

The End of the Bush Military Buildup?

by David Gold

[Back to Previous Page](#)

For the fourth time since the end of World War II, the United States is in the midst of a major military buildup. Three of these buildups have been associated with a major national security event: the Korean War (1950); the Vietnam War (from the Gulf of Tonkin Resolution in 1964); and, most recently, the War in Afghanistan (2001), the second Gulf War (2003) and the war against terrorism.

The third buildup, in the 1980s, involved a shift in US military strategy, with the Reagan Administration's decision to directly confront a presumed Soviet military buildup. Shifts in doctrine coincided with military action in 1950, but also with the containment doctrine. The present buildup coincides with the new doctrine of preemptive war now being carried out by the Bush Administration.

Each of the first three buildups was followed by a significant draw down. Real defense spending over the past half century has exhibited a pronounced cyclical pattern but no secular tendency to grow. Meanwhile, because of the substantial growth in the economy and in the federal government budget, the defense burden, measured either by military outlays as a share of GDP or military outlays as a share of government outlays, has shown a marked tendency to decline. Indeed, defense spending as a share of the aggregate economy was less than one-third as great at the turn of the millennium as it was in the latter half of the 1950s, after the draw down following the Korean War.

The ebbs and flows of defense spending in the United States since World War II can be explained by the intersection of two sets of forces, those that act to push the defense budget up and those that act to push the defense budget down. National security crises are a major factor pushing defense budgets up, but in each of the three earlier national security crises, not only was the defense budget rising prior to the crisis, but the budget rose by more than was needed for the specific crisis.

It seems clear that a second motive for pushing defense spending up is the long-term demands of the military services and the pressures for further output from the defense industries. This is clear in the present buildup, as a number of major weapons systems that have nothing to do with fighting terrorism have gotten the go-ahead from the Bush Administration. In addition, defense spending is a factor in forming electoral and governing coalitions, as was the case in the Kennedy, Reagan and Bush II Administrations, to cite the most prominent examples.

Yet defense budgets don't just rise. One reason they stop growing and start falling is that a key justification, the national security crisis, either gets resolved or gets bogged down.

Indeed, the buildup for Korea and that for Vietnam were very short and public support began to severely weaken when the wars became stalemated.

Wars have out of pocket costs and opportunity costs and as these costs become clearer, questions about their necessity take on more relevance. Because each buildup serves multiple masters (the security crisis, the long-term demands of the military services and the industry, and the demands of the members of the political coalitions), they often overreach and program more purchases than can obviously be afforded.

Buildups can also have negative macroeconomic consequences. The Korean buildup touched off a rapid inflation, and while the buildup ended up being fully financed by taxes - Korea was the only war in US history to be fully tax financed - and the inflation was contained, it contributed to growing opposition. The Vietnam War widened the budget deficit, pushed up inflation, contributed to a higher trade deficit and was an element in the demise of the Bretton Woods international financial system.

The Reagan buildup was also a major deficit enhancer, and led to Congressional actions altering the budgetary process. All three increases in military spending revealed instances of contractor abuse, such as the \$600 toilet seats of the 1980s, and awareness of this breathed life into military reform movements.

And all three buildups, especially that for Vietnam and the Reagan buildup, helped stimulate a large and vocal anti-war movement. All of these factors helped generate a strong enough political coalition to end the buildup, begin a draw down, and keep defense increases under wraps for a substantial period of time.

In addition, over time, the US military has become more effective at what it can do, both absolutely and relative to its likely foes. The US has an immense lead in R&D, and since the advent of the voluntary army, has made major advances in the quality of its human capital. By creating more "bang for the buck," the military has effectively made it harder to justify gaining a larger share of the aggregate economy. At the same time, the declining defense burden may also be a reflection of public preferences for civilian programs, in effect, a collective long-term preference for "butter" over "guns."

Will history repeat itself and will the present buildup lead to a significant draw down? History will not repeat in any mechanical way, but there are indications that some of the factors that ended previous periods of military buildup are at play in the present: requests are trying to serve multiple masters, as in the past, and future budgetary needs are immense. The Congressional Budget Office and the private Center for Strategic and Budgetary Assessments have estimated that the costs of current defense plans far exceed spending projections. Such a mismatch, popularly called a budgetary "train wreck," is likely to lead to intensified conflicts over budget priorities.

Even though defense spending is at a low point relative to GDP, increases in defense budgets still come at the expense of other budget items and require political maneuvering and compromise. While no major procurement scandal has broken, objections over the handling of the costs of the occupation and reconstruction of Iraq are becoming more visible, and are contributing to criticism of administration policies.

Both the war against terror and the aftermath of the wars in Afghanistan and Iraq are beginning to take on the look of a quagmire, and anti-war sentiment is growing. At the same time, the Bush coalition is beginning to fray. Libertarian-oriented conservatives are questioning the civil liberties implications of Justice Department policies while others, including some Congressional leaders, are questioning foreign and military policy costs and directions.

Still others, such as the Concord Coalition and the Committee for Economic Development, are publicly questioning the rising federal budget deficit, which is largely the result of the rising costs of the military and declining revenue growth following the 2001 and 2003 federal tax cuts. Major gaps in homeland security efforts are also a source of possible criticisms of the costs of military operations.

On the macroeconomic front, the slow pace of the recovery from the 2001 recession, especially on the employment front, is leading many to question the direction of administration economic policy. The defense buildup is probably having a smaller effect on employment than alternative forms of spending, due in part to extensive foreign leakages from the spending stream. The return to large federal budget deficits may or may not have significant effects on interest rates, investment and growth, but it will certainly heighten debates on budgetary priorities, especially with respect to future financing of social insurance programs.

The foregoing suggests that future defense budget increases are certainly not a sure thing, but it doesn't indicate how and when the buildup will end. That depends on how the public and the political representatives deal with the budget situation as conditions evolve.

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Back to top

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