

Returning to Peacetime: Impact on Federal Debt

Introduction

On September 11, 2001 terrorists hijacked four airplanes, attacking the World Trade Center and the Pentagon, killing nearly three thousand innocent victims. Over the next year and a half, America entered into two wars in Afghanistan and Iraq. Naturally, military spending increased dramatically over the decade following the attacks, reflecting the expanded mission.

In 2010 the United States began withdrawing troops from Iraq and plans are in place to begin withdrawing troops from Afghanistan later this year. Given these developments, it would seem logical that United States military spending would return to pre-War levels.

In 2001 military spending reached \$304.7 billion dollars (\$383.3 billion in inflation adjusted, 2011 dollars). While in absolute dollars, this was the highest level it had ever reached; in real dollars this was roughly typical for peace time over the last half century. This paper estimates the Federal budgetary impact of returning Federal military spending to 2001 levels.

Impact on Spending

This projection would phase down military spending over three years to the 2001 level (in real dollars) – 10% of the adjustment in the first year, 30% in the second year, and the remaining 60% in the third year. The Congressional Budget Office’s baseline estimates project military spending to grow at the rate of inflation over the next decade.

This projection lowers annual military spending from \$768.2 billion in 2011 to \$392.2 billion in 2014. It then projects military spending growing at the rate of inflation into the future.

This projection is not a specific policy proposal. Cuts could come evenly across the board or they could disproportionately impact certain aspects of military spending. These decisions are best made by military experts.

It is worth noting that it took roughly five to six years for military spending to return to approximate peace time levels after the conclusion of the Cold War and the beginning of draw down from Vietnam so this timetable may be too aggressive.

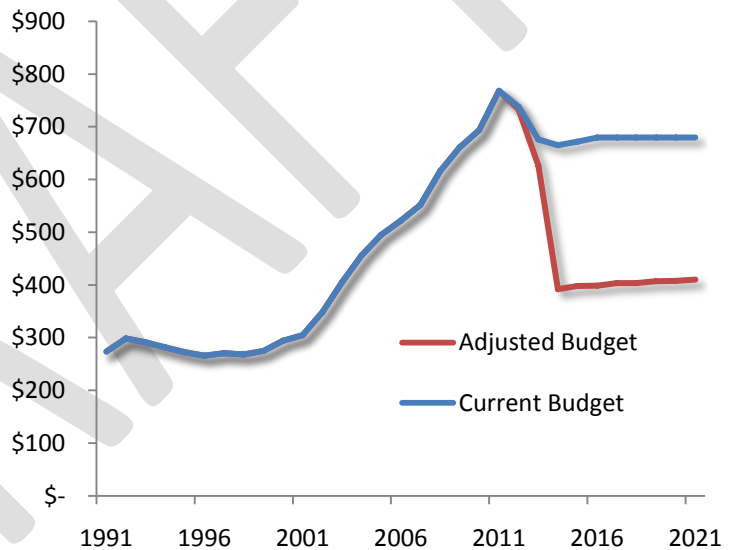


Figure 1: Military Spending (in billions)

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Impact on Debt

Returning to peace time military spending in this fashion would cumulatively cut spending by \$2.2 trillion over the next ten years and lower the debt, factoring in interest payments, by \$2.4 trillion.

This is less than credit rating agencies have called for to maintain the country's credit rating and less than the \$4 trillion that President Obama has targeted.

While further debt fixes would likely be necessary, if this projection became reality, it would lower the debt by more than twice as much as Congressman Boehner's proposal and slightly more than Senator Reid's proposal without cutting spending for social services or raising taxes.

Data Sources

Military budget figures were drawn from the Office of Management and Budget:

<http://www.whitehouse.gov/omb/budget/Historicals>

Debt figures were drawn from the Congressional Budget Office:

http://www.cbo.gov/ftpdocs/120xx/doc12039/01-26_FY2011Outlook.pdf

Inflation estimates were drawn from Consumer Price Index: <http://www.bls.gov/cpi/tables.htm>

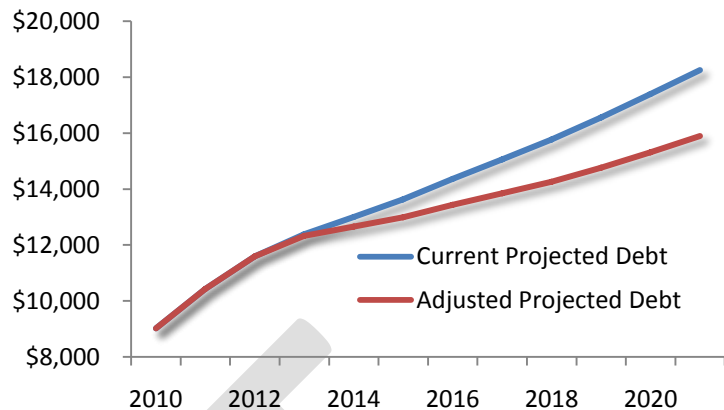


Figure 2: Federal Debt (in billions)