development may serve defense-related purposes indirectly. Money is fungible, and the receipt of foreign assistance for economic-development projects allows allied governments to divert other funds to police, intelligence, and military purposes.

Two big budget items represent the current cost of defense goods and services obtained in the past. The Department of Veterans Affairs, which is authorized to spend more than \$72 billion in the current fiscal year, falls in this category. Likewise, a great deal of the government's interest expense on publicly held debt represents the current cost of defense

outlays financed in the past by borrowing from the public.

To estimate the size of the entire de facto defense budget, I gathered data for fiscal 2006, the most recently completed fiscal year, for which data on actual outlays are now available. In that year, the Department of Defense itself spent \$499.4 billion. Defense-related parts of the Department of Energy budget added \$16.6 billion. The Department of Homeland Security spent \$69.1 billion. The Department of State and international assistance programs laid out \$25.3 billion for activities arguably related to defense purposes either directly or indirectly. The Department of Veterans Affairs had outlays of \$69.8 billion. The Department of the Treasury, which funds the lion's share of military retirement costs through its support of the little-known Military Retirement Fund, added \$38.5 billion. A large part of the National Aeronautics and Space Administration's outlays ought to be regarded as defense-related, if only indirectly so. When all of these other parts of the budget are added to the budget for the Pentagon itself, they increase the fiscal 2006 total by nearly half again, to \$728.2 billion.

To find out how much of the government's net interest payments on publicly held national debt ought to be attributed to past debt-funded defense spending requires a considerable amount of calculation. I added up all past deficits (minus surpluses) since 1916 (when the debt was nearly zero), prorated according to each year's ratio of narrowly defined national security spending—military, veterans, and international affairs—to total federal spending, expressing everything in dollars of constant purchasing power. This sum is equal to 91.2 percent of the value of the national debt held by the public at the end of 2006. Therefore, I attribute that same percentage of the government's net interest outlays in that year to past debt-financed defense spending. The total amount so attributed comes to \$206.7 billion.

Adding this interest component to the previous all-agency total, the grand total comes to \$934.9 billion, which is more than 87 percent greater than the Pentagon's outlays alone.

If the additional elements of defense spending continue to maintain the same ratio to the Pentagon's amount—and we have every reason to suppose they will—then in fiscal year 2007, through which we are now passing, the grand total spent for defense will be \$1.028 trillion. I confirmed the rough accuracy of this forecast by adding up the government's own estimates of fiscal 2007 outlays for the various additional defense-related items, obtaining a total of \$987 billion—an amount only 4 percent less than my ratio-based estimate. Future defense-related supplemental appropriations for fiscal 2007, which would hardly be surprising, might easily bring the lower estimate up the higher one.

Although I have arrived at my conclusions honestly and carefully, I may have left out items that should have been included—the federal budget is a gargantuan, complex, and confusing collection of documents. If I have done so, however, the left-out items are not likely to be relatively large ones. (I have deliberately ignored some minor items, such as the outlays of the Selective Service System and the National Defense Stockpile and the Treasury's program to block financial flows to terrorists.) Therefore, I propose that in considering future defense budgetary costs, a well-founded rule of thumb is to take the Pentagon's (always well publicized) basic budget total and double it. We may overstate the truth, but if so, we'll not do so by much.

For now, however, the conclusion seems inescapable: the government is currently spending at the rate of approximately \$1 trillion per year for all defense-related purposes. Moreover, even if I have erred in my calculations and overstated the correct amount somewhat, the

total will certainly reach this astonishing sum very soon, given all the plans and programs already set in motion.

National Security Outlays in Fiscal Year 2006

(billions of dollars)

Department of Defense

499.4

Department of Energy (nuclear weapons & environ. cleanup)

16.6

Department of State

25.3

Department of Veterans Affairs

69.8

Department of Homeland Security

69.1

Department of Justice (1/3 of FBI)

1.9

Department of the Treasury (for Military Retirement Fund)

38.5

National Aeronautics & Space Administration (1/2 of total)

7.6

Net interest attributable to past debt-financed defense outlays

206.7

Total

934.9

Source: Author's classifications and calculations; basic data from U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2008* and U.S. Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1970*.

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