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Federal Budget Policy and Defense Strategy

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FOREWORD

Defense policy and strategy will, inevitably, be affected by fiscal constraints. Army leadership struggles daily with the tradeoffs that have to be made when balancing the needs of today's readiness against the cost of tomorrow's modernization. The decisions that are made are difficult, and not without long-range consequences, central to the nation's security.

In a broader sense, it is the fiscal health of the nation overall that will determine the scale and scope of U.S. security policy--and the Army’s budget--as we enter the 21st century. U.S. political leaders have engaged in a watershed struggle to bring the Federal budget into balance. It is all too clear that the process will be painful, less so how that pain will be distributed. In the following essay, defense economist Dennis S. Ippolito dissects Federal budget practices over the past several decades, with a particular focus on sources and trends in our national deficit spending syndrome. Underlying his message is an unsettling truth, that no matter how the current debate over balancing the budget turns out, future cases for the Army Budget are going to have to be made in an even more challenging spending environment as discretionary spending margins shrink.

Army professionals, now more than ever, need to be articulate advocates of landpower for the 21st century. But before articulate and reasoned arguments can be made for the kind of force that will ensure that the nation does, indeed, build and maintain the world’s best Army (or Navy, Air Force, or Marine Corps), one must take into account the realities of the Federal budget.

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BIOGRAPHICAL SKETCH OF THE AUTHOR

DENNIS S. IPPOLITO is the Eugene McElvaney Professor of Political Science and former chairman of the Department of Political Science at Southern Methodist University. Prior to joining the faculty at SMU in 1982, he taught at the University of Virginia and at Emory University. Professor Ippolito's recent books on the Federal budget include *Budget Policy and the Future of Defense* and *Uncertain Legacies, Federal Budget Policy from Roosevelt through Reagan*.

SUMMARY

The debate over future U.S. defense strategy is not easily separated from misunderstandings and confusion about Federal budget policy. In particular, some defense analysts now contend that the capabilities required under the 1993 Department of Defense Bottom-Up Review are too costly. The deficit control efforts that appear certain to constrain Federal spending for an indefinite period, they argue, mandate a less demanding and less expensive strategic option.

The realities of budget policy trends, however, are more complex than this argument acknowledges. The structural deficit problem that policymakers are struggling to solve has, in fact, very little to do with discretionary spending, whether for defense or for nondefense programs. Instead, the key to serious deficit reduction is found in entitlement policy cutbacks, primarily in retirement and health programs. Unless the extremely high rates of growth embedded in existing entitlements are dramatically reduced, structural deficits cannot be controlled.

Over the past three decades, the budgetary and economic significance of defense budgets has greatly diminished. Today, the Federal budget is dominated by mandatory spending programs, primarily entitlements, and these programs will absorb even larger shares of future budgets. Thus, strategic compromises that reduce defense budget requirements cannot have more than a marginal impact on deficit control. The damage to important, enduring military capabilities, however, could be extremely serious and, given the declining flexibility in spending policy, difficult to reverse. The purpose of this monograph, then, is to provide an accurate fiscal perspective for a critically important strategic policy debate.

FEDERAL BUDGET POLICY AND DEFENSE STRATEGY

INTRODUCTION

It is neither unexpected nor unprecedented that the debate over U.S. defense policy is being dominated by fiscal constraints. Maintaining an acceptable balance between budgetary and strategic considerations was difficult during the Cold War, when the geopolitical environment and concomitant threats to U.S. interests were reasonably predictable.[1] The contrasting uncertainties of the post-Cold War era obviously complicate the already formidable task of shaping a strategic consensus that will not be compromised by nondefense budgetary pressures.

The Department of Defense's Bottom-Up Review (BUR), which was made public on September 1, 1993, defines future U.S. defense strategy and requirements.[2] Criticism of its strategic assumptions and especially its potential costs is beginning to escalate in conjunction with the rising tensions between the executive branch and the Congress over Federal budget policy. Perhaps the most important strategic controversy at hand focuses on the BUR's assumption that U.S. forces must have the capabilities to conduct two "major regional conflicts" at roughly the same time. For many defense experts, the likelihood is remote that these capabilities would ever be needed, and there is related uncertainty about the less abstract issue of whether currently planned forces would be able to support so robust a strategy.[3]

These strategic issues cannot be easily separated from the fiscal limits being imposed on defense. Assuming that planned forces can adequately support official strategy, can projected budgets maintain these forces at prudent levels of readiness and modernization? Here, the overwhelming consensus is that funding will prove to be inadequate, although the size and seriousness of budgetary shortfalls are disputed.[4]

The purpose of this analysis is to clarify the budgetary context within which defense funding is determined, so that the strategic policy debate can proceed in a more informed and rational manner. Federal budget policy is likely to undergo a profound transformation, if the executive branch and the Congress succeed in balancing the budget over the next decade. As this transformation evolves, defense spending will become increasingly vulnerable to deficit-reduction initiatives, thereby enhancing the appeal of less challenging and less costly strategic options.[5]

There is, then, a distinct danger that budgetary pressures will force strategic compromises and risks that are unwise and, in fact, unnecessary. The inescapable reality, from the standpoint of budget policy, is that defense spending cutbacks can contribute very little to the Herculean tasks of bringing the budget into balance and, thereafter, keeping it in balance. The "drivers" of past, current, and future deficits are Federal health and retirement entitlements, whose growth rates under current policy are not sustainable, even if draconian reductions are imposed on other types of spending. It is simply not feasible for defense or nondefense discretionary programs to yield savings that will appreciably alter the long-term deficit dynamic associated with entitlement spending growth.

Indeed, what seems likely to occur if defense strategy is scaled down solely in order to reduce defense budget demands over the next decade is that defense will find itself in precisely the same predicament thereafter. Eliminating structural budget deficits will require large and repeated downward adjustments in spending policy for the foreseeable future. But until Federal entitlement policy is fundamentally changed, defense will be facing a recurring sequence of budget-driven strategic accommodations.

The defense policy debate should proceed from a clear understanding of nondefense budget policy trends. The first element in this understanding is retrospective--how defense budgets have affected spending control and deficit growth over the past several decades. The second element involves the relationship between the defense and nondefense discretionary spending limits imposed during the 1990s and the structural deficit reductions achieved during this period. The third element is a prospective examination of the long-term budget trends that create structural deficit problems and of the spending policy reductions upon which budget balance ultimately depends.

By assessing defense funding within this analytical framework, it should be possible to divorce, or at least to insulate, the critically important strategic debate from misperceptions and confusion about the Federal budget. In the end, defense planners may determine that existing strategy is unnecessarily demanding. This decision, however, should proceed from a rigorous analysis of risk and reversibility, rather than from politically expedient efforts to gain short-sighted and evanescent savings.

DEFENSE SPENDING IN PERSPECTIVE

Over the past half-century, the United States has devoted a large share of its budgetary resources (and its wealth) to defense. Since this commitment produced a remarkably decisive, if largely unanticipated, victory in the Cold War, it is difficult to make the case that past military burdens were unnecessary and unjustified. Nevertheless, defense critics have complained that the scale and longevity of Cold War defense commitments entailed enormous sacrifices in economic growth, budget deficits, and unmet domestic needs.[6] Their usual conclusion is that post-Cold War defense budget cutbacks can and should redress these sacrifices.

Defense spending critiques ignore, however, actual budget policy trends. The economic and budgetary burdens associated with defense have been decreasing very substantially for quite some time. The economic weight of defense (usually calculated as the percentage of gross domestic product [GDP] accounted for by defense spending) is currently at its lowest level since the post-World War II demobilization.[7] Further, the defense budget share is lower than at any time since before World War II.[8] Perhaps most relevant for the present problem of budget balance, the "explosion" in Federal deficit and debt levels has paralleled the shifting composition of the Federal budget away from defense and toward nondefense spending programs.

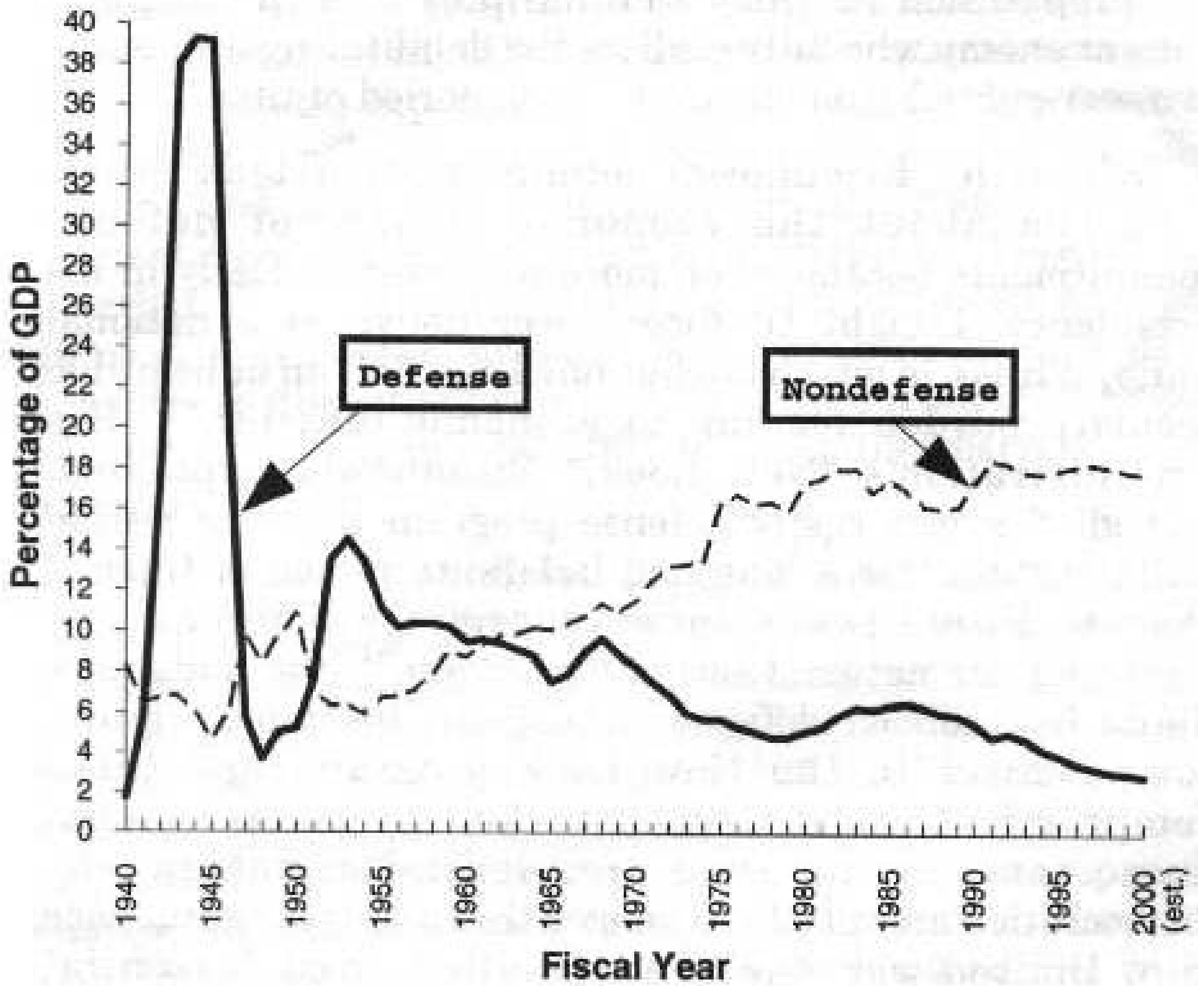
Defense and the Economy.

Immediately after World War II, the United States engaged in a massive demobilization, one that Cohen states "does indeed fit the stereotype of precipitate shrinkage of the military that we so often hear about . . . ."[9] By 1950, however, the Truman administration had launched a comprehensive defense buildup that went well beyond the immediate needs of the Korean War. Three years later, the defense-GDP share stood at 14.5 percent (compared to the World War II peak of nearly 40 percent), more than triple the levels of the late 1940s. After the Korean War, defense spending remained elevated, averaging over 10 percent of GDP annually in the Eisenhower administration's *peacetime* budgets over the fiscal 1955-61 period.[10]

Despite the overriding priority assigned to defense during the 1950s, there were recognized imbalances between defense funding and strategic planning requirements. For a time, defense proponents in Congress gave only reluctant support to Truman's defense buildup because of their deep anxiety over its economic impact. George H. Mahon, chairman of the House Appropriations Subcommittee on Defense, acknowledged that his committee's 1950 appropriations bill funded only one-fourth the complete readiness estimate prepared by the Joint Chiefs of Staff, but he argued that "nothing would please a potential enemy better than to have us bankrupt our country and destroy our economy by maintaining over a period of years complete readiness."[11] Later that year, the Senate Appropriations Committee's report on the House-passed measure called for additional cuts, declaring that "a nation which exhausts itself in enervating overpreparation . . . may well fall prey to a cunning and patient enemy who fully realizes the debilitating influences of a war-geared economy over a long period of time."[12]

When the Eisenhower administration took office, concerns about the economic impact of defense commitments became even more pronounced. Early in his presidency, Dwight D. Eisenhower delivered a national radio address, in which he cautioned against "an unbearable security burden leading to economic disaster."[13] His administration's "New Look," Eisenhower explained, embodied a less costly defense program that the nation could sustain "for a long and indefinite period of time."[14] Despite Eisenhower's "new concept for planning and financing our national security program,"[15] the budgetary limits imposed on defense throughout his tenure forced compromises in the New Look program, and these compromises were often attacked by congressional Democrats. In the 1960 presidential campaign, the Democratic Party platform alleged that a "missile gap, space gap, limited-war gap" had resulted from "essential programs now slowed down, terminated, suspended, or neglected for lack of budgetary support."[16]

Whatever the substantive merits of the Democratic critique, the budgetary attack turned out to be clearly unfounded. While the Kennedy administration initially boosted defense spending levels, its long-term budget planning was actually predicated upon steep cuts in defense that would fund new and expanded domestic programs.[17] Under the Johnson administration, defense transfers to domestic purposes were slowed by the Vietnam buildup, but the broader effort to lessen the defense burden was successful. The defense-GDP share had, in fact, entered an extended period of decline by the time Eisenhower left office (Figure 1). Less than two decades later, defense had dropped below 5 percent of GDP, and, after climbing to 6.5 percent at the height of the Reagan buildup, the downward trend commenced once again. In FY 2000, the defense-GDP share is expected to be approximately 3 percent, about one-sixth of the projected nondefense level.



Source: *Historical Tables, Budget of the United States Government, Fiscal Year 1996*, Washington: GPO, 1995, pp. 82-88

Figure 1. Defense and Nondefense Gross Domestic Product Shares, FY 1940-2000.

The economic impact of defense budgets is no longer significant, but the downtrend in defense has been obscured by a countervailing expansion in nondefense spending. While defense budgets have fallen by more than 60 percent compared to defense-GDP levels during the late 1950s, total Federal spending versus GDP is almost 25 percent higher. Federal outlays are well above 20 percent of GDP today, even though defense is at its lowest point since the late 1940s.

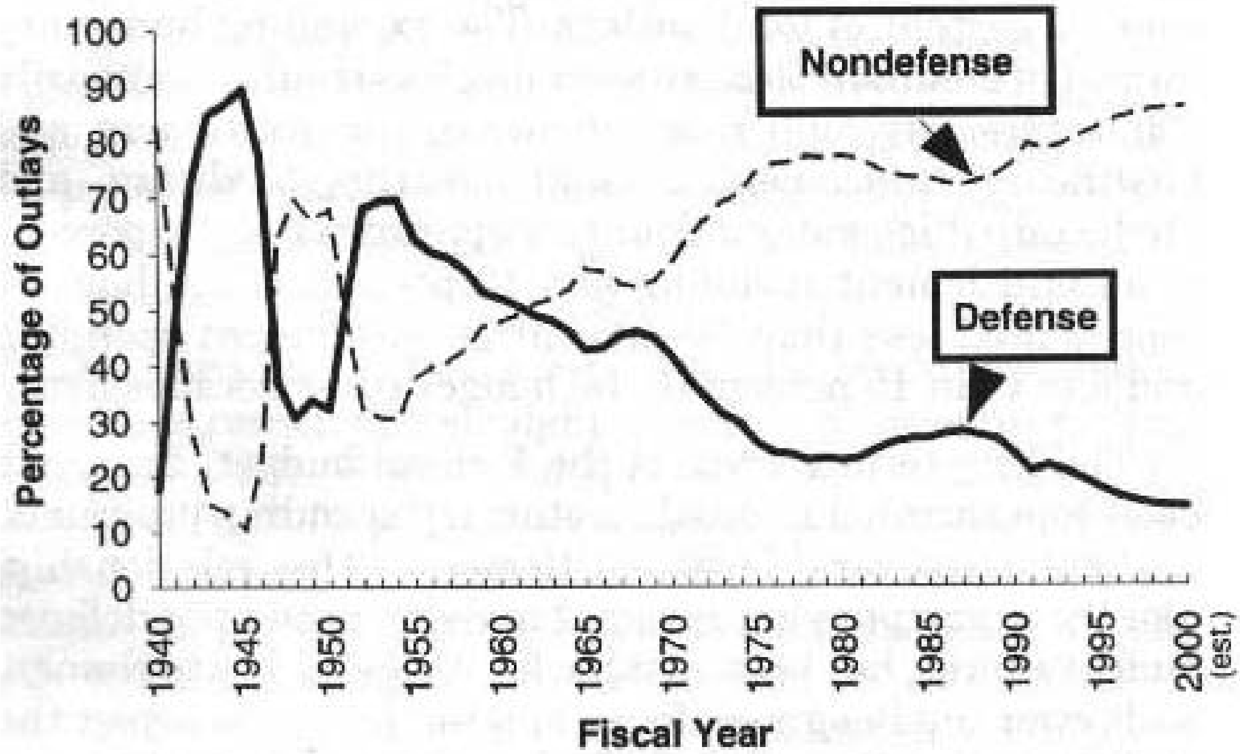
In retrospect, it is understandable that the economic implications of a massive, indefinite defense commitment generated so much concern during the 1950s. For Eisenhower, the containment of defense budgets appeared to be absolutely necessary, given their disproportionate economic and budgetary weight, and strategic accommodations and compromises could legitimately be justified in terms of economic policy. The fiscal situation of the post-Cold War era is not at all analogous. Given the extremely modest economic burden associated with defense, economic policy arguments for strategic cutbacks have largely evaporated.

Defense and the Budget.

As Figure 2 illustrates, there have been several massive shifts in the composition of the Federal budget during the era of modern budget policy. The defense budget share, which had dropped below 20 percent under the New Deal, soared to almost 90 percent during World War II. The defense and nondefense shares then were transposed after World War II and, once again, during the Korean War. Since the mid-1950s, the defense share of total outlays has moved downward fairly steadily, while the nondefense share has climbed toward, and recently above, the peak levels it enjoyed during the New Deal.

It has been quite some time, then, since defense spending dominated the Federal budget. In addition, the post-Korea shift to a budget monopolized by nondefense spending is striking in its duration and in its seeming irreversibility. The Vietnam War and the Reagan defense buildup of the 1980s slowed, but did not alter, the reshaping of Federal budget policy away from defense and toward nondefense purposes. Moreover, the relative size of the Federal budget has increased significantly, as this compositional transformation has occurred.

There has been a second and related change in the shape of the budget, with the displacement of discretionary spending by nondiscretionary, or mandatory, spending.[18] In the early 1960s, total discretionary spending (defense and nondefense) absorbed about 70 percent of the Federal budget. By the end of this decade, entitlements and other mandatory spending, including net interest, will account for over 70 percent of total outlays. The expanding budgetary impact of nondiscretionary spending has resulted primarily from extremely high rates of increase in retirement and healthcare entitlements. Social Security, Medicare, and Medicaid, which today account for approximately 70 percent of all entitlement spending and 40 percent of the budget, represented less than 50 percent of entitlement spending and less than 15 percent of the budget three decades ago.[19]



Source: *Historical Tables, Budget of the United States Government, Fiscal Year 1996*, Washington: GPO, 1995, pp. 82-88.

Figure 2. Defense and Nondefense Budget Outlay Shares, FY 1940-2000.

The long-term growth of the Federal budget, then, has been concentrated in nondiscretionary spending programs, particularly several large entitlements. This relationship, like the accompanying reversal in defense and nondefense budget shares, has been notable for its resistance to change, with even the Reagan defense buildup failing to arrest the decline in the discretionary budget share. Under Reagan, defense outlays more than doubled in current dollars, and real defense spending rose by about 50 percent (Table 1). Contrary to widespread criticisms at the time, the Reagan defense program was not being financed by massive domestic cutbacks. Instead, real spending for nondiscretionary domestic programs increased by about one-third, and the nondiscretionary budget share continued to move upward.

The budgetary tradeoff to defense that did occur during the 1980s came at the expense of discretionary domestic spending, which dropped, in constant dollars, by about 10 percent. A different tradeoff had

	Constant (FY 1987) Dollars			Budget Share		
	Discretionary		Non-discretionary	Discretionary		Non-discretionary
Fiscal Year	Defense ($)	Total ($)	Programmatic ($)	Defense (%)	Total (%)	Programmatic (%)
1980	188	387	399	22.8	46.8	47.7
1981	199	389	426	22.3	45.4	48.6
1982	215	382	438	24.9	43.7	48.4
1983	230	394	462	26.0	43.7	49.4
1984	242	409	437	26.8	44.6	46.1
1985	262	434	464	26.7	44.0	45.8
1986	277	447	464	27.7	44.3	45.3
1987	283	445	463	28.1	44.3	46.1
1988	284	452	472	27.3	43.7	46.2
1989	286	458	484	26.6	42.8	46.2
1990	273	452	528	24.0	40.1	48.2

Source: *Historical Tables, Budget of the United States Government, Fiscal Year 1996*, Washington: GPO, 1995, pp. 96-97

Table 1. Discretionary and Nondiscretionary Spending Trends, Fiscal Years 1980-90.

taken place during the 1970s, when a 30 percent reduction in real defense spending helped to finance a 50 percent rise in discretionary domestic outlays. Yet, over the entire period, the total discretionary spending budget share was dropping by more than one-third, which helps to explain why the competition between defense and discretionary domestic programs became so intense.

Many of the misconceptions about the Reagan era, and about defense spending more generally, result from using discretionary domestic programs as a surrogate for domestic budget priorities. The appropriate and accurate measure of domestic program support necessarily includes all domestic programs, discretionary and nondiscretionary, and this comprehensive measurement makes clear that domestic program support has overwhelmed defense on every dimension--real spending growth, budget shares, and GDP shares--for an extended period of time. The political balance of power in the executive branch and the Congress has affected, and doubtless will continue to affect, how the competition between defense and nondefense discretionary programs is resolved. Indeed, this competition has defined much of the annual appropriations agenda for the past quarter-century.[20] The appropriations process, however, controls a shrinking share of the budget, and appropriations outcomes cannot alter the structural change in the Federal budget resulting from the transfer of budgetary support from defense to domestic purposes and from discretionary to nondiscretionary programs.

Defense, Deficits, and Debt.

During World War II, defense spending absorbed most of the budget, and wartime deficits totaled nearly $200 billion (or $1.6 trillion in constant FY 1987 dollars). By the end of the war, the publicly-held Federal debt exceeded 110 percent of GDP. For the next two decades, while the defense budget share was quite large, peacetime deficits were extremely low, the publicly-held debt declined in real terms, and its relative size (measured against GDP) dropped by more than one-half. Since the 1960s, by contrast, deficits have become chronic, their size has risen sharply, and the growth in publicly-held debt has outstripped economic growth. Over this latter period, defense spending has declined against all of the relevant indicators--GDP shares, budget shares, and real spending growth.

A useful perspective on the long-term deficit trend, and its underlying causes, is provided by the constant dollar comparisons in Table 2. As noted above, defense spending during World War II generated extremely large deficits. For the entire decade of the 1940s, real spending for defense averaged $290 billion annually, or about three-fourths of total spending. Net deficits for 1940-49 (deficits minus surpluses) averaged just under $160 billion annually in constant dollars. Clearly, the substantial deficit and debt accumulations of the 1940s were caused by wartime defense spending.

This direct relationship between defense, deficits, and debt did not persist. During the 1950s, real defense spending averaged $245 billion annually (or approximately two-thirds of total annual spending), but average deficits were less than $10 billion. Real defense spending then declined, as did the defense share of total spending, but peacetime deficits eventually reached unprecedented levels. During the 1990s, with constant dollar spending for defense averaging about $215 billion annually (near to the lowest level since before World War II), and the defense share of total spending at less than 20 percent (again the lowest level since before World War II), the estimated real dollar deficits will be the highest of any decade in modern times. As Table 2 makes quite clear, deficit growth is

Fiscal Years	Annual Average Constant (FY 1987) Dollars			
		Spending		
	Receipts ($)	Total ($)	Defense ($)	Deficits ($)
1940-49	236	393	(290)	157
1950-59	365	374	(245)	8
1960-69	462	483	(239)	21
1970-79	608	678	(200)	71
1980-89	786	995	(246)	169
1990-99 (est.)	988	1162	(216)	174

Source: *Historical Tables, Budget of the United States Government, Fiscal Year 1996*, Washington: GPO, 1995, pp. 17-18, 82-88.

Table 2. Federal Receipts, Spending, and Deficits, Fiscal Years 1940-99.

directly tied to nondefense spending, which has risen faster than budget receipts and, of course, more than offset the decline in defense.

For approximately two decades after the end of World War II, defense and, to a lesser extent, nondefense discretionary spending were indispensable elements in efforts to control spending and balance budgets. Nondiscretionary spending programs then became the principal sources of budget growth and the key to deficit control. Unfortunately, the deficit-control efforts of the early 1990s deliberately ignored this new reality, and the inevitable result is deteriorating structural deficit control accompanied by a growing distortion in spending policy.

DEFENSE SPENDING AND DEFICIT REDUCTION

By the end of the Reagan presidency, the defense budget's prospects for continued real growth were dim, but a much more profound shift in policy was soon to occur. The centrality the defense budget had enjoyed under Reagan was certainly undercut by the dissolution of the Warsaw Pact in 1990 and the breakup of the Soviet Union the following year, but the end of the Cold War also paralleled a growing consensus among policymakers that defense policy should be subordinated to deficit control. In 1990, the Bush administration and the Congress completed action on an Omnibus Budget Reconciliation Act containing an estimated $500 billion in deficit reduction for fiscal years 1991-95. Three years later, the Clinton administration and the Congress enacted the Omnibus Budget Reconciliation Act of 1993, which contained another $500 billion in estimated deficit savings through spending cuts and tax increases.

The Bush and Clinton deficit-reduction agreements were similar in important respects. Neither made substantial changes in entitlement programs but instead relied heavily upon revenue increases and tight discretionary spending controls, with the latter requiring heavy real cuts in defense. The widely-shared belief that defense spending and tax cuts had produced the large deficits of the 1980s was not, in fact, entirely accurate, and the misdiagnosis has been evident in the persistence and growth of standardized-employment, or structural, budget deficits.[21] In January 1990, well before the 1990 budget agreement was formulated, the Congres- sional Budget Office estimated that standardized- employment deficits for fiscal years 1991-95 would average $120 billion annually.[22] For the second half of the decade, after two major tax increases and steadily declining defense budgets, average standardized- employment deficits are being projected at well over $200 billion annually.[23]

Without the 1990 and 1993 budget acts, structural deficits would, of course, be much larger. Nevertheless, it is important to recognize that deficit reduction on the spending side of the budget has to this point been confined largely to defense. As a consequence, budget balance has not been achieved and, indeed, could never have been achieved. The shortcomings of the Bush and Clinton deficit-reduction efforts therefore need to be clearly understood in assessing future attempts to balance the budget.

The Bush Defense Program.

George Bush campaigned for the presidency in 1988, pledged to continuity in both tax policy and defense policy. In fact, Bush argued that real defense spending had to be increased in order to support strategic force modernization and a conventional force buildup.[24] Shortly after taking office, however, Bush proposed a temporary defense spending freeze "in light of the compelling need to reduce the deficit . . . ."[25] One year later, with the economy moving into recession and deficit projections steadily worsening, the Bush administration initiated negotiations with the Congress on a multiyear deficit-reduction agreement that would raise taxes and cut defense.

The Omnibus Budget Reconciliation Act of 1990 contained important new controls governing spending and revenue policy. Multiyear annual appropriations caps were established for discretionary spending, while for nondiscretionary spending programs and for revenues, changes in current policy were required to be deficit-neutral.[26] These controls divided spending into two growth tracks. The discretionary track was effectively flat, with the total discretionary spending ceiling set at $521 billion in FY 1991 and rising only minimally to $541 billion in FY 1995.[27] Over this same period, the entitlement track would climb by an estimated $200 billion.[28] In addition, the Congress could not, except under emergency conditions, raise discretionary spending above the appropriations ceiling, but entitlement spending could exceed projected levels so long as the increase resulted from unanticipated factors (such as demographic and economic causes or technical estimating errors).

The 1990 budget agreement did provide limited protection for defense by setting, for its first 3 years, a separate appropriations cap for defense budget authority, with Congress prohibited from transferring any of the designated defense funding to nondefense discretionary spending. There was nevertheless an agreed-upon defense transfer, since the defense appropriations cap was decreased each year, while nondefense discretionary spending was allowed to grow by as much as 10 percent over the fiscal year 1991-93 period.[29] The Bush administration also unveiled in 1990 its conceptual framework for post-Cold War defense planning. In August, President Bush announced that active forces would be reduced by 25 percent over 5 years and reconfigured to respond primarily to major regional contingencies, rather than to the fading Soviet threat in Europe. Over the next several months, while U.S. forces were successfully prosecuting the Persian Gulf War, the Department of Defense was developing a scaled-down Future Years Defense Plan to accommodate the administration's budgetary and strategic changes. The resulting "Base Force" projected an active-duty force level of 1.65 million by FY 1995, with a force structure geared to concurrent regional war capabilities.[30]

The projected defense spending reductions under the Base Force program were substantial. The Congressional Budget Office, in reviewing the administration's FY 1992 budget requests, estimated that real defense spending would drop by more than $175 billion in budget authority over 5 years and by nearly $160 billion in outlays over the same period.[31] One year later, in response to election-year pressures to reduce spending even more, Bush proposed an additional $50 billion in cuts from his defense program.[32]

The 1990 budget agreement has been criticized as a major political blunder on the part of the Bush administration, since it violated the "no new taxes" pledge George Bush had taken in 1988. The agreement was even more clearly a budget policy failure, since the Bush administration gained no real concessions from the Congress on nondefense spending policy. The Democratic- led Congress successfully protected all existing entitlements, and it also won expanded discretionary domestic spending margins. When the Bush presidency ended after one term, spending policy was more skewed toward entitlements, while structural deficits were growing larger and larger. And under the incoming Clinton administration's budget program, defense was the prime target for a second round of deficit reduction.

The Clinton Defense Program.

While defense spending had been a salient issue in presidential campaigns during the 1970s and 1980s, partisan and ideological differences over defense were carefully muted in 1992. With each of the major candidates proposing defense cuts, and the electorate's attention fixed upon economic recovery, defense policy received little if any serious discussion. For its part, the Clinton campaign claimed that $60 billion in defense cuts could be achieved over 5 years without sacrificing the primary military capabilities of the Base Force.[33]

Less than one month after taking office, the Clinton administration presented its long-term budget program, which proposed to double the defense budget cuts Bill Clinton had called for during his campaign. While this change was unaccompanied by any defense policy justification, it was part of a coherent budget strategy. In order to achieve additional deficit reduction, the administration was recommending that discretionary spending limits be extended through FY 1998. With these extended limits in place, President Clinton's domestic program initiatives could not be financed without stepped-up defense transfers. Thus, the defense budget proposals of February 1993 were aimed at expanding the post-Cold War "peace dividend" by sufficient amounts to support the Clinton administration's domestic policy program.[34]

For nearly 6 months, as the House and Senate revised major portions of the Clinton budget package, the defense spending levels initially proposed by the administration went unchallenged. On March 27, 1993, the Department of Defense submitted an FY 1994 budget that included the first installment of accelerated defense cuts, but the Department's review of how reduced budgets and strategy were to be integrated was not completed until September. Finally, when the 1993 Bottom-Up-Review was unveiled, the principal military capabilities for which the Base Force had been designed--most prominently the concurrent major regional war contingency--were affirmed, albeit with the stipulation that these capabilities could be achieved with a smaller and less costly force.

Defense supporters in Congress almost immediately charged that the administration's defense program was seriously underfunded, although a more immediate concern for many was that the Congress would fail to appropriate even the reduced budget levels being recommended by the administration. In February 1994, the Department of Defense conceded that the multiyear defense shortfall could be as high as $20 billion, but no programmatic or budgetary adjustments were proposed.[35] In December 1994, after the Republican party had gained control of the House and Senate, the administration announced that defense underfunding was closer to $50 billion and introduced a $25.9 billion Defense Funding Initiative to redress a portion of the potential imbalance.

Despite this adjustment, concerns about underfunding have persisted, with the Congressional Budget Office reporting in January 1995 that cumulative budgetary shortfalls under the Clinton program could reach $100 billion by 1999.[36] When the 104th Congress convened, prominent Republican leaders in both chambers promised to end defense transfers to domestic programs and to press for defense budget increases above the Clinton program.[37] These pro-defense sentiments were overcome, however, by countervailing pressures to balance the budget and to cut taxes. When the Republican plan to balance the budget was announced in the spring of 1995, the underfunding dilemma remained.

The Republican party's balanced-budget initiative did force the Clinton administration to revise its own budget program, with the President announcing, on June 13, 1995, a 10-year, $1.1 trillion plan to bring the budget into balance in FY 2005. Like the Republican balanced-budget proposal, the administration's deficit-reduction package included nearly $200 billion in additional discretionary spending savings. Both plans exempted defense from any new cuts, which meant that heavy reductions would have to be imposed on nondefense programs. In order to enforce these cuts, the FY 1996 congressional budget resolution contained separate appropriations caps for defense and nondefense programs for fiscal years 1996-98.

The projected congressional defense budget levels now in place, however, are not very different from the Clinton administration's (Table 3). For fiscal years 1996-2000, congressional budget authority and outlay levels are slightly higher--approximately $30 billion in budget authority and outlays over the 5-year period.[38] For the last 2 years of the congressional plan, fiscal years 2001 and 2002, the Clinton program is actually higher (by about $15 billion in outlays).[39] In sum, the differences over the next 7 years between the Republican and Clinton administration defense programs are very small--perhaps $15-20 billion in cumulative budgets of approximately $1.9 trillion--and certainly nowhere near the upper-end estimates of defense underfunding.

Although following the 1994 elections defense funding has marginally increased, the impact has been considerably less than many anticipated. At least for the short term, defense transfers to domestic programs have ended, but with discretionary spending margins becoming much narrower over time, defense could be extremely vulnerable to revived transfer pressures. The broader lesson to be drawn from the 1995 budget policy debate is that serious deficit reduction, and especially budget balance, will make it very difficult to raise defense budgets appreciably, even if the political environment remains favorable to defense. And this difficulty is rooted in the spending dynamic of entitlement programs.

THE BALANCED BUDGET PROBLEM

Despite apparent progress in lowering deficits over the past few years, the structural deficit problem remains severe. For fiscal years 1991-95, annual deficits declined by over $100 billion, and the FY 1995 deficit of $176 billion was 2.5 percent of GDP, the lowest level in 15 years. Under current policy, however, future deficits will grow rather than decrease, because the underlying mismatch between spending and revenue becomes more pronounced over time.

		Fiscal Year					
		1996	1997	1998	1999	2000	TOTAL
Clinton FY 1996 Budget	BA	258	254	260	267	277	$1316
	O	262	258	255	260	268	$1303
FY 1996 Budget Resolution	BA	265	267	269	272	274	$1347
	O	263	265	264	267	271	$1330

BA = Budget Authority
O = Outlay

Source: *Budget of the United States, Fiscal Year 1996*, Washington: GPO, p. 124; *Congressional Quarterly Weekly Report*, July 1, 1995, pp 1906-1907.

Table 3. The FY 1996 Clinton Defense Budget Program vs. Congressional Budget Resolution (in billions of dollars).

Measuring Structural Deficits.

In assessing the deficit problem, it is necessary to distinguish between structural or policy-based deficits and transitory or cyclical deficits. The latter are temporary, arising from downturns in the economic cycle or from natural disasters and other emergencies, and are largely self-correcting. During the late 1980s and early 1990s, for example, deposit insurance costs associated with savings and loan insolvencies made deficits much higher. These costs have now diminished greatly, and asset sales from these failed institutions are actually reducing current deficits.

For policymakers, the real challenge is posed by structural deficits--the gaps between spending and revenue levels that remain when the economy is doing well (and when temporary factors, such as deposit insurance costs, are excluded). According to the Congressional Budget Office, structural deficits are large and growing, averaging approximately $220 billion, or about 2.7 percent of GDP, for fiscal years 1996-2000.[40] Since these estimates assume that discretionary spending will continue to decline in real terms, the structural deficit increases are clearly a function of differential growth rates in revenues and nondiscretionary spending. Baseline revenues are expected to increase by over $280 billion between fiscal years 1996 and 2000. With no growth in discretionary outlays, projected deficits still become larger, because nondiscretionary spending, plus interest, will increase outlays by an estimated $335 billion.[41]

The Revenue Policy Solution.

This structural deficit gap must be eliminated under any balanced-budget plan, and despite the vast differences between the congressional Republican and Clinton administration plans, there is one very important similarity. Neither plan calls for an upward adjustment in baseline revenue levels. Both the administration and the congressional Republican leadership have proposed tax cuts that would reduce, by different amounts, baseline revenue levels.[42] While the Republican tax-cut program is larger than the administration's, the Congress' FY 1996 budget resolution precludes any tax reductions at all unless reconciliation legislation is enacted that provides sufficient spending savings to insure a balanced budget in 2002.[43] Furthermore, even full implementation of the Republican tax cuts would reduce baseline revenues only slightly.

Thus, with revenues almost certain to remain at or below 19 percent of GDP for the foreseeable future, revenue-based reductions in the structural deficit are, in effect, precluded. As shown in Table 4, revenue levels, unlike spending levels, have fluctuated very little over the past several decades, which suggests an enduring consensus among policymakers about politically acceptable and economically positive levels of taxation. Unless this consensus erodes, which seems unlikely, the revenue side of the budget can be treated as a constant in the balanced-budget equation. Accordingly, the entire burden of deficit reduction falls on the spending side of the budget.

The Spending Policy Solution.

With 10-year projections of baseline outlays exceeding revenues by an average of 2.7 percent of GDP annually, the spending reductions needed to eliminate deficits are quite large.[44] In 2002, the congressional Republicans' target date for a balanced budget, the spending-revenue differential is over $250 billion. In 2005, President Clinton's preferred date, baseline spending would have to be reduced by nearly $300 billion in order to match projected revenues.

How spending reductions of this magnitude are to be achieved represents the real crux of the balanced-budget debate. Discretionary spending programs can and will contribute heavily to deficit reduction, but potentially available discretionary savings are, by common agreement, grossly inadequate to bring about budget balance. Adequate savings can only be realized by abruptly slowing the projected rate of increase in nondiscretionary spending, and since Federal healthcare and retirement entitlements are the principal sources of nondiscretionary spending growth, the prospects for balanced budgets are tightly bound to major alterations in these programs.

The spending policy solution to the structural deficit problem is reasonably straightforward. The revenue ceiling discussed earlier limits total spending to a maximum of 19 percent of GDP. By 2005, discretionary spending would drop from its current 7.8 percent of GDP to an estimated 4.9 percent if present outlay levels remain frozen.[45] If the reduced discretionary caps contained in the FY 1996 Republican

	Average Annual Percentage	
Fiscal Years	Revenues (%)	Outlays (%)
1960-69	18.3	19.1
1970-79	18.5	20.6
1980-89	19.0	23.1
1990-94	18.6	22.8
1995-99 (est.)*	19.2	21.9
2000-04 (est.)*	19.0	21.6

*Baseline projections of current revenue policy and spending policy without any inflation adjustment in discretionary spending.

Source: Data for fiscal years 1960-61 are from *Historical Tables, Budget of the United States Government, Fiscal Year 1996*, Washington: GPO, 1995, p. 15; the fiscal year 1962-1994 data are from *The Economic and Budget Outlook: Fiscal Years 1996-2000*, Washington: CBO, 1995, p. 97; the fiscal year 1995-2004 data are from *The Economic and Budget Outlook: An Update*, Washington: CBO, 1995, p.25.

Table 4. Revenues and Outlays as a Percentage of Gross Domestic Product, Fiscal Years 1960-2000.*

budget plan are extended through 2005, there would be a greater decline, to perhaps 4.5 percent.[46] The expected range of the discretionary spending path is therefore at about 4.5-5.0 percent of GDP. Net interest outlays are notoriously difficult to project over the course of a decade, but the most optimistic estimates now available cluster around three percent of GDP. A minimum level for discretionary spending and for interest in 2005 is thus around 7.5-8.0 percent, which, at balanced-budget levels, leaves a GDP margin of approximately 11-11.5 percent to accommodate all nondiscretionary spending.

This margin cannot accommodate existing entitlements, particularly healthcare entitlements. Under current policy, Medicare and Medicaid expenditures rise from 3.8 percent of GDP in 1995 to 6.0 percent in 2005.[47] By 2005, projected Social Security, Medicare, and Medicaid outlays account for nearly 11 percent of GDP. All other entitlements, including those serving the poor, are expected to total 3-3.5 percent of GDP in 2005, about the same level as currently. Thus, one way to maintain existing Social Security, Medicare, and Medicaid policy and to balance the budget is to eliminate all other entitlements. Since this option is unrealistic, the spending policy solution to deficit control is ultimately contingent upon immediate and sustained deceleration in the rate of growth for large, rapidly expanding entitlements. Over the next 10 years, this contingency is specifically tied to Medicare and Medicaid. For the longer term, as demographic trends swell the size of the retired population, even tighter controls on retirement as well as health care entitlements become necessary.

The budgetary case for entitlement controls is unavoid-able, since both short-term and long-term structural deficits are entitlement driven. It is equally clear, moreover, that all entitlements are not equally responsible for past, current, and future deficit growth. For a number of entitlement programs, current policy already insures a diminishing budgetary impact. For Social Security, Medicare, and Medicaid, by comparison, current policy translates into an increasing, and ultimately unsupport- able, budgetary impact.

The policy options for dealing with excessive entitlement growth are well known and include benefit reductions, means-testing, and taxation of income and in-kind benefits.[48] The benefit-reduction and means-testing approaches have been incorporated, to a limited extent, into the Medicare and Medicaid reform proposals advanced by congressional Republicans in 1995. Benefit taxation has already been applied to Social Security, and recent discussions about recalculating cost-of-living adjustments (COLAs) in Social Security have emphasized the importance of controlling automatic benefit growth. (It should also be noted that COLA recalculation would boost revenues by reducing inflation adjustments in tax brackets, personal exemptions, and standard deductions.[49]) While a comprehensive spending-control program for demograph-ically-driven entitlements appears inevitable, policymakers seem reluctant to implement major changes until the entitlement financing crisis becomes considerably more acute. From the standpoint of practical politics, this reluctance may be understandable, but the price of delay is a serious, and perhaps irreversible, distortion in budget policy that poses a direct danger to long-term defense funding.

The "Unbalanced" Balanced Budget.

Among the various balanced-budget proposals unveiled in 1995, the congressional Republican plan is by far the most ambitious in attacking entitlement growth.[50] Its policy and economic assumptions also appear to be less optimistic than the Clinton administration's, which, according to the Congressional Budget Office, could actually leave a deficit of over $200 billion in place by 2005.[51] By comparison, the spending cuts in the Republican plan would, if fully implemented, achieve balance in 2002.[52] These cuts, which total more than $1.2 trillion over 7 years, include over $450 billion in baseline savings in the Medicare and Medicaid programs, along with an additional $175 billion in other entitlement savings.

Nevertheless, even the Republican program fails to impose a sustainable balance on spending policy. In 1990, the ratio of mandatory spending to discretionary spending was 60-40. The present ratio is about 2-1. By 2002, assuming that all the mandatory spending cutbacks in the Republican budget program are enacted, only about one-fourth of the budget would be available to support discretionary programs. Such a rapidly contracting discretionary budget share translates into sharply reduced real spending levels. Since 1990, real spending for defense has dropped by 35 percent, and, if defense is supported at maximum levels for the next 7 years, it will decrease by an additional 17 percent. Whether these maximum levels can be protected against domestic transfer pressures is problematic, since nondefense discretionary spending must shrink by over 30 percent in real terms by 2002 to meet the discretionary appropriations caps.[53]

The explosive partisan disputes over Medicare and Medicaid during 1995 have obscured an important budgetary distinction. If entitlement policy remains unchanged, baseline mandatory spending would increase by an estimated $440 billion from 1996-2002, with over one-half of this increase concentrated in Medicare and Medicaid.[54] If the most ambitious of the entitlement policy changes now pending were to be implemented, entitlement spending would still increase by nearly $300 billion, with over $100 billion of this increase accounted for by Medicare and Medicaid.[55] But discretionary appropriations limits are very different; they would actually cut total discretionary spending by as much as $20 billion from 1996-2002, not just reduce the rate of growth in defense and nondefense programs. In addition, with discretionary spending having been tightly controlled for the past several years, total discretionary outlays in 2002 will likely be about the same as in 1990. Entitlement spending, by comparison, will have increased by $500-750 billion over this period.

The potential policy effects of such unbalanced spending trends, it is fair to say, have not been seriously analyzed. The defense (and nondefense) spending levels now being projected do not reflect policy agreements or policy choices. Instead, annual appropriations decisions will finally determine how defense and nondefense programs are to be accommodated within a declining discretionary baseline, and the composition of future Congresses will dictate, among other things, whether domestic programs in fact absorb larger reductions than defense. Because the discretionary caps are so tight, and also as a consequence of the protracted discretionary shrinkage that has already occurred, it is probable that a "fairness" critique against defense will be mounted by domestic program advocates at some point.

But even if defense were to survive these critiques, the fiscal pressures distorting spending policy will not abate once the budget is brought into balance. Instead, the GDP share for entitlements will continue to move upward, even with strict limits on health care cost growth. Around 2010, when Social Security begins an extended period of extremely rapid expansion, total entitlement spending will accelerate accordingly.[56] Without significant cutbacks in Federal retirement and health care programs, entitlement spending could reach 20 percent of GDP by 2030.[57]

This long-term fiscal path of entitlement spending is, according to the President's Bipartisan Commission on Entitlement and Tax Reform, "not sustainable."[58] Medicare's Public Trustees have warned that the program's hospital insurance trust fund may be depleted by 2001, with subsequent imbalances between spending and revenues growing larger each year.[59] The Social Security program is, for the time being, more stable, but benefits will exceed dedicated revenues in less than 20 years, and current projections show the supporting trust funds being exhausted by 2029.[60] One recent study concluded that, as a "self-contained program, Social Security suffers from long-term actuarial deficits . . . [and] in the broader context of the Federal budget, reform is inevitable."[61] From the discrete perspective of individual programs, then, long-term viability depends upon legislative retrenchments that go well beyond any entitlement changes presently being contemplated. In particular, a full-scale revamping of Social Security and Medicare will be needed to contain the demographic and economic forces that are generating higher and higher rates of growth, but the timetable for such action looks to be well into the future.

In the meantime, the remainder of the budget will be absorbing increasingly heavy reductions, as if the policy consequences were irrelevant. To the contrary, the looming policy cutbacks in discretionary domestic programs are unprecedented in the era of modern budget policy. Nondefense programs that during the supposedly lean years of the Reagan defense buildup averaged over 4 percent of GDP will have perhaps half that amount available by 2005. For defense, the immediate fiscal prospects are supposedly not as bleak, but the policy risks are, if anything, much starker. The United States has a national military strategy that must be supported, but defense budgets have been set, and continue to be set, independent of that strategy. For the Clinton administration in 1993, defense requirements were subordinated to deficit reduction and to domestic policy initiatives. For congressional Republicans in 1995, defense needs are again being slighted, albeit to the goal of a balanced budget and tax cuts. Ignored in each instance has been the threat to discretionary programs inherent in "unbalanced" spending policy.

CONCLUSION

The Federal budget's problems yield no easy solutions. Whether the budget is actually balanced by 2002 or 2005, or structural deficits merely reduced, the entitlement programs that the Federal Government has established will leave less and less room to fund other programs. The longer the delay in controlling long-term entitlement growth, the greater will be the cost in essential government functions, and especially in defense.

There are, of course, various proposals for less demanding and less costly military strategies, but many of these display a curious naivete about budget policy.[62] A recent Brookings Institution study, for example, calls for abandoning simultaneous regional war capabilities and cutting back on supporting "force structure, operations, and weapons acquisition policy," in order to achieve defense savings of $20 billion annually by the end of the decade.[63] The United States would have to relinquish a "certain amount of its overwhelming advantage," but the sacrifice actually would be modest--

only "about half of defense's ‘fair share' contribution toward balancing the overall Federal budget by 2002 . . ."[64] One would assume that a "fair share" argument would take into account the defense budget's prior, unique contributions to deficit control over the past 30 years, but the more serious shortcoming of the Brookings study is the failure to acknowledge that its reduced defense levels (or any of the other so-called "moderate options") cannot be maintained unless an adequate margin for discretionary spending is preserved.

Defense can, in fact, be supported at adequate levels under existing strategy, without abandoning balanced budgets or other desirable goals. Existing underfunding gaps can be closed, over the short term, by preventing downward adjustments in revenue policy and subsequently by the timely implementation of entitlement reforms. Before a reasonably coherent military strategy, and its supporting capabilities, is discarded for admittedly riskier alternatives, these budgetary tradeoffs should be carefully weighed.

The necessity for a decidedly prudent approach to defense planning is underscored by the fact that, 10 or 15 years from now, the Federal budget will have even less flexibility, because so much spending will be absorbed by mandatory entitlements and interest payments. The budget policy reversals that helped to fund defense buildups during World War II, Korea, and, to a lesser extent, the 1980s, will not be possible with such narrow discretionary spending margins. If policymakers today acquiesce to riskier defense capabilities, they will simply be exacerbating the potential problems arising from diminished budget reversibility. In effect, somewhat higher levels of risk can be tolerated if future budgets can readily accommodate required buildups. But when budget reversibility is already low, and certain to diminish still further, the risk associated with planned capabilities should be minimized.

During the Cold War, Presidents Truman, Eisenhower, and Reagan fought to protect the nation's strategic interests against competing budgetary needs. A post-Cold War defense strategy, now in its nascent stage, faces the same competition. The Bush and Clinton administrations, along with Democratic- and Republican-controlled Congresses, have firmly endorsed current strategy. It is now incumbent on political leadership, especially in the executive branch, to extend this strategic consensus to the debate on Federal budget policy.

ENDNOTES

1. Complaints about the subordination of strategic policy debates and oversight to budgetary decisionmaking are long-standing, particularly, but not exclusively, among congressional analysts. See, for example, Barry M. Blechman, *The Politics of National Security, Congress and U.S. Defense Policy*, New York: Oxford University Press, 1990, pp. 23-43; Paul Stockton, "Beyond Micromanagement: Congressional Budgeting for a Post-Cold War Military," *Political Science Quarterly*, Vol. 110, Summer 1995, pp. 233-259.

2. The Clinton administration's first National Security Strategy Report, of which the Bottom-Up-Review was a major component, was not

published until June 1994. For a concise evaluation of its formulation and content, see Don M. Snider, *The National Security Strategy: Documenting Strategic Vision,* Carlisle Barracks, PA: U.S. Army War College, Strategic Studies Institute, 1995, pp. 10-14.

3. *National Journal*, Vol. 26, September 17, 1994, pp. 2126-2130.

4. The range of estimates here is enormous. The Clinton administration has acknowledged short-term multi-year funding inadequacies of approximately $50 billion. Its December 1994 Defense Funding Initiative added over $25 billion to FY 1996-2001 defense budget authority planning levels in order to reduce the shortfall, with the remainder to be addressed through program changes and reductions and through revised economic assumptions. The Congressional Budget Office and the General Accounting Office have estimated underfunding of the BUR at $50-$150 billion for the Department of Defense's FY 1996-2001 Future Years Defense Program. The largest gap, $253 billion over 5 years, has been jointly reported by the Center for Strategic and International Studies and the Strategic Planning Corporation, *Defense News*, January 30-February 5, 1995, p. 12.

5. As one recent study stated, part of the justification for "a significantly different strategic rationale" is "simple frugality . . . less expensive ways to pursue the goals of deterring regional war, conducting global military deployments, and enhancing nuclear safety." Michael O'Hanlon, *Defense Planning for the Late 1990s*, Washington: The Brookings Institution, 1995, p. 5.

6. One of the broadest and most prominently publicized critiques, issued at the height of the Reagan defense buildup, maintained that the United States was in decline because of the "global overstretch" embodied in its military spending. Paul Kennedy, *The Rise and Fall of the Great Powers*, New York: Random House, 1987.

7. Over the fiscal year 1945-1948 period, defense outlays dropped from 39.1 percent of GDP to 3.7 percent. The latter represents the low point for defense during the Cold War era. By the end of this decade, however, defense spending is expected to drop below three percent of GDP. *Historical Tables, Budget of the United States Government, Fiscal Year 1996*, Washington: GPO, 1995, pp. 82-88.

8. The defense share of the budget for FY 1995 is currently estimated at 17.6 percent, which is the smallest share since before World War II. A continued decline, to less than 15 percent, is projected over the next several years. *Ibid.*, pp. 82-88.

9. Eliot A. Cohen, *Making Do With Less, Or Coping With Upton's Ghost*, Carlisle Barracks, PA: U.S. Army War College, Strategic Studies Institute, 1995, p. 4.

10. For these years, Eisenhower's recommended defense budgets totaled $289.6 billion in new obligational authority. Congress enacted new authority of $287.6 billion. See Dennis S. Ippolito, *Uncertain Legacies, Federal Budget Policy from Roosevelt through Reagan*, Charlottesville, VA: University Press of Virginia, 1990, p. 106.

11. *Congressional Record*, Vol. 95, April 4, 1949, pp. 4427-4428.

12. *Congress and the Nation, 1945-1964*, Washington: Congressional Quarterly, 1965, p. 254.

13. *Congressional Record*, Vol. 99, May 20, 1953, p. 5180.

14. *Ibid.*

15. See *Budget of the United States Government, Fiscal Year 1955*, Washington: GPO, 1954, p. M38.

16. *National Party Conventions, 1831-1992*, Washington: Congressional Quarterly, 1995, p. 104.

17. The FY 1965 defense budget was nearly 10 percent below FY 1964 spending, measured in current dollars. In constant dollars, FY 1965 defense outlays were the lowest since before the Korean War and far below those registered under Eisenhower. The fiscal year at that time ran from July 1-June 30. The FY 1965 budget was submitted to Congress during January 1964, and executive branch planning of that document extended back to early 1963.

18. Discretionary outlays are determined through the annual appropriations process. Current and future spending thus require legislative action. Nondiscretionary or mandatory programs, such as entitlements, typically do not require annual appropriations. If annual appropriations are required, the amounts are determined by program requirements, not appropriations decisions.

19. Of course, appreciable outlays for Medicaid and Medicare were not registered until the late 1960s. Their subsequent growth, in terms of budgetary effects, has thus taken place over a relatively short period.

20. See, for example, Ippolito, *Uncertain Legacies*, pp. 219-227.

21. Standardized-employment deficits are the levels "of the federal budget deficit that would occur under current law if the economy was operating at potential GDP. It provides a measure of underlying fiscal policy by removing the influence of cyclical factors from the budget deficit." *The Economic and Budget Outlook: Fiscal Years 1996-2000*, Washington: GPO, 1995, p. 118.

22. *The Economic and Budget Outlook: Fiscal Years 1991-1995*, Washington: GPO, 1990, p. 5.

23. *The Economic and Budget Outlook: Fiscal Years 1996-2000*, p. xvi. This assumes that discretionary spending caps are not adjusted for inflation after 1998.

24. *Congressional Quarterly Almanac, 1988*, Washington: Congressional Quarterly, 1989, pp. 74A-75A.

25. *Congressional Quarterly Almanac, 1989*, Washington: Congressional Quarterly, 1990, p. 12C.

26. For an explanation of these procedures (termed PAYGO or pay-as-you-go), see *The Economic and Budget Outlook: Fiscal Years 1992-1996*, Washington: GPO, 1991, pp. 90-96.

27. *Ibid.*, p. 82.

28. *Ibid.*, p. 91.

29. *Ibid.*, p. 82.

30. *An Analysis of the President's Budgetary Proposals for Fiscal Year 1992*, Washington: GPO, 1991, pp. 62-84.

31. *Ibid.*, p. 63.

32. The FY 1993 budget contained outlay reductions below the FY 1992 budget of an estimated $27.1 billion over 5 years. The estimated budget authority reduction was $43.1 billion over the same period. An additional $7.7 billion in rescissions was also requested for FY 1992 and prior year budget authority. The total budget authority reduction was over $50 billion.

33. The Clinton campaign essentially adopted a "Force C" option that had been developed by House Armed Services Committee chairman Les Aspin early in 1992. The Force C option proposed that the Base Force active-duty personnel level be reduced by 217,000 and that force structure be revised as well. Force C did provide, however, for two major regional contingencies. Its savings from the FY 1993 Bush program were estimated at $48 billion for fiscal years 1993-97.

34. See *The Economic and Budget Outlook: Fiscal Years 1993-1997*, Washington: GPO, 1992, pp. 52-54.

35. *Defense News*, February 7-13, 1994, p. 44.

36. *Congressional Quarterly Weekly Report*, Vol. 53, January 14, 1995, pp. 166.

37. *Ibid.*, pp. 166-170.

38. Exact comparisons here are difficult, because of slightly different formats and estimating procedures. See *Defense Budget Project*, June 16, 1995, p. 5; *Congressional Quarterly Weekly Report*, Vol. 53, July 1, 1995, pp. 1906-1907.

39. The outlay levels in the Clinton program total $556 billion for fiscal years 2001-2002, compared to $540 billion for the Republican balanced-budget plan.

40. *The Economic and Budget Outlook: An Update,* Washington: GPO, 1995, p. 20.

41. *Ibid.*, pp. 22-25.

42. For an equivalent period, fiscal years 1996-2002, the proposed Clinton tax cuts total $105 billion, and the Republican cuts total $245. *Congressional Quarterly Weekly Report*, Vol. 53, June 17, 1995, pp. 1718.

43. *The Economic and Budget Outlook: An Update*, p. 40.

44. *Ibid.*, p. 25.

45. *Ibid.*

46. Assuming that the FY 2002 levels for discretionary spending are frozen. *Ibid.*, p. 38.

47. *Ibid.*, p. 27.

48. See *Reducing Entitlement Spending,* Washington: GPO, 1994.

49. A one percentage point adjustment (i.e., reduction) in the consumer price index (CPI) inflation measure used for spending and tax indexing would save an estimated $281 billion over 7 years. *Congressional Quarterly Weekly Report*, Vol. 53, September 30, 1995, pp. 2974.

50. The Clinton program, for example, contains a little more than half the Medicare and Medicaid cuts in the Republican budget program, and the other mandatory spending reductions are only about one-fifth as great when calculated over the same fiscal year period. *Congressional Quarterly Weekly Report*, Vol. 53, June 17, 1995, pp. 1715-1720.

51. *The Economic and Budget Outlook: An Update*, pp. 27-28.

52. *Ibid.*, p. 36.

53. *Ibid.*, pp. 36-37.

54. *Ibid.*, p. 26.

55. *Ibid.*, pp. 36-37.

56. See *Interim Report to the President*, Washington: Bipartisan Commission on Entitlement and Tax Reform, 1994, pp. 7, 19.

57. *Ibid.*, p. 7.

58. *Ibid.*

59. *Ibid.*, pp. 16-17.

60. *Ibid.*, pp. 18-19.

61. C. Eugene Steuerle and Jon M. Bakija, *Retooling Social*

Security for the 21st Century, Washington: The Urban Institute Press, 1994, p. 65.

62. For a listing of several recent proposals, see O'Hanlon, *Defense Planning for the Late 1990s*, p. 33. The "Aspin options" are examined in Dennis S. Ippolito, *Budget Policy and the Future of Defense,* Washington: Institute for National Strategic Studies/National Defense University Press, 1994, pp. 84-97.

63. O'Hanlon, *Defense Planning for the Late 1990s*, p. 32.

64. *Ibid.*, pp. 40, 135.

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