Defense versus Mandatory Spending: What Drives the Burden on the Budget and Economy?

Anthony H. Cordesman

There is a mild irony in the fact that the New Hampshire primary will occur on the same day that the Department of Defense issues its new FY2017 defense budget briefing. The release of the defense budget almost inevitably triggers another round of debates over the cost of defense, while the New Hampshire primary is a contest between candidates who all seem to be running against the government they want to head, but say almost nothing about the hard choices they would have to make in shaping federal spending and finding ways to end the deficit.

The Congressional Budget Office (CBO), however, does provide non-partisan estimates of the trends in the federal budget, and they show two critical trends that are shown in Figure One below.

The first is that defense spending now puts a far lower pressure on the economy, budget, and the taxpayer than it did at the height of the Cold war when it reach peaks of around 7.5% of the economy. More than that, it has dropped from 5.2% of the GDP at the end of the Cold War to 3.2% in FY2016 – less than half of its Cold War peak, and is projected to drop to only 2.6% in 2016. This is a far steeper pace of cuts than the CBO projects in discretionary civil spending – although it too has dropped as burden on the economy – from 4.0% in 1996 to 3.5% in 1991, 3.3% in 2016, and a projected 2.6% in 2026.

The second is that this in no way means the budget crisis is projected to be over. What no candidate of either party seems to want to focus on is that the CBO projects that – for all of the talk about sequestration and the Budget Control Act and cutting federal spending and the deficit – the projected trend is towards a far higher deficit: from 2.9% of the GDP in 2016 to 4.9% in 2026. As for the federal debt, its percentage of the GDP is projected to more than double – from 1.4% in 2016 to 3.0% in 2026.

Why is there something of a bipartisan silence about these issues in most political statements and debates? Well Figure One shows the “why” all too clearly. The problems in federal spending don’t lie in the areas that are the focus of political debates. They lie in the steady projected rise of mandatory entitlements that people want but no one want to raise taxes to pay for.

Social Security, for example, becomes steadily more costly as Americans live longer and the population ages. The burden that Social Security puts on the economy has risen from 2.6% in 1966 to 4.4% in 1991, and 4.9% in 2016, and will nearly double over time to a projected 5.9% in 2026. And, if that seems steep, just consider what has happened to major Federal Health Care programs. They were only 0.1% of the GDP in 1966, and rose to 2.5% in 1991, and then more than doubled to 5.6% in 2016. They are projected to reach 6.6% in 2026 – some 66 times what they were in 1966.

In fact, the CBO projects that Social Security and medical programs will account for 60% of all the rise in federal spending over the next ten years, and interest on the debt will account for 23%. Defense and other regular federal spending will only equal 17% of that
total and – since the economy and salaries will grow much faster – will be a far smaller burden on the economy and taxpayer than today.

There are good arguments that most of this spending meets crucial social needs, and equally strong arguments that taxes need to be raised to pay them – but the bipartisan silence over bringing them into balance may well continue well beyond this November.
Figure One: The CBO Analysis of What Drives Federal Spending, the Burden on the Economy, and the Burden on the Taxpayer

Spending and Revenues Projected in CBO’s Baseline, Compared With Actual Values in 1966 and 1991

Percentage of Gross Domestic Product

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<tr>
<th>Mandatory Spending</th>
<th>Discretionary Spending</th>
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<td>Defense</td>
<td>Nondefense</td>
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Total Outlays

1966 17.2
1991 21.7
2016 21.2
2026 23.1

Total Revenues

1966 16.7
1991 17.3
2016 18.3
2026 18.2

Deficit

-0.5 -4.4 -2.9 -4.9

Source: Congressional Budget Office.

a. Consists of Medicare (net of premiums and other offsetting receipts), Medicaid, the Children’s Health Insurance Program, and subsidies for health insurance purchased through exchanges and related spending.

Outlays, by Type of Spending

Percentage of Gross Domestic Product

Under current law, rising spending for Social Security and Medicare would boost mandatory outlays.

Total discretionary spending is projected to fall relative to GDP as funding grows modestly in nominal terms.

At the same time, higher interest rates and growing debt are projected to push up net interest payments.