



A Return to Responsibility

What President Obama and Congress Can Learn About
Defense Budgets from Past Presidents

Lawrence J. Korb, Laura Conley, and Alex Rothman July 2011



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Introduction and summary

Congress and the Obama administration must get defense spending under control as the country faces large budget deficits and debt—especially since military spending did much to contribute to our budget problems. Total U.S. defense spending (in inflation-adjusted dollars) increased so much over the past decade that it reached levels not seen since World War II when the United States had 12 million people under arms and waged wars on three continents.

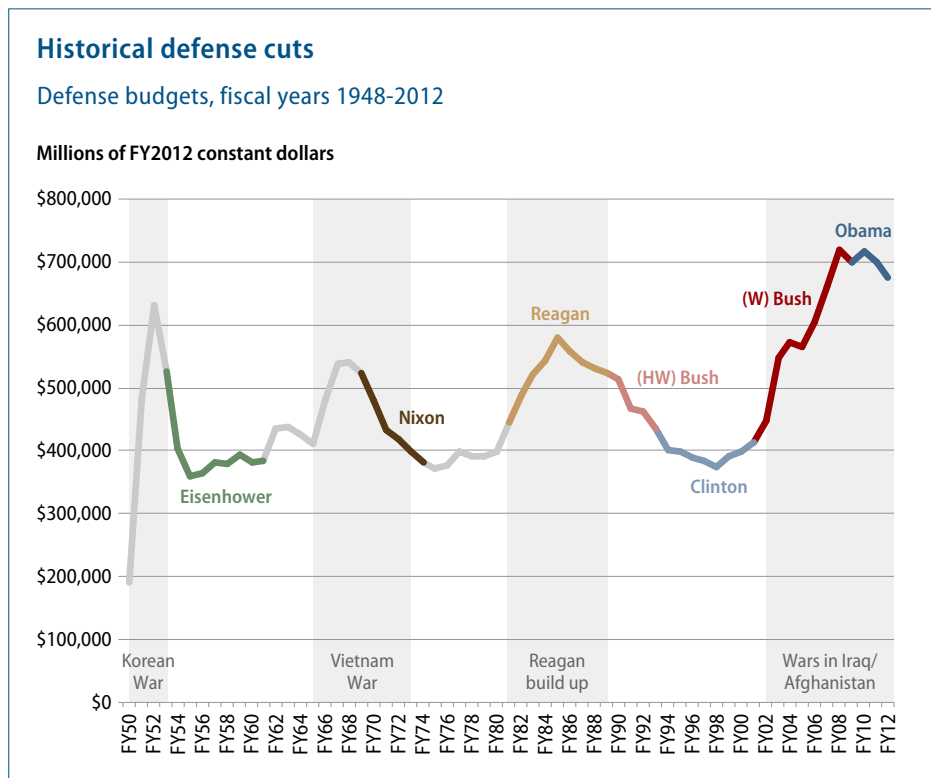
Some of this growth can be attributed to the wars in Iraq and Afghanistan. But the baseline or regular defense budget has also increased significantly. The baseline budget, which does not include funding for Iraq or Afghanistan, has grown in real terms for an unprecedented 13 straight years. It is now \$100 billion more than what the nation spent on average during the Cold War. When war funding is added, we are now spending about \$250 billion more per year than during the Cold War. This ballooning defense budget played a significant role in turning the budget surplus projected a decade ago into a massive deficit.

As the Obama administration and Congress try to agree on a deal to raise the debt limit—an agreement that will inevitably involve cutting some money from the budget—they should keep in mind that they can cut \$100 billion in defense spending annually and still keep our military budget at the Reagan administration's peak Cold War levels of approximately \$580 billion (all numbers adjusted for inflation unless otherwise noted). Bringing the defense budget down to the levels that existed under Presidents Eisenhower, Nixon, H.W. Bush, and Clinton would require reductions of \$250 billion to \$300 billion annually.

The question currently facing Congress and President Barack Obama—how much to spend on defense in times of large deficits or in the final years of a war—is not new. In fact, the graph on page 2 shows that a number of presidents from both parties carried out significant reductions in the defense budget under similar circumstances since the end of World War II.

Presidents Richard Nixon and Bill Clinton needed to identify reasonable levels of defense expenditures as the United States transitioned from war spending to peacetime budgets, while President Ronald Reagan needed to control defense spending in the face of rising deficits. Presidents Dwight Eisenhower and George H.W. Bush, like President Obama today, confronted both scenarios at once.

The graph on page 3 contrasts those budget reductions with the alarming defense budget growth during the George W. Bush administration as well as with President Obama's first few defense budgets.



Source: Department of Defense, "National Defense Budget Estimates for FY 2012," March 2011, p. 123-128, available at http://comptroller.defense.gov/defbudget/fy2012/FY12_Green_Book.pdf.

This paper looks back at the post-World War II presidents who cut the budget to see how they brought defense spending into balance in the face of deficits and war drawdowns. It shows how each president made decisions based on a number of factors including the threats the country faced at the time. These particular presidents were selected because they were in office during the country's most significant post-WWII drawdowns, as is evident from the chart above.

We can draw three major lessons from the reductions, though there are others we will point out throughout the paper.

First, requesting fiscally responsible defense budgets has been historically a bipartisan effort:

- To keep a balanced budget, President Dwight Eisenhower, a five-star Army general and lifelong Republican, slashed defense spending by 27 percent after the armistice that ended the Korean War.

- President Richard Nixon, also a Republican and Eisenhower’s vice president, cut the defense budget by 29 percent as he withdrew from Vietnam.
- Between 1985 and 1998 the defense budget fell for 13 straight years as Presidents Reagan, Bush, and Clinton—two Republicans and a Democrat—brought spending down to more sustainable levels as the Cold War wound down.

Second, previous spending reductions did not compromise U.S. national security or create a hollow military despite claims to the contrary:

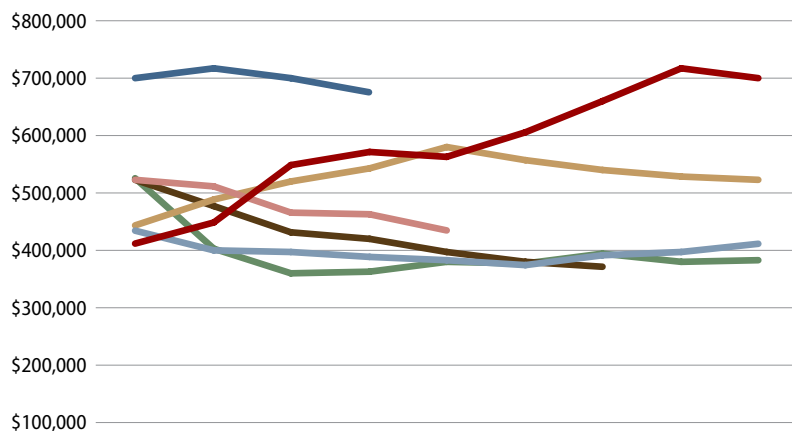
- The spending cuts usually attributed to President Clinton and, on occasion, President George H.W. Bush actually began during the Reagan administration’s second term when the United States was still engaged in the Cold War. This smaller military drove the Taliban out of Afghanistan in 2001 in a matter of weeks and successfully ousted Saddam Hussein from Iraq. It might have fared better in both conflicts in the long term had the George W. Bush administration not insisted on an inadequately light footprint in the early years of those wars.

- Presidents Eisenhower and Nixon balanced sensible budget cuts with investment in the future of the force. President Eisenhower cut the defense budget by 27 percent during his time in office, but he also doubled funding for research, development, test,

Sensible reductions

Topline defense spending by president

Budget authority in millions of FY 2012 constant dollars



	Budget inherited	1	2	3	4	5	6	7	8
		Budgets in office							
— Eisenhower	526,341	403,058	359,860	363,849	380,383	378,534	393,937	381,415	382,745
— Nixon	523,863	478,997	433,377	419,220	398,293	381,437	371,300		
— Reagan	444,088	488,694	521,588	542,935	580,046	558,187	541,074	529,960	523,598
— (HW) Bush	523,598	512,847	466,480	462,631	435,347				
— Clinton	435,347	401,164	399,044	388,151	383,790	374,045	392,291	398,836	412,397
— (W) Bush	412,397	447,872	548,687	571,592	563,833	604,991	661,202	718,396	699,454
— Obama	699,454	717,136	700,117	676,044					

Source: Department of Defense, "National Defense Budget Estimates for FY 2012," March 2011, p. 123-128, available at http://comptroller.defense.gov/defbudget/fy2012/FY12_Green_Book.pdf

and evaluation, or RDT&E, so the United States could maintain its technological edge over the Soviets. It was the Eisenhower military that convinced the USSR to back down in the Cuban Missile Crisis.

- President Nixon also substantially reduced defense spending. But he outlined a more significant role for the military reserves (the Total Force) to ensure a smaller active-duty force had the support it needed to be successful in future conflicts. He also instigated a plan for aircraft procurement known as the high-low mix, meaning the services would diversify their purchases among expensive advanced fighters and less costly but still very capable planes (F-15s and F-16s for the Air Force and F-14s and F/A-18s for the Navy and Marines). This strategy allowed the Pentagon to buy a sufficient number of fighters at an acceptable cost. The F-16s and F/A-18s are still in service today and were used extensively in the first and second Gulf wars, from 1990 to 1991 and 2003 to present, respectively, and the Kosovo conflict in 1999.

Third, the Obama administration can achieve large savings from sensible reductions in the defense budget because it is at an unprecedented level:

- The Obama administration inherited a defense budget far in excess of even President Reagan's peak Cold War spending. And the idea that budget cuts will result in a "hollow force" or be catastrophic—advanced by critics such as former Defense Secretaries Donald Rumsfeld and Robert Gates—simply does not stand up to historical scrutiny. The Obama administration and Congress could cut \$150 billion from the administration's current budget request and still be at average Reagan levels. President Obama would need to reduce the budget by about 40 percent, or close to \$300 billion, to reach the budget levels established by Presidents Eisenhower, Nixon, and Clinton.

With these lessons in mind, we recommend that the Obama administration implement the following list of defense cuts to transition to a responsible and sustainable level of defense spending. These reductions would allow the president to reduce defense spending by \$400 billion through 2015 without compromising U.S. national security (the paper will examine these in more detail).

- Redirect the Defense Department's planned efficiency savings to reduce the baseline defense budget (\$133 billion through 2015).
- Roll back post-September 11 efforts to grow the ground forces and reduce the number of civilian DOD personnel concomitant with the reduction in military end strength (\$39.16 billion through 2015).
- Reduce active-duty troops in Europe and Asia by one-third (\$42.5 billion through 2015).
- Cancel the V-22 Osprey program (\$9.15 billion through 2015).
- Reform military health care (\$42 billion through 2015).
- Limit procurement of the Virginia-class submarine and DDG-51 destroyer to one per year, and limit procurement of the littoral combat ship to two vessels per year (\$20.04 billion through 2015).
- Cut procurement of the Navy and Marine F-35 Joint Strike Fighter variants (\$16.43 billion through 2015).
- Institute an across-the-board reduction in research, development, test, and evaluation funding (\$40 billion through 2015).
- Reform the military pay system as the 10th Quadrennial Review of Military Compensation recommends (\$13.75 billion through 2015).
- Cancel procurement of the CVN-80 aircraft carrier and retire two existing carrier battle groups and associated air wings (\$7.74 billion).
- Cut the U.S. nuclear arsenal to 311 operationally deployed strategic nuclear weapons (\$33.72 billion).

Defense spending helped create the fiscal crisis facing our nation today, and defense cuts must be part of the solution. The president and Congress can continue a bipartisan tradition of restoring defense spending to sustainable, responsible levels as the United States winds down its involvement in Iraq and Afghanistan.

Why the United States is in a good position to reduce defense spending

The American political system has grappled with the question of how much defense spending is enough ever since the nation decided to maintain a large “standing army” even in the absence of a major conflict like a world war.

The nation’s financial commitment to defense has been influenced by four interrelated factors.

First, by a recognition that we cannot buy perfect security no matter how much money is spent on defense. So every administration and Congress must make choices about which threats are most likely and the most cost-effective ways to deal with them.

Second is the perception of the short- and long-term threats to our national security. The Department of Defense generally receives more resources when the body politic determines that these threats are increasing. Conversely, resources are reduced when the threats are viewed as declining.

Third is the national security establishment’s strategy to deal with the perceived threats. A strategy of deterrence—that is, using the threat rather than the exercise of force to influence the behavior of potential adversaries—normally calls for a less expensive defense posture than a rollback strategy aimed at physically confronting an enemy.

Similarly, a policy that focuses on counterterrorism or offshore balancing—in which the United States would rely more heavily on air and naval power and regional powers to confront threats while maintaining a ground response capability—requires fewer resources than one that emphasizes counterinsurgency, regime change, and nation building.

And fourth is the nation's fiscal condition. In a period of economic growth, increasing revenues, and even a budget surplus, it is easier to allocate scarce resources to defense than in a time of rising deficits since defense represents such a significant share of discretionary federal expenditures. Nondiscretionary spending, also known as mandatory spending, refers to all expenditures that the federal government must pay each year due to long-term commitments while discretionary spending refers to all expenditures approved by Congress through annual appropriations bills.

Given these factors, it should come as no surprise that in the 60-year period in which the United States has maintained a large standing military, the defense budget has risen and fallen in real terms on several occasions. Moreover, the current financial situation of the United States means the defense budget is likely to decline in real terms over the next decade absent a significant change in the international environment. And we can expect opponents of cutting defense spending to paint all kinds of apocalyptic scenarios just as in previous periods of decline.

But the United States is better positioned now for reductions than when defense spending was reduced after the end of the Korean, Vietnam, and Cold Wars.

First, there is plenty of room in the baseline budget for sensible spending reductions. The base defense budget has risen in real terms each year since 1998. Excluding war funding and accounting for inflation, the baseline budget has grown from \$374 billion to \$553 billion, an increase of \$179 billion or 48 percent, in the 13-year period from FY 1998 to FY 2012.

The defense budget has never risen for more than seven years in a row since World War II. Moreover, during the Korean War the budget increased in real terms for only two years. In Vietnam it only increased for three, and the Reagan buildup lasted for only four.

Second, our war-budgeting practices have further inflated the budget. The wars in Iraq and Afghanistan are funded exclusively by supplementals—emergency appropriations bills outside the regular defense budget process—unlike the Korean and Vietnam wars. During Korea and Vietnam the costs of waging the conflict were eventually folded into the regular or baseline budget, which meant some programs in the regular budget were cut to keep the budget within bounds.

Defense budget glossary

Baseline budget vs. total budget: The baseline defense budget represents the total budget authority approved by Congress in its regular, yearly defense appropriations acts. The total defense budget includes the baseline budget and any additional funds appropriated through supplemental spending bills—for example, for the wars in Iraq and Afghanistan or unanticipated contingencies.

Budget authority: Budget authority refers to the amount Congress authorizes each federal agency to spend in a given year. Defense budget authority is the amount Congress authorizes the Department of Defense to spend. Budget authority differs from budget outlays, which are the actual levels of spending by federal agencies in a given fiscal year.

Current dollars vs. constant dollars: Current dollars indicate that a figure is being measured in the dollar value of the time when a budget was passed. Constant dollars indicate that a figure is being measured in a fixed dollar value—that of fiscal year 2012, for example. The use of constant dollar figures in this report takes into account inflation when comparing the size of defense budgets over time.

Operations and maintenance: Operations and maintenance, or O&M, spending pays for the training, supply, and equipment maintenance of military units as well as the administration and infrastructure of military bases. Peacetime health care for military and other personnel, field training exercises, and repairs of equipment all are included in the O&M section of the defense budget, as are the salaries of DOD civilians and defense contractors. The O&M budget is the largest section of the overall defense budget.

Personnel: The personnel section of the defense budget includes all forms of pay for all military service members whether active duty or reserve. This section of the budget includes basic pay, retirement accruals, Social Security taxes, allowances for housing and food, and incentive pays. Personnel costs constitute the second-largest section of the defense budget.

Procurement: Procurement spending includes any purchase of equipment or supplies, such as planes, ships, and tanks, by the Department of Defense. A large section of the procurement budget constitutes payments made by DOD to defense contractors for the weapons and other systems DOD purchases.

RDT&E: RDT&E stands for research, development, test, and evaluation. The term refers to the portion of the defense budget reserved for basic research and research on new technologies by the military services and defense agencies. The development of new weapons and equipment is also funded through the RDT&E account.

The supplementals used for Iraq and Afghanistan allowed the Pentagon to fund items like the F-22 and missile defense—which have nothing to do with the wars—outside the regular budget. And they also masked the true cost of defense. If you add the supplementals to the FY 2010 base budget, defense spending for that year was \$717 billion. That’s about \$100 billion more than the peak of Korea, about \$200 billion more than the peak of Vietnam, and more than at any time since the end of World War II.

Third, the United States no longer faces an existential threat unlike the period at the end of the wars in Korea and Vietnam. Even after the United States withdrew from Korea and Vietnam, it still dealt with the massive Soviet military threat and its expansionist policy. Al Qaeda does not threaten the existence of the United States, and China’s military is nowhere near the threat posed by the former Soviet Union. Defense spending therefore can be adjusted to meet the threats currently facing the country.

Nonetheless, this drawdown should be carried out in a smart and efficient manner. To that end, we can draw key lessons from previous defense downturns as we prepare to restore defense spending to more sustainable levels.

How post-WWII presidents reduced defense spending

President Eisenhower (1953–1961)

President Dwight Eisenhower, a five-star general in the U.S. Army and lifelong Republican, slashed defense spending by 27 percent during his eight years in office. He left a defense budget \$143 billion smaller than the one he inherited.¹

President Eisenhower's reductions were motivated by his belief that U.S. security was tied to the health of the economy: His "great equation" held that security is the product of military, economic, and spiritual strength. In keeping with this belief, he strategically cut defense spending from wartime peaks in order to free up resources for critical investments in the U.S. military and economy while balancing the budget.

When he took office in 1953 in the midst of the Korean War, President Eisenhower inherited a wartime budget of \$526 billion. By the time he left office in 1961, he had reduced spending to \$382 billion.

Like most postwar presidents, Eisenhower achieved these reductions by drawing down spending on military personnel, operations and maintenance, and procurement. At the same time, he dramatically increased funding for research, development, test, and evaluation, or RDT&E. He invested in the technologies that would prepare the American military for the future and maintain our technological edge over the Soviet Union while allowing us to devote resources to civilian projects like the Interstate Highway System.

Below we examine his reductions in more detail.

Personnel

President Eisenhower reduced overall troop levels from wartime highs after the end of the Korean War in July 1953, and he also rebalanced the force in an attempt to find a more fiscally sustainable strategy for national defense. President Eisenhower's

“New Look” policy dictated that the United States rely more heavily on nuclear weapons rather than conventional forces to deter the Soviet Union. Transitioning to this strategy enabled President Eisenhower to reduce personnel expenses by 24 percent and leave the personnel budget \$44 billion smaller in 1961 than 1953.

As President Eisenhower oversaw the transition from a wartime to peacetime force, he decreased the size and budgets of all three services, reducing the American military by more than a million men and women. In accordance with his New Look policy, however, the Navy and the Air Force—the two nuclear and most technologically sophisticated arms of the U.S. military—were reduced by a much smaller amount than the Army. Between 1953 and 1961 the Army’s budget declined by 42 percent, a \$74 billion decline, while the Navy and Air Force budgets saw smaller reductions of 16 percent and 25 percent, respectively.

Not surprisingly, of the 1 million service members President Eisenhower cut from the armed forces during his eight years in the Oval Office, more than 640,000 personnel came from the Army, while the Navy and Air Force lost a combined total of 320,000. In a clear demonstration of President Eisenhower’s new strategy, by the time he left office in 1961, the Air Force budget was more than 1.5 times larger than that of the Army and consumed nearly half of the total defense budget.

President Eisenhower’s “New Look” policy in action

Army, Navy, and Air Force budgets and personnel, 1953 and 1961

	1953	1961
Army		
Budget	\$170 billion	\$98 billion
Size	1.5 million	890,000
Navy		
Budget	\$144 billion	\$120 billion
Size	1.0 million	830,000
Air Force		
Budget	\$206 billion	\$155 billion
Size	980,000	830,000
Total		
Budget	\$526 billion	\$383 billion
Size	3.6 million	2.6 million

Source: Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY 2012 (Department of Defense, 2011), p. 135–136, available at http://comptroller.defense.gov/defbudget/fy2012/FY12_Green_Book.pdf; Department of Defense, “Military Personnel Historical Reports,” available at <http://siadapp.dmdc.osd.mil/personnel/MILITARY/history/309hist.htm>.²

Operations and maintenance

Operations and maintenance, or O&M, expenses encompass everything from paychecks for the Defense Department’s civilian employees to fuel and spare parts for vehicles. Much of these costs decreased naturally due to the end of hostilities in Korea, allowing President Eisenhower to reduce the O&M budget by \$27 billion, or 21 percent, by 1961 without affecting the readiness of the force.

Procurement

The majority of President Eisenhower’s cuts came from the procurement budget, which he slashed by a whopping \$83 billion, or 49 percent. Some of these reductions occurred naturally as the United States wound down its involvement in Korea, but President Eisenhower also targeted unnecessary spending by terminating outdated and ineffective weapons systems. This is best illustrated by his handling of the B-70 program.

The B-70 Valkyrie bomber was originally conceived in the early 1950s as a nuclear-powered replacement for the B-52 bomber. Technical problems torpedoed the nuclear version but the conventionally fueled model survived until the late 1950s and disagreement about the future of the program drew national attention in the 1960 presidential election.

The strategic benefits of the B-70 appeared uncertain by the late 1950s despite initial excitement about the program. Bombers could be shot down due to Soviet improvements in anti-aircraft technology, while missiles could not. As a result, ballistic missiles provided a much less expensive and more reliable delivery system than manned bombers.

President Eisenhower argued that ballistic missiles were the delivery system of the future. He remarked in 1959 that the “B-70 left him cold in terms of making military sense,” and that discussion of the bomber felt like “talking about bows and arrows at a time of gunpowder.”³ Further, President Eisenhower noted, it would take years to finish the development of the B-70, during which time ballistic missile technology would continue to improve.

Citing these reasons, President Eisenhower cut production of the B-70 to just one prototype in 1959, effectively canceling the program.⁴ Democratic candidate John F. Kennedy opposed this decision one year later during the 1960 election, arguing that the Republican Eisenhower administration was weak on defense. After taking office, however, the Kennedy administration canceled the B-70 program and resisted congressional efforts to revive it.

President Eisenhower also canceled the F-108 Raptor, an Air Force fighter, in order to keep the defense budget within limits.

The opportunity cost of defense spending

President Eisenhower's defense policy was guided by his recognition that there is an opportunity cost to defense spending. That is, money spent on defense diverts resources from other investments that can support the long-term prosperity of the American people. He stated in a 1953 speech to the American Society of Newspaper Editors that:

Every gun that is made, every warship launched, every rocket fired signifies, in the final sense, a theft from those who hunger and are not fed, those who are cold and are not clothed.

This world in arms is not spending money alone. It is spending the sweat of its laborers, the genius of its scientists, the hopes of its children. The cost of one modern heavy bomber is this: a modern brick school in more than 30 cities. It is two electric power plants, each serving a town of 60,000 population. It is two fine, fully equipped hospitals.⁵

President Eisenhower thus strove to ensure the defense budget was dictated by strategic rather than political concerns. He warned in his farewell address against the “military-industrial complex,” arguing that the “councils of government” must guard against the “unwarranted influence” of the arms industry, which grew exponentially during the Second World War.⁶ That is, President Eisenhower understood that the increased power of the postwar defense industry could result in unnecessary defense spending, which would be counter to the country's long-term interests.

Some historians suggest that President Eisenhower may have originally planned to call this the “military-industrial-congressional complex” but amended his speech because he felt it was unseemly for the president to publicly criticize Congress, especially considering he initially planned to give the speech before a joint session of Congress. Regardless, President Eisenhower understood the pressures for unnecessary defense spending in the American political system as well as the oft-overlooked cost of these excesses.

The Obama administration and Congress would be wise to learn from President Eisenhower’s management of the post-Korean War drawdown given the fiscal problems facing our nation today as well as the tremendous size of the defense budget. President Eisenhower freed up resources for the critical investments that would allow the United States to cement its economic and military power by reducing defense spending to more sustainable levels. This helped the United States win the Cold War and improve the standard of living for all Americans.

In this era of fiscal austerity, moderate reductions to defense spending would allow Congress and President Obama to devote more resources to domestic priorities—whether those priorities be deficit reduction, veterans programs, or education.

Despite President Eisenhower’s cuts to personnel, O&M, and procurement, he more than doubled the budget for RDT&E, recognizing the importance of developing the technologies that would ensure the continued superiority of the American military. On the domestic front, he invested in infrastructure, such as the Interstate Highway System, to spur further economic growth.

Perhaps most impressive is that he achieved these investments while balancing the budget in 1956 and 1957.

President Nixon (1969–1974)

President Richard Nixon faced the formidable task of delivering on his campaign promises to end both the draft and the war in Vietnam upon his election in fall 1968. The United States’ commitment to the war was at a new peak in both blood and treasure with more than 500,000 troops deployed to Vietnam. The corresponding defense budget of \$540 billion in 1968 was the highest by far since the end of the Korean War.

But President Nixon followed through on both of his pledges during his first four years in office. He terminated U.S. involvement in Vietnam completely by January 1973 and ended conscription in June of the same year. Fulfilling these promises also allowed him to deliver significant budgetary savings, returning defense spending to levels near those under President Eisenhower.

President Nixon cut the defense budget by more than \$152 billion, a 29 percent decrease. As he drew down the war in Vietnam, he was able to redirect wartime funding toward reducing the defense budget and restoring the nation to more stable fiscal ground while establishing programs such as the Environmental Protection Agency and the Occupational Safety and Health Administration. Moreover, ending conscription and transitioning to a Total Force policy (more on this below) allowed him to significantly shrink the size of the active-duty armed forces without compromising national security.

Like President Eisenhower, the majority of President Nixon's cuts came from military personnel, O&M, and procurement spending. Additionally, however, President Nixon also slashed the RDT&E budget in order to achieve his reductions.

Personnel

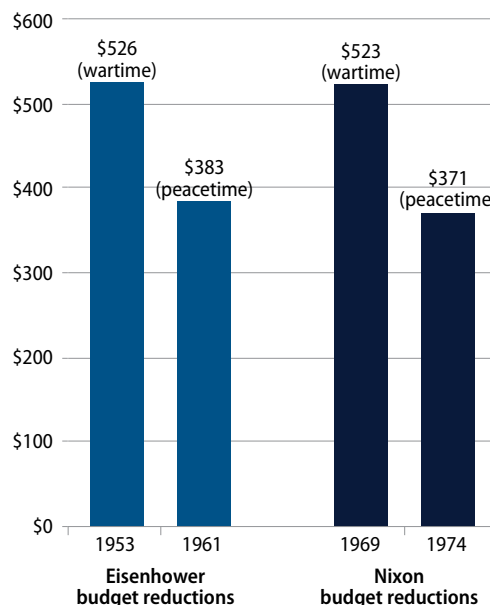
By the late 1960s the American public and most strategic thinkers had no appetite for additional overseas ground operations given the disaster of the U.S. intervention in Vietnam. This political reality greatly affected President Nixon's national security policy. He wound down U.S. involvement in Vietnam and ended the draft while promulgating the Nixon Doctrine, which tried to ensure the United States would not again be drawn into large land wars in areas not related to containing the Soviet Union. The doctrine was a major foreign policy shift announced by the president just months after he took office in 1969.

These strategic and policy shifts allowed President Nixon to rebalance the force and achieve significant savings in the military personnel budget. He shrank the size of the active-duty forces by more than 30 percent, from 3.5 million troops in 1969 to 2.2 million troops in 1974.⁷ Spending on military personnel declined by a corresponding 33 percent, or \$62 billion.

The vice president follows in his former boss's footsteps

Wartime and peacetime budgets under Presidents Eisenhower and Nixon

Billions of FY2012 constant dollars



Source: Office of the Under Secretary of Defense (Comptroller), *National Defense Budget Estimates for FY 2012* (Department of Defense, 2011), p. 123–124, available at http://comptroller.defense.gov/defbudget/fy2012/FY12_Green_Book.pdf.

The Nixon Doctrine allowed the president to rebalance the force to better suit the type of operations it was likely to carry out. With large ground operations off the table, President Nixon significantly reduced the size of the Army, which had ballooned during the Vietnam War. He reduced the size of the active Army by 50 percent, from 1.57 million troops to 785,000, between fall 1968 and 1974.⁹ In fact, of the approximately 1.3 million positions President Nixon cut from the U.S. military, about 785,000, or 60 percent, came from the Army. As a result, the Army budget declined by 41 percent while the Navy and Air Force budgets endured smaller reductions of 16 percent and 33 percent, respectively.¹⁰ President Nixon relied on the Navy and Air Force to protect U.S. interests because the United States would no longer send large land armies overseas. By 1976 the military personnel budget had declined to its lowest point since 1950, and the armed forces were smaller than they were in 1964 before the Vietnam buildup.

President Nixon adopted a Total Force policy to maintain the effectiveness of the American military despite these reductions in active-duty personnel. Secretary of Defense Melvin Laird outlined the two main provisions of the total force in a 1970 memo:

1. “[E]mphasis will be given to the concurrent consideration of the total forces, active and reserve, to determine the most advantageous mix to support national strategy and meet the threat.”
2. “Guard and Reserve units and individuals of the Selected Reserves will be prepared to be the initial and primary source of augmentation of the active forces in any future emergency requiring a rapid and substantial expansion of the active forces.”¹¹

Essentially, the Total Force policy placed an increased emphasis on the role of reserve forces. It transferred some responsibility from active-duty troops to the reserves, which assumed the predominant role in combat service and support. Moreover, with the end of the draft, the reserves became the primary source of increased manpower in an emergency.

Operations and maintenance

Operations and maintenance expenses decreased considerably as the United States wound down its involvement in Vietnam—as was the case after the Korean War. President Nixon was able to cut the O&M budget by \$33 billion, or 22 percent.

Procurement

The procurement budget fell, in real terms, in every year of Nixon's presidency but one. When Nixon took office in FY 1969, the budget for procurement in FY 2012 dollars was \$112 billion. By the time he left office after FY 1975, it was reduced to \$59 billion. This reduction of \$53 billion, or 47 percent, makes procurement the second-largest area of defense cuts under President Nixon behind only military personnel.

The reduction in spending on military procurement resulted in part from the significant drawdown of U.S. forces from Vietnam and in part from a commitment by President Nixon and his defense secretaries to do away with weapons programs that were out of date or over budget.

The reduction in the size of the Army from 1.57 million troops to 785,000 allowed for corresponding cuts in procurement for the Army, and budget authority for Army procurement fell from \$30 billion in FY 1969 to less than \$8 billion in FY 1975. Procurement budgets for the Navy and Air Force also fell significantly in the same period, from \$37 billion to \$29 billion for the Navy and from \$46 billion to \$22 billion for the Air Force.¹²

Secretary of Defense Melvin Laird, who served from 1969 to 1973, and his deputy David Packard tried to ensure procurement practices across all services would reflect the military's diminishing role in Vietnam. This meant they were not afraid to alter the procurement plans of the individual services to better reflect the military's true needs.

An example of this flexibility came in Secretary Laird's requests for Marine Corps helicopters. He discussed his decision to eliminate the planned procurement of 24 CH-53D Heavy Transport Helicopters and reduce the procurement of CH-46 Medium Transport Helicopters from 72 to 12 in a statement before a joint session of the Senate Armed Services and Appropriations Committees on February 20, 1970, arguing that these reductions "reflect[ed] actual combat attrition experience in Vietnam."¹³

Secretary Laird also reduced procurement of a number of weapons systems that were unrelated to the combat in Vietnam to meet his goal for defense budget reductions. He eliminated the buy of FB-111 strategic bombers in FY 1970 and phased out the expensive and by then ineffective B-58 Hustlers.¹⁴

At the same time, he recognized that the planes coming into the force were much more capable than their predecessors, and he reduced the size of the tactical aircraft forces from 8,700 aircraft in FY 1969 to 8,300 in FY 1971 and cut the active fighter/attack forces from 5,000 aircraft to 4,600 over the same period.¹⁵

James Schlesinger, President Nixon's secretary of defense from 1973 to 1975, expressed a determination to build up defense capabilities. But he nonetheless continued to cut procurement budgets in real terms.

Even with regard to nuclear programs—where Secretary Schlesinger developed a reputation as a hawk—he made meaningful cuts to the budget by eliminating outdated or ineffective systems. Budget authority for procurement of UGM-73 Poseidon ballistic missiles fell from \$698 million in FY 1973 to \$192 million in FY 1975 as the Trident missiles were being developed. Funding for the Safeguard antiballistic missile program, which was ineffective against Soviet missiles, fell from \$599 million to just \$62 million in the same period.¹⁶ His successor Donald Rumsfeld canceled the program altogether.

Secretary Schlesinger also cut funding for the Navy's SSN-688 Class nuclear attack submarine almost in half between FY 1973 and FY 1975—from more than \$1 billion to less than \$550 million—because of technical problems in development.¹⁷

President Nixon's management of the post-Vietnam War drawdown in many ways parallels President Eisenhower's handling of the defense budget post-Korea. Both presidents left the defense budget and the force at about the same level.

President Reagan (1981–1989)

President Ronald Reagan's defense legacy is that of an unabashed budget hawk, and it's true that defense spending did increase during his eight years in office. Measured against the FY 1981 budget in place when Reagan assumed the presidency, he increased overall defense spending by 18 percent over eight years. This growth included a major increase in RDT&E spending—61 percent growth over the FY 1981 baseline—as well as sizeable growth in nearly every other budget category, including military personnel, O&M, and procurement.

But measuring against the 1981 baseline fails to tell the complete story of President Reagan's defense legacy. In fact, the chart below demonstrates that defense spend-

ing gradually but consistently decreased after FY 1985 through the end of Reagan's final year in office. As a result, his final budget top line in FY 1989 had declined to approximately the level of his second defense budget in FY 1983. This represented a nearly 10 percent decrease from the president's peak level of spending.

President Reagan's final four budgets offer important lessons for the Obama administration and Defense Secretary Leon Panetta on how a defense buildup can be tamed without undermining the ability of our armed forces to fulfill their missions. In large part, the overall reductions in President Reagan's later defense budgets resulted from cuts in procurement as well as reductions in the Pentagon's revolving and management funds. Despite these cuts, however, the president was able to maintain modest increased investments in some categories—namely military personnel and RDT&E.

Reductions in defense spending in the later years of the Reagan presidency, however, were not primarily achieved at the president's initiative. In fact, at first he resisted efforts to reduce the overall military budget. Secretary of Defense Caspar Weinberger's FY 1985 annual report to Congress, for example, noted that upon taking office the Reagan administration proposed a program of "sustained real growth in defense expenditures each year through FY 1986."¹⁸

By the time Secretary Weinberger submitted his report for the FY 1988 budget, however, these growth projections were unrealized. The secretary wrote in the FY 1988 report to Congress, his last report in that position, that the Defense Department's budget request would "not recover the ground lost by a 7 percent real decrease in defense spending Congress has imposed in the last two years."¹⁹

The Gramm-Rudman Act

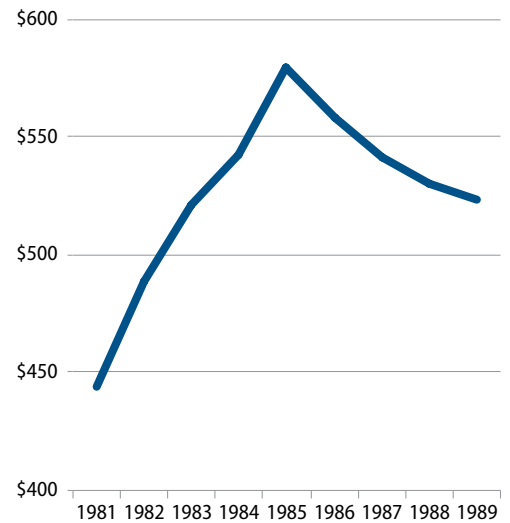
What drove Congress to impose these reductions during the waning years of the Reagan presidency?

The Reagan-era Congress, just like today's, had to deal with a ballooning federal deficit at a time when the two parties could not find common ground on what to cut. Its proposed solution was the bipartisan Gramm-Rudman-Hollings Act—

Defense spending under President Reagan

Defense spending under President Reagan

Billions of FY2012 constant dollars



Source: Department of Defense, "National Defense Budget Estimates for FY 2012," March 2011, p. 126, available at http://comptroller.defense.gov/defbudget/fy2012/FY12_Green_Book.pdf.

named for two Republicans and one Democrat in the Senate—which proposed annual targets for deficit reduction and a requirement for across-the-board cuts if the budget approved by Congress and the president did not bring the deficit within \$10 billion of that year’s target. The law required that one-half of the cuts in the trigger would come from defense and the remainder from selected domestic expenses.

Gramm-Rudman was passed in December 1985—at which point Congress still had not approved a defense budget for FY 1986—and contained limited targets for the second half of that fiscal year as well as additional yearly targets that would eliminate the deficit by 1991.

The reduction targets in Gramm-Rudman were triggered in FY 1986 and mandated across-the-board cuts, including a 4.9 percent decrease in projected defense outlays.²⁰ The following year the president and Congress were able to reach agreement on deficit reduction measures to avoid triggering the bill’s provisions on across-the-board cuts. But modified reductions were triggered in FY 1988 and then subsequently voided after a budget summit achieved some consensus on deficit relief.

Congress and the president were also able to keep the projected deficit below Gramm-Rudman levels in FY 1989, resulting in a defense budget nearly \$57 billion less in constant dollars than President Reagan’s FY 1985 budget.²¹

Opinions differ on whether Gramm-Rudman was a complete success. It’s clear, however, that the law did play a large role in reducing the deficit, and defense spending did decline in President Reagan’s second term with the cooperation of the president. By far the largest source of that drawdown in spending came from reductions in procurement.

Procurement

About 86 percent of the approximately \$56.4 billion reduction in President Reagan’s defense budget top line from FY 1985 to FY 1989—measured in constant FY12 dollars—came from a reduction in procurement spending, which had seen real growth of about 70 percent in his first term. That section of the budget dropped from \$169.5 billion in FY 1985 to \$120.9 billion in the FY 1989 budget, with the largest real decrease coming from FY 1986 to FY 1987. The FY 1987 procurement budget dropped more than \$25 billion in real terms in that one year.

The cuts needed to achieve this decline in real growth were spread out over a number of programs. In the FY 1986 budget, in which Congress provided “almost \$23 billion less than the Administration requested,” procurement cuts came from stretching out a number of programs, such as a cut of \$2.62 billion to the administration’s request for Air Force aircraft procurement, including \$34 million from the request for KC-10A tanker/cargo aircraft, a \$300 million reduction in the administration’s request for the B-1B bomber, and about \$146 million from the F-15C/D/E fighter jet request (all measured in then-year dollars).²²

These reductions are emblematic of the way President Reagan’s budgets were reduced in his second term. Stephen Alexis Cain and Gordon Adams note in the *Bulletin of the Atomic Scientists* in March 1987 that “in the past two years, Congress has reduced the administration’s military budget requests by stretching out procurement over longer periods, eliminating excess inflation funds, and imposing hundreds of minor cuts in a variety of programs.” They found that “no major programs have been canceled, aside from the Army’s ill-conceived DIVAD air-defense gun.”²³

DIVAD was indeed canceled by Secretary of Defense Weinberger in August 1985 when testing suggested it would not be effective against the projected future threat environment and when it became apparent that the unit cost was too high to allow the Army to purchase a sufficient number.²⁴

Cain and Adams argue that by the FY 1987 budget, a clear pattern had emerged in the president’s defense spending requests: The administration opted to “rapidly increase funds for strategic weapons programs, seriously scale back plans for a conventional military buildup, and further delay adequate funds for ‘readiness’ accounts set up to maintain the expansion in conventional forces already achieved.”²⁵

This entailed ramping up spending on programs like President Reagan’s favored Strategic Defense Initiative, or SDI, a missile defense research and development initiative launched in March 1983. The president felt SDI would play a critical role in getting the Soviet Union to negotiate on reducing nuclear weapons.

The president was, however, willing to decrease the amount of conventional hardware the services could acquire in his second term since he bought so many of these planes, ships, and tanks in his first term. According to Cain and Adams, this included a reduction in tactical air wings for the Air Force and jettisoning the goal of a 600-ship U.S. Navy. The Pentagon also decreased its projected buy of M-1 tanks. It asked for 600 in FY 1988 when “in its fiscal 1987 budget, the Pentagon projected asking for 840 M-1 tanks.”

Similar reductions in projected buys were seen in the FY 1988 budget, including fewer F/A-18s, F-16s, and Blackhawk helicopters than were projected in previous years.²⁶

Additional savings

Reductions in procurement budget authority were responsible for the clear majority of savings in Reagan's second term. But real growth in the budget was also limited by a drop in authority for revolving and management funds—including some transportation and other functions for which the Defense Department is able to collect revenue for the services—as well as marginal reductions in O&M funding and military construction.

Budget growth

The Reagan budgets after FY 1985 did show modest growth in some categories. Military personnel spending rose and fell slightly throughout President Reagan's second term, ending with about \$1.8 billion, or 1 percent, in real growth over the FY 1985 level in FY 1989.

RDT&E spending also showed a slight real increase of about \$2.5 billion between FY 1985 and FY 1989, demonstrating that investment in new technologies can grow or at the least remain constant during periods of budget austerity. But even this category contributed to Congress's deficit reduction efforts. For the president's FY 1986 defense request, Congress approved budget authority for the SDI of about twice the amount granted the year before but \$1 billion less than the administration requested.²⁷

President Reagan came into office convinced that defense spending needed to be increased and taxes decreased. He was led to believe by people like Congressman Jack Kemp (R-NY) that because of supply-side economics, the economic growth generated by these tax cuts would more than offset the large increases in defense spending. Members of his party in Congress took action, however, when this proved not to be the case and deficits rose precipitously by passing the Gramm-Rudman-Hollings deficit reduction bill and insisting that projected levels of defense spending be reduced substantially.

President Reagan initially resisted these reductions, which were vehemently opposed by his defense secretary. But he eventually realized like his Republican predecessors that continuing large deficits was a threat to national security. In his second term he therefore allowed his projected defense budgets to be reduced significantly.

President George H.W. Bush (1989–1993)

The sensible reductions in defense spending that began during President Reagan's second term continued through the administration of George H.W. Bush, who reduced topline defense spending by 17 percent in his four years in office. President Bush served only one term, but his defense spending decisions are notable both because he was in office at the conclusion of the Cold War and the immediate postwar years and because he was the commander in chief during U.S. operations in the Persian Gulf War. He had the delicate task of drawing down forces after an extended period of hostility while still safeguarding the ability to project American power overseas and protecting vital economic interests at home.

Over the course of his presidency, Bush oversaw reductions in funding in nearly every defense budget category despite the fact that upon taking office his administration initially projected between 1 percent and 2.3 percent real growth in military spending over the FY 1990 to FY 1994 period.²⁸ The most significant real declines were seen in military personnel and procurement funding with more modest reductions in the O&M, RDT&E, and military construction accounts.

These decisions were driven by the continued need for deficit reduction in the United States as well as pressure to reduce spending after the Soviet Union's collapse.

President Bush's first budget for FY 1990—which the president pledged to hold to the rate of inflation—was shaped by these budget-cutting imperatives as well as continued restrictions under the Gramm-Rudman Act.²⁹ Yet this first round of cuts was fairly modest.

Stephen Alexis Cain notes in 1989 in the *Bulletin of the Atomic Scientists* that the first budget under Secretary of Defense Richard Cheney contained “nearly all short-term budget solutions designed to keep alive every weapon in the next generation now emerging from research and development—with the single exception of the V-22 Osprey tilt-rotor aircraft.” Secretary Cheney stretched out production

for programs like the F/A-18 fighter jet and UH-60 Blackhawk helicopter and ended production early for others, including the SSN-688 attack submarine and the F-15E fighter jet.

The budget even included funding for a program ostensibly killed during the Reagan administration: the small intercontinental ballistic “Midgetman” missile, which Cain notes was included even though Secretary Cheney opposed it.³⁰ Funding for this program was in keeping with President Reagan’s budget priorities, however.

Indeed, President Bush continued to fund strategic defensive forces programs at exceptionally high rates. Cain notes that as of 1989 the Bush administration projected 113 percent real growth over five years for the SDI.³¹

But more substantial cuts were in the offing even though President Bush’s first budget provided only modest reductions. For instance, the first Bush budget included a reduction in the number of U.S. service members—a policy that would eventually grow to account for about one-quarter of the real decline in defense spending over the course of his presidency.

Personnel

When George H.W. Bush took office in 1989, U.S. active-duty service members numbered just more than 2.13 million. Over the next four years, troop levels in all of the services dropped yearly—with the exception of one stable year in the Marine Corps between 1989 and 1990—leaving the country with approximately 1.8 million active-duty troops right before the general election in 1992. This decline of about 323,000 service members over the course of the Bush presidency made possible a 16 percent drop in the personnel budget top line by the time he left office.

This gradual drawdown was part of a strategic effort to reduce U.S. military spending. The pressure came in part from continued restrictions under the Gramm-Rudman Act. Congress and the Bush administration reached an agreement that mandated \$1.7 billion in cuts in the proposed FY 1990 defense budget in an effort to meet the law’s deficit reduction targets for FY 1990. The Pentagon’s efforts to meet that target included a reduction in personnel spending by eliminating 25,000 active-duty positions across the services with the Army accounting for about half of that total.³²

This initial cut was part of a larger effort to scale back the overall size of the budget. In the fall of 1989, before the end of the Cold War, Secretary Cheney directed the services to produce plans to trim \$180 billion (in current dollars) from their existing FY 1992 to FY 1997 defense programs. This amounted to a real reduction of about 2 percent per year.

All of the resulting plans included a decline in troop levels. The Army proposed dropping 201,000 active-duty personnel by FY 1997 as well as more than 130,000 reservists, while the Navy suggested a cut of 50,000 active-duty troops. The Air Force also proposed to trim its active force by just more than 40,000 airmen and women. With the exception of the Army, all of the services surpassed those goals by the time Bush left office.³³

Personnel changes during the Bush administration were not, however, aimed solely at overall troop levels. In keeping with the shifting strategic landscape, the administration also made modest shifts in overseas deployments during the early part of the president's term.

The administration, for example, approved a reduction of 2,000 Air Force personnel and 5,000 Army troops in Korea in 1990. Then-Sen. Dale Bumpers (D-AR) argued that even more substantial cuts could be made, adding that while our troop commitment there “made sense after the Korean War, there is little justification today for continuing our \$2.7 billion presence.”³⁴

President Bush's personnel spending did deviate slightly from its downward trajectory in FY 1991, which is a development likely attributable to U.S. involvement in the Persian Gulf War. But this uptick was relatively slight—less than \$2 billion in real growth over FY 1990 levels—and it quickly declined in the president's final two budgets. The more significant growth during that war came in the president's O&M budget.

Operations and maintenance

The United States recouped much of the Persian Gulf War's cost from its coalition partners. But the FY 1991 budget still reflects the additional appropriations made available by Congress to conduct that conflict. President Bush's O&M budget grew by more than \$31 billion, or about 19 percent, in real terms between FY 1990 and FY 1991 to pay for the additional costs of evicting the Iraqi army from Kuwait.

This spike in the otherwise modest decline in President Bush's O&M spending resulted from three supplemental budgets enacted in late 1990 and 1991. The vast majority of the funding was collected in the April 1991 supplemental, which provided more than \$42 billion in then-year dollars to cover the costs of the conflict. This amount was distributed among the services and budget categories, but about 50 percent of the appropriation was directed to the O&M account.³⁵

This jump in O&M funding was sensible and predictable at a time of major conflict. But it's remarkable how fast the budget returned to prewar levels. After FY 1991, O&M spending dropped sharply, falling 19 percent, or about \$38 billion, in real terms in the FY 1992 budget.

This rapid return to baseline spending after the end of hostilities is a sensible model for the Obama administration's post-Iraq and post-Afghanistan policy, particularly in light of the fact that the president's recently released counterterrorism strategy is at pains to point out that the United States is not "at war with the tactic of terrorism" but rather with Al Qaeda and its affiliates.³⁶ This narrowly defined conception of future hostilities should give President Obama and Secretary Panetta the leverage needed to reduce O&M spending as U.S. troops come home over the next few years.

Procurement and RDT&E

O&M and personnel cuts accounted for close to 40 percent of Bush's overall reduction in defense spending, but the largest amount of cuts came from the Pentagon's procurement budget. Measured against the FY 1989 baseline, President Bush reduced procurement by 40 percent in real terms during his presidency—from \$120.9 billion in FY 1989 to about \$72.4 billion in FY 1993. Notably, not even the brief Persian Gulf War disrupted this downward trend: Procurement funding declined by more than 14 percent from FY 1991 to FY 1992 and another 14 percent in the following year's budget.

This drop in procurement funding was part of an effort to control defense expenses after the end of the Cold War while still leaving intact a strong national security capability and the potential for expansion. President Bush outlined his approach to postwar defense budgets in a 1992 speech at the U.S. Naval Academy. He argued that an appropriate defense had four components: a strong strategic deterrent; the capacity for forward deployment; rapid response capabilities; and the ability to build up the armed forces as needed to meet future threats.

In keeping with the need to maintain the capability to mobilize in the future, he noted that “as we make significant cuts in our defense procurement, we’ve got to keep in mind that production lines for planes and tanks and ships cannot be turned on and off like water from a faucet. We’ve got to keep our technological edge, keep our R&D focused on the next generation of weapons.”³⁷ Indeed, President Bush’s RDT&E budget accounted for only 6 percent of total defense budget cuts during his time in office.

President Bush’s budget decisions appear to follow his Annapolis speech closely. Like President Reagan, his administration continued to emphasize building the country’s deterrent capabilities. President Bush and Secretary Cheney, for example, asked for \$4.7 billion to continue President Reagan’s “Star Wars” missile defense program in the FY 1991 budget even though Congress later cut that request to \$2.9 billion (in then-year dollars).³⁸

The administration also continued the B-2 bomber program, which Secretary Cheney lauded as particularly important after an earlier generation of stealth bombers proved critical in the Gulf War. He did, however, agree to reduce significantly the number of bombers the United States would buy.³⁹

As the Bush administration attempted to build up strategic capabilities, however, it was also willing to make practical decisions on conventional capabilities in a time of tighter budgets and reduced threat. The administration tried to cut overbudget, strategically unnecessary programs like the V-22 Osprey, though Congress repeatedly blocked Secretary Cheney’s efforts to defund the plane, which he called a “turkey.” It also put forward a plan in FY 1992 for a significant shift in force structure by 1995: The plan would cut 10 active and reserve Army divisions, 10 tactical fighter wings, more than 90 ships, and 87 strategic bombers.⁴⁰

These decisions were driven by the Bush administration’s perception of the threat. Secretary Cheney noted in 1990 that the Soviet Union had begun to reduce its conventional forces, but “the modernization of their strategic forces continues apace.”⁴¹

Yet like President Obama, President Bush faced criticism from Congress that his administration’s defense program lacked strategic coherence. Sen. Sam Nunn (D-GA), for example, criticized President Bush’s FY91 defense plan, saying Congress would be more receptive to the budget if Secretary Cheney offered “a clear vision of where defense policies and programs are going over the next five years in light of the changes in the threat and our overall strategy.”⁴²

President Bush promised in his acceptance speech at the 1988 Republican Convention that if elected he would not raise taxes. He famously proclaimed, “Read my lips, no new taxes.” After taking office, the president tried to keep that promise while seeking to raise defense spending in real terms even though he inherited a growing budget deficit.

But within a short period of time, he recognized it was fiscally and politically impossible to keep both of those promises. And even before the end of the Cold War, he directed Dick Cheney, his defense secretary, to begin making real cuts in the defense budget. Eventually, the president also had to renege on his no-tax pledge.

President Clinton (1993–2001)

Bill Clinton was the nation’s first entirely post-Cold War president, which meant he was responsible for guiding defense spending during a period of unprecedented U.S. power. Along with unrivaled superpower status, however, the 1990s brought strategic uncertainty: After the fall of the Soviet Union, which threats would the nation face and what kind of military would be needed to prepare for the future?

President Clinton answered these questions ably during his eight years in office. Republicans often criticize him for being weak on defense, but it was the military built by President Clinton that invaded Afghanistan in 2001 and overthrew Saddam Hussein in Iraq with seeming ease. These capable forces were sustained by a strong domestic economy, including a budget surplus, as well as sensible defense spending decisions.

President Clinton’s cuts were modest in comparison to those instituted by his predecessor, President George H.W. Bush, and they were explicitly aimed at balancing military and economic imperatives. President Clinton told the country in a March 1993 radio address that, “Our military is continuing to change, not to downsize for its own sake but so that we can meet the challenges of the 21st century. In the post-cold-war era, our military can be cut even while we maintain the forces necessary to protect our interests and our people.”⁴³

President Clinton reduced topline defense spending by 5 percent from the budget he inherited, or an average of less than 1 percent a year, to meet these goals in his eight years in office. He achieved this reduction by making larger cuts in the early

years of his presidency but increasing the top line in his last three budgets. In fact, by the time President Clinton's defense top lines began to rise again in FY 1998, he had brought down defense spending by nearly 15 percent, about half the size of the reductions made by Eisenhower and Nixon.

These cuts were primarily accomplished through a reduction in the personnel budget as well as temporary drops in spending on procurement and, to a lesser degree, RDT&E.

Personnel

President George H.W. Bush put in motion a postwar reduction in U.S. military personnel that President Clinton continued during his time in office. The United States had approximately 1.68 million active-duty troops in uniform in FY 1994, the year of the first full Clinton defense budget. By FY 1999 this would drop by nearly 14 percent to 1.45 million and remain more or less steady through the end of Clinton's presidency.⁴⁴ Over this period, President Clinton's personnel budget dropped by nearly \$19 billion in inflation-adjusted terms.

The drop in personnel was made possible by a rethinking of U.S. strategy in the first year of the Clinton administration. Les Aspin, Clinton's first secretary of defense, proclaimed that the administration's first budget proposal was merely "a holding budget" that was "treading water" on procurement and RDT&E in anticipation of a bottom-up review from the Defense Department of post-Cold War military spending and priorities.⁴⁵

The review, which was completed in time to influence the FY 1994 budget process, was intended to redirect U.S. defense spending and force structure to meet the challenges of the post-Cold War environment. The new review shifted U.S. attention toward smaller, regional wars—an idea also embraced by the outgoing Bush administration—instead of defining security threats and interests in terms of a bipolar world.

As a result of this new outlook, the Bottom Up Review, or BUR, recommended a number of force structure changes by 1999, including cutting the number of U.S. aircraft carriers from 14 to 12 and reducing active Army divisions from 14 to 10.⁴⁶

According to the review, this smaller force structure would be enough to meet peacetime obligations and would also "give the United States the ability to prevail

Addressing the post-Cold War security environment

Comparison of force structure before and after the Clinton administration's Bottom Up Review

	Cold War levels, FY 1990	Bottom Up Review-based plan	FY 1996	FY 1997 (proposed)
Army—active divisions	18	10	10	10
Army—reserve component bridges	57	42	47	42
Marine expeditionary forces	3	3	3	3
Navy aircraft Carriers (active/reserve)	15/1	11/1	11/1	11/1
Carrier air wings (active/reserve)	13/2	10/1	10/1	10/1
Battle force ships (active/reserve)	546	346	359	357
Fighter wing equivalents (active/reserve)	24/12	13/7	13/8	13/7

Source: William J. Perry, Annual Report to the President and the Congress (Department of Defense, 1996).

in the most stressing situation we may face—two major regional conflicts occurring nearly simultaneously.”⁴⁷ By the time Secretary of Defense William Perry submitted the FY 1996 Annual Defense Review, this restructuring was nearly complete. (see table for the full list of reductions)

The force structure changes indicated above were spread across the Army, Navy, and Air Force, with the Marine Corps seeing relatively little change in end strength. Between FY 1994 and FY 2001, the number of active-duty soldiers in the Army declined by 11 percent while the end strength of the Navy dropped by 19 percent and the Air Force by 17 percent. The Marines saw only a 0.5 percent reduction.⁴⁸

Procurement and RDT&E

Personnel cuts accounted for the clear majority of President Clinton's defense budget reductions. But he also instituted small cuts in RDT&E spending while limiting procurement to 6 percent real growth over the FY 1993 to FY 2001 period.

President Clinton did not depend on increasing spending for strategic forces to offset cuts in conventional weapons unlike Presidents Reagan and George H.W. Bush. For instance, his administration rejected a proposal left by the departing Bush administration to nearly double funding for SDI in the FY 1994 budget. Instead, Secretary Aspin requested that SDI funding stay at the FY 1993 level of \$3.8 billion (measured in then-year dollars) despite objections from some in the military that the program could not be fielded on time with that budget.⁴⁹

The BUR noted that the decision was based on “this Administration’s skepticism about the need for early deployment of a national missile defense and a desire to both reorient the program toward theater missile defense and to fund overall missile defense research at a sustainable level.”⁵⁰

Moving away from Reagan- and Bush-era national missile defense toward theater missile defense—which aims to address midrange missile threats in a specific area, or theater, of operations believed to contain a threat—was projected to save \$21 billion (in current dollars) over the more ambitious national missile defense program envisioned by the outgoing Bush administration.⁵¹

The Clinton administration also oversaw some reductions in conventional forces, though these were fairly minor as the president’s relatively flat procurement and RDT&E spending makes clear.

The biggest reduction came in President Clinton’s first budget. The president’s FY 1994 request asked for \$5.6 billion (in current dollars) less in procurement than President Bush had projected upon leaving office, and defense budget authority for procurement that year dropped by almost 18 percent in real terms. These cuts were spread throughout the services and included stretching out programs such as the C-17 transport plane—President Bush had projected buying six aircraft and President Clinton reduced the buy to two—the SH-60F Seahawk helicopter, and the Army’s Multiple Launch Rocket System.⁵²

Budget growth

President Clinton’s last three defense budgets saw real growth in the budget top lines largely due to an increase in the O&M and procurement accounts. O&M rose by about 9 percent in real terms from FY 1998 to FY 2001, a period that corresponds with U.S. and NATO involvement in the Balkan conflicts. This rise was sensible and expected as with the spike in funding in this category during the first Persian Gulf War.

There was more substantial growth in Clinton’s second administration procurement budgets. Between FY 1998 and FY 2001, procurement rose by about 34 percent in real terms in response to a push from Congress and the Defense Department to modernize the force and replace aging equipment.

Growing procurement was a major emphasis of President Clinton's third secretary of defense, William Cohen, the former Republican senator from Maine. Cohen sought to increase spending in that category from \$45 billion to \$60 billion by 2002 (in current dollars) and argued along with congressional Republicans that the United States was not investing enough in replacing aging equipment.⁵³ Cohen believed that money that was currently being spent on operations abroad was depleting the United States' ability to invest in programs like new attack submarines and the F-22 fighter.⁵⁴

President Clinton eventually did approve substantial growth in the procurement budget. In January 1999 he announced a \$12 billion defense spending increase in his FY 2000 budget request, of which around \$7.5 billion was directed at procurement and readiness expenses. This increase was part of a larger plan to increase defense spending by \$110 billion over six years in order to increase military pay and benefits and invest in equipment for the future of the force (all measured in current dollars).⁵⁵

Bill Clinton pledged to cut defense spending by \$100 billion through 1997 as a candidate for president. He argued that the Bush administration's budget cuts merely slimmed down a military oriented for Cold War threats rather than shaping a force to confront emerging challenges.⁵⁶ In other words, it was a "Cold War Lite" force.

He ultimately oversaw only mild reductions in defense spending. But he did orient the United States away from some Cold War priorities such as the extensive national missile defense programs favored by Presidents Reagan and Bush. And he managed to sustain strong national defenses while not only bringing the deficit under control but achieving a budget surplus.

The Bush administration and the rise of the war supplemental

President George W. Bush funded operations for the wars in Afghanistan and Iraq as well as for the “Global War on Terror” through supplemental “emergency” appropriations bills rather than through the regular budgeting process at the Department of Defense as was done in Korea and Vietnam. Supplemental defense budgets can be a useful and necessary tool since war is unpredictable. But the Bush administration misused this tool in an attempt to hide from the American taxpayer the true increases in defense spending it enacted.

Increased spending on defense and security in the immediate aftermath of September 11, 2001, may legitimately be called “emergency” spending. By the middle and later years of the Bush administration, however, the wars in Iraq and Afghanistan no longer qualified as unforeseen “emergencies.” Funding operations for these wars through supplemental “emergency” budgets represented a misuse of the supplemental appropriations system—a practice that the Obama administration has largely continued.

Between FY 2001 and FY 2009, the overall amount the United States spent on defense per year increased from \$412 billion to \$699 billion in constant dollars. That amounts to a percentage increase, in real terms, of about 70 percent. This jump—which was unprecedented for a single president’s tenure since the Korean War—resulted from increases to the baseline budget and from the supplemental appropriations. Between FY 2001 and FY 2009, supplemental direct appropriations for the defense portion of the wars in Iraq and Afghanistan totaled \$808.6 billion.

The Bush administration also continually used supplemental appropriations to fund programs that belonged in the baseline defense budget. From force reorganization to new weapons systems, base closures, and “slush funds” for the secretary of defense, inappropriate expenditures frequently made their way into these “emergency” funding requests:

- The Bush administration requested, and Congress approved, \$13.6 billion in then-year dollars for reorganizing the Army and the Marines through the creation of “modular units” from 2005 to 2007. The creation of “modular units” was part of a broader plan by the Defense Department to reconfigure the Army into a brigade-based force, which represented a long-term change in the peacetime organization of the military and not simply a shift to help wartime operations. And the 2007 request included \$4.9 billion to fund a long-term plan to increase the size of the Army.⁵⁷ Prior to these requests, changes to the military’s organization or end strength were always funded through baseline defense spending.
- A significant portion of the \$2.4 billion (in current dollars) request for procurement of weapons and vehicles in the 2005 defense supplemental went to upgrading M-1 Abrams tanks and Bradley personnel carriers.⁵⁸ Repair and maintenance of systems used in combat legitimately qualify as war-related expenses, but paying for new, updated weapons systems does not.
- The supplemental appropriations act in 2007 included \$3.1 billion (in current dollars) for base closures, which is another expense not related to the wars in Iraq and Afghanistan.⁵⁹
- In FY 2009, the final year of President Bush’s defense budgets, Congress approved a supplemental budget of \$369 million (in current dollars) to begin work on 12 additional F-22 jets—planes that Defense Secretary Robert Gates repeatedly told Congress he did not want.⁶⁰ To this day, the F-22 has never flown a mission over Iraq or Afghanistan.

The likely purpose of placing these expenditures in supplemental appropriations bills was to obscure the true increases in defense spending that occurred under the Bush administration since none of them directly affected the wars in Iraq or Afghanistan.

In several supplemental budgets the Bush administration not only included expenditures unrelated to the wars but also funds with no specific designation attached to them. Secretary of Defense Donald Rumsfeld had absolute “transfer authority” over \$9 billion of the supplemental defense budget in 2003 and \$11 billion in 2005 (all measured in then-year dollars).⁶¹ Congress had no power to regulate Secretary Rumsfeld’s use of these funds. The only stipulation was that he “notify” Congress of any transfers he made.

Some critics of the administration referred to these areas of the budget as “slush funds” since no specific designation was attached to them, and they could be used in any way Secretary Rumsfeld saw fit.

What’s more, the Bush administration used supplemental defense budgets not only to hide the true levels of military spending but also to stifle debate about the wars and their true costs. The administration frequently submitted supplemental budget requests at the last minute, meaning that Congress had little time to examine the requests or deliberate over specific programs in them before funding ran out for troops in the field.⁶²

The administration used the threat that voting against the supplemental budgets—or even taking a reasonable amount of time to examine them—would amount to “abandoning our troops.” This forced Congress on a number of occasions to approve the Bush administration’s supplemental budget requests with little debate.

The broader practice of funding ongoing wars through “emergency” budgets deserves scrutiny as well. In 2001 and 2002, months after the attacks of September 11, the country was truly in a state of emergency. Funding our increased expenditures on security through emergency appropriations was necessary. Even in 2003, the first year of the Iraq war, some emergency spending to fund this new military action could be justified.

But from FY 2004 to FY 2009, the wars in Afghanistan and Iraq were ongoing missions that the administration and the Department of Defense planned for and that Congress as well as the American people knew would continue. Yet the administration and Congress nevertheless continued funding these wars under the designation of “emergency” supplemental spending.

For instance, in 2006 not one dollar of the more than \$120 billion (in then-year dollars) allocated for Iraq and Afghanistan was included in the baseline defense budget. Funding planned for ongoing operations years after a war has begun through “emergency” appropriations is an inappropriate use of supplemental budgets that diminishes the importance of true emergencies.

The result was that the Bush administration essentially got to have its cake and eat it, too, by excluding funding from the wars from the baseline defense budget. It undertook two major ground wars overseas without raising taxes or cutting programs in the baseline defense budget. As a result, the cost of the wars fueled the tremendous size of our current budget deficit and national debt—a legacy President Bush left for his successor to clean up.

Stopping the gusher of defense spending: Recommendations for the Obama administration

President Barack Obama, upon taking office in January 2009, inherited a defense budget at levels not seen since the end of World War II when the United States had 12 million people under arms and waged wars on three continents. During the Bush administration's eight years in office, it upped defense spending by 70 percent—increasing the overall defense budget by nearly \$300 billion.⁶³ By the time of the 2008 election, the United States was spending about \$700 billion per year on defense, which is about as much as the rest of the world combined.⁶⁴

Obviously the United States cannot afford to keep military spending at these historic highs. Less than a decade after the surpluses of the Clinton era, the country faces an enormous budget deficit that compels the government to borrow 43 cents of every dollar it spends. Over the past decade the United States has spent more than \$1 trillion on the wars in Iraq and Afghanistan.⁶⁵ Defense spending helped create the deficit and that's why it must be part of tackling the deficit.

As laid out in the previous chapters, requesting fiscally responsible defense budgets historically has been a bipartisan effort. Presidents of both parties cut defense spending to draw down military costs in the final years of a war or to decrease the federal deficit. As the Obama administration and Congress attempt to achieve both of these goals, they would be wise to follow the examples of Presidents Eisenhower, Nixon, Reagan, H.W. Bush, and Clinton.

The historical precedent

President Obama would not be the first commander in chief to rein in defense spending. To keep a balanced budget, President Dwight Eisenhower slashed defense spending by 27 percent after the armistice that ended the Korean War. President Richard Nixon, also a Republican and Eisenhower's vice president, cut the budget by 29 percent as he withdrew from Vietnam. And between 1985 and 1998, the defense budget fell for 13 straight years as Presidents Reagan,

H.W. Bush, and Clinton—two Republicans and a Democrat—brought spending down to more sustainable levels as the Cold War wound down, with a total reduction of 35 percent.

Moreover, if President Obama were to carry out comparable reductions today, the defense budget would still be higher than the final budgets of the Eisenhower, Nixon, and Clinton administrations thanks to the unprecedented defense budget growth of the Bush years.

If Obama follows their lead...

Final defense budgets of Eisenhower, Nixon, and Reagan/Bush/Clinton combined; their reductions from the budgets they inherited; and budgets after comparable reductions by Obama

	Final budget	Percent reduced (from budget inherited)	Budget after a comparable reduction by Obama
Eisenhower (post-Korean War)	\$383 billion	-27	\$494 billion
Nixon (post-Vietnam War)	\$371 billion	-29	\$480 billion
Reagan/Bush/Clinton (post-Cold War)	\$374 billion	-35	\$439 billion

Sensible defense cuts

With defense spending at historic highs, the Obama administration has the opportunity to achieve large savings from sensible reductions in the defense budget without harming U.S. national security.

Here are our recommendations on how to save \$400 billion through 2015 without harming U.S. national security:

Redirect the Defense Department's planned efficiency savings to reduce the baseline defense budget (\$133 billion through 2015)

Let's start with the low-hanging fruit. This March the Pentagon identified \$178 billion in savings and efficiencies through fiscal year 2016. But it plans to reinvest \$100 billion of these savings into other areas of the defense budget. No other agency could get away with spending nearly \$200 billion of taxpayer dollars

unnecessarily and then asking to keep more than half the savings. The Defense Department should not be given a free pass on this plan. These savings instead should be used to reduce the baseline defense budget.

Roll back post-September 11 efforts to grow the ground forces and reduce the number of civilian Defense Department personnel concomitant with the reduction in military end strength (\$39.16 billion through 2015)

Since the September 11, 2001, terrorist attacks, the Pentagon increased the size of the Army and Marine Corps to meet the demands of frequent deployments overseas in Iraq and Afghanistan. The United States is unlikely to deploy large land armies in the near future due to the tremendous cost of these wars in both blood and treasure. This is particularly true given the success of the cheap and effective Special Forces mission that killed Osama bin Laden. Rolling back 74,200 Army and 27,000 Marine positions and a corresponding number of civilian positions provides an opportunity for savings.

Reduce active-duty troops in Europe and Asia by one-third (\$42.5 billion through 2015)

About 150,000 active-duty U.S. troops are stationed in Europe or Asia. The United States can reduce this presence by one-third without negatively affecting American security or interests given improved U.S. capabilities for long-range strikes and rapid troop transport. Last year the Sustainable Defense Task Force found that withdrawing 33,000 troops from Europe and 17,000 from Asia will save \$80 billion over the next decade or \$42.5 billion through 2015.⁶⁶

Cancel the V-22 Osprey program (\$9.15 billion through 2015)

The V-22 Osprey helicopter is long hampered by cost overruns and technical problems. A May 2009 Government Accountability Office report found that “in Iraq, the V-22’s mission capability (MC) and full mission capability (FMC) rates fell significantly below ... rates achieved by legacy helicopters.” There is no reason for the Defense Department to continue sinking money into this program given the V-22’s high price tag—it costs five times as much as other models—and lackluster performance.⁶⁷

Reform military health care (\$42 billion through 2015)

Last year the Pentagon spent about as much on military health care as on the war in Iraq. The Defense Department's skyrocketing health care expenses over the past decade can largely be attributed to the rising cost of health care for military retirees. In a recent report, "Restoring Tricare: Ensuring the Long-Term Viability of the Military Health Care System," we argue that the Defense Department should attempt to restore Tricare costs to more sustainable levels by reinstating a fair cost-sharing balance between military retirees and taxpayers and implementing a number of provisions to reduce overutilization and double-coverage.⁶⁸

Limit procurement of the Virginia-class submarine and DDG-51 destroyer to one per year; limit procurement of the littoral combat ship to two vessels per year (\$20.04 billion through 2015)

The U.S. Navy currently possesses more firepower than the next 20 largest navies combined—many of which are U.S. allies. With such an overwhelming advantage, the Pentagon can maintain U.S. military superiority while reducing procurement in a number of naval programs. Limiting the procurement of the Virginia-class submarine, DDG-51 destroyer, and littoral combat ship to two per year will reduce the costs of these expensive programs while still keeping their production lines operating.

Cut procurement of the Navy and Marine F-35 Joint Strike Fighter variants (\$16.43 billion through 2015)

Since 2002 estimates of the lifetime operational costs of the F-35 have more than doubled to \$1 trillion.⁶⁹ Alternative fighter jets such as the F/A-18E/F Super Hornet continue to be effective in the Navy and the Marines, so cutting the F-35's Navy and Marine variants—while allowing the Air Force to keep its entire buy—would help control spiraling costs in the program without compromising American air superiority.

Institute an across-the-board reduction in research, development, test, and evaluation funding (\$40 billion through 2015)

The research, development, test, and evaluation, or RDT&E, budget provides funding for the development of new technologies intended to ensure the continued superiority of the American military. This spending is an important investment in the

military's future but the RDT&E budget grew exponentially over the past decade to the point of diminishing returns. Cutting \$10 billion from RDT&E would still leave the budget significantly above historical spending levels in real terms.

Reform the military pay system as the Quadrennial Review of Military Compensation recommends (\$13.75 billion through 2015)

The Defense Department's 2008 Quadrennial Review of Military Compensation recommended revising the formula for military pay raises to acknowledge the range of generous retirement and health benefits that service members receive. Slowly phasing in the QRMC's recommendations would allow the Defense Department to begin saving \$5.5 billion per year in 2015.⁷⁰

Cancel procurement of the CVN-80 aircraft carrier and retire two existing carrier battle groups and associated air wings (\$7.74 billion)

The United States currently fields 11 aircraft carriers while no other country has even one of comparable size and power. Given this tremendous imbalance, the Pentagon could hold off building additional carriers, which cost \$15 billion a pop, and consider retiring two of our existing carrier battle groups.

Cut the U.S. nuclear arsenal to 311 operationally deployed strategic nuclear weapons (\$33.72 billion)

According to analysts at the Air War College and the School of Advanced Air and Space Studies, the United States could maintain effective deterrent capabilities with only 311 strategic nuclear weapons—approximately an 84 percent reduction in current levels.⁷¹ Phasing in these cuts—as well as some reductions in the United States' tactical stockpile—could save about \$11.39 billion per year beginning in 2015. Additionally, canceling select costly and technologically challenged missile defense programs administered by the Missile Defense Agency and the armed services could reduce spending by another \$1.31 billion per year.⁷²

Conclusion

Defense policy must be part of any deficit reduction plan. The massive increases in defense spending that accrued over the past decade are not the sole cause of our current financial situation. But they certainly played a significant role in turning a projected budget surplus into a massive deficit.

President Obama, like his predecessors, has the opportunity to reshape the military to deal with today's threats rather than those from a bygone era as the United States withdraws from Iraq and winds down its role in Afghanistan. In fact, President Obama inherited a much more favorable financial situation than his predecessors to reduce defense expenditures.

Our analysis shows that both his total and baseline defense budgets, measured in inflation-adjusted dollars, are higher than those of Presidents Eisenhower, Nixon, H.W. Bush, or Clinton. Moreover, these presidents show that defense spending can be reduced without jeopardizing national security if the nation makes appropriate strategic adjustments. Former Secretary of Defense Robert Gates' statement earlier this year at West Point that any secretary of defense who recommends sending large land armies into the Middle East, Asia, or Africa should have his head examined could just as easily have been said by Presidents Eisenhower or Nixon after the Korean and Vietnam Wars.

In this report we made a series of recommendations to cut defense spending that Presidents Eisenhower, Nixon, H.W. Bush, and Clinton would feel comfortable with. And defense spending would still be far higher than at the end of the terms of these distinguished leaders if our recommendations were accepted in their entirety.

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