Chapter 4

Four Percent for Freedom: Spend More on National Defense

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In the cover article for *National Review* on March 5, Heritage Foundation Distinguished Fellow and former Senator James Talent (R–MO) urged the United States to commit 4 percent of its economic output or gross domestic product (GDP) to defense. Senator Talent is concerned that inadequate U.S. funding for defense will lead to a "hollow force" that lacks the manpower, training, operational capabilities, and/or modern weapons necessary to prevail decisively on the battlefield.

A policy of sustaining defense spending at 4 percent of GDP raises the same question from both ends of the ideological spectrum: Why 4 percent? Liberals may argue that this level of commitment is too high. Conservatives may question whether it is sufficient. The answer is that 4 percent would meet the military's requirements to protect the nation while allowing sustained long-term economic growth. The figure is based on separate arguments about why less than 4 percent is too little and why 4 percent is adequate in the context of robust economic growth.

Less Than 4 Percent Is Too Little

The argument against spending significantly less than 4 percent of GDP on defense is simple and straightforward. Even with robust economic growth, spending significantly less than 4 percent on defense will shortchange the military, producing a hollow force with some combination of the following attributes:

- **Too small.** The Department of Defense is already increasing manpower levels for U.S. ground forces by 92,000 by 2012. Manpower, however, is expensive, and spending less than 4 percent will make completing the proposed increases extremely difficult. It could also raise pressures to reinstate the draft, which would reduce the quality of manpower because draftees would likely be poorly motivated and inadequately prepared for military service.
- **Unable to sustain operations in the war on terrorism.** The war against Islamic terrorists will be a long war. While the operational tempo of the U.S. military during this war will vary, in general terms the conflict will require an elevated tempo. Spending less than 4 percent may place the President in the position of needing to undertake a sizeable operation to meet a threat without the resources to sustain that operation.
- **Low readiness.** Training military personnel for prospective operations is expensive, but cutting back on training will result in units that are not ready for combat.
- **Aging weapons and equipment.** During the 1990s, the Clinton Administration and Congress sharply reduced funding for developing and acquiring new weapons. Because of this "procurement holiday," the military's inventory of weapons and equipment is aging. Replacing these worn-out or obsolete weapons will require a significant investment. Failing to make this investment risks losing U.S. forces' technological advantage on the battlefield.

Strong Economic Growth Is Essential

The case for the argument that spending 4 percent of GDP is adequate to provide for national security is somewhat more complicated than the case for the argument that spending significantly less than 4 percent is too little. The crux of the argument is that the actual defense budget is a dollar amount, not a specific percentage of GDP. In a robust economy, this dollar figure (equal to 4 percent of GDP) will be relatively high because the economy will be larger. If the economy grows at the rate currently projected by the Bush Administration, 4 percent of GDP would mean a defense budget of $711.4 billion in fiscal year (FY) 2012. However, if the economy stagnates between now and 2012 and Congress allocates 5 percent of GDP to defense, the military would receive $688.5 billion in FY 2012.

The argument can be made that Congress should establish dollar-based budget targets for defense and stick to those regardless of the overall economy's performance. The argument is logically sound but impractical. There is no way around the fact that the defense budget will be a casualty of a stagnant or shrinking economy. Not even the Soviet Union with its command economy could buffer its strongly pro-military budget against the forces of economic decline in the 1980s. The lesson for the defense sector is that economic growth must come first.

Providing for Defense by Following Pro-Growth Policies

Because meeting the resource needs of the Department of Defense depends on a growing economy, both Congress and the public need to focus on furthering pro-growth economic policies. The critical elements of these policies are:

- **Restraining federal spending.** The primary federal budget problem is the projected growth in spending on Social Security, Medicare, and Medicaid—the three major entitlement programs. Entitlement spending is forecast to increase dramatically in the coming decades and, unless these programs are reformed, will crowd out defense spending in the federal budget and hobble economic growth, ultimately depriving the federal government of the resources made available by a growing economy.
- **Keeping federal taxes low.** High tax rates will discourage Americans from working, saving, and investing. The perverse incentives created by high tax rates will be a drag on economic growth, and the defense budget will become a casualty.
- **Maintaining a prudent monetary policy.** Economic growth is encouraged by a monetary policy that balances the need to combat inflation with the need to increase the money supply to permit access to credit. In general terms, the Federal Reserve has been effective in finding this balance. However, demographic trends—specifically, the retirement of the baby-boom generation—will make this task more difficult.

Conclusion

Senator Talent's recommendation to allocate 4 percent of GDP to meeting the national security needs of the United States is designed to drive long-term trends, not to establish a precise requirement for any specific year. In some years, the defense budget can and should exceed 4 percent of GDP. In other years, it may fall just shy of the target.

Regrettably, current forecasts are pointing in the wrong direction. The Bush Administration's current budget proposal shows the defense budget declining to just 3.2 percent of GDP by 2012. Even with robust levels of economic growth, this level of funding is too small to meet the nation's defense needs. The Bush Administration and Congress need to do better by simultaneously working to keep overall federal spending and taxes low and allocating the resources generated from the resulting higher levels of economic growth to provide adequately for national security.

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