

### Chapter 3

## Reassessing National Security<sup>1</sup>

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Two years after September 11, 2001—with two major military operations undertaken, two uncertain nation-building ventures under way, and the risk of a deadly combination of terrorism, rogue regimes, and weapons of mass destruction still unacceptably high—security remains at the top of the nation's agenda. The war on terrorism has not only greatly expanded spending on security, but also introduced great uncertainty into the ten-year budget outlook—uncertainty that argues for humility in estimating future spending. The budget for national security has grown by roughly \$200 billion above anticipated needs in just two and a half years and has been the primary contributor to the expansion of federal spending during that time. In fiscal 2004 alone, supplemental requests outside the normal budget cycle expanded the national security budget by almost one-fifth.<sup>2</sup> Nonetheless, one thing is clear: at this moment in history, we cannot afford to shortchange America's security.

America's security has three critical, interdependent components: military force, homeland security, and the softer tools of diplomacy and foreign assistance. This chapter thus addresses military power, homeland security, and foreign affairs as integral parts of a *unified national security budget*, even as it delves into detail on each separately so as to respect U.S. federal accounting conventions and recognize the distinctive qualities of each of these major activities. The unified analysis confirms that the three critical components of national security policy are mostly complements rather than substitutes. But the analysis also highlights the potential for a stronger civilian capacity to share some of the burden undertaken by the U.S. military in the increasingly important area of complex emergencies and post-conflict reconstruction.

The United States today confronts new threats that could prove as sustained as the totalitarian challenges of the previous half-century. A smart strategy to address the challenges to national security from radical extremism, killer diseases, uneven globalization, and states that fail

their own people would further expand real resources for homeland security, foreign aid, and diplomacy. It could be combined with a deceleration of growth in defense spending, but only under optimistic assumptions of greater foreign burdensharing, an eventual withdrawal of forces from Iraq and Afghanistan combined with no new massive engagements abroad, and an efficient allocation of military resources. Such a scenario could see total spending on national security growing, on average, roughly 1.2 percent a year in real terms but still \$40 billion below the adjusted baseline projection of \$737.4 billion in 2014 (table 3-1).<sup>3</sup>

### The U.S. Armed Forces

What military will the United States need in 2014, and how much will it cost? Answering these questions is difficult because the United States simply does not know what type of world it will find in a decade. Assuming that today's international environment will persist in 2014 would be foolish. No one can easily forecast either the state of the struggle against global terror at that date or the state of U.S. international relations. Thus this analysis must be speculative. Rather than develop different scenarios for several radically different geostrategic environments, it postulates circumstances that seem most likely. Six assumptions guide the analysis. First, in 2014, America's existing alliances, which account for more than 80 percent of world military spending, will still be intact and functioning well, despite the strains of recent years (most notably during

Table 3-1. *Projected and Recommended Spending on National Security*  
*Billions of dollars*

	<i>Spending in 2003</i>	<i>Projected spending in 2014</i>	<i>Recommended spending in 2014</i>	<i>Change in spending in 2014</i>
Defense	407.0	649.0	589.0	-60.0
Homeland security, total spending	32.0	56.0	65.0	9.0
Defense <sup>a</sup>	11.0	16.0	16.0	0.0
Non-defense	22.0	40.0	49.0	9.0
Foreign affairs <sup>b</sup>	33.0	48.4	59.6	11.2
<b>Total</b>	<b>462.0</b>	<b>737.4</b>	<b>697.6</b>	<b>-39.8</b>

Source: Authors' calculations; Congressional Budget Office, "The Budget and Economic Outlook: An Update," August 2003; and Office of Management and Budget, *Historical Tables, Budget of the US Government, Fiscal Year 2004* (2003), p. 83.

a. Part of homeland security spending is included in the defense budget, as shown.

b. Foreign affairs and non-defense homeland security are customarily included in non-defense discretionary spending.

the Bush presidency). Second, relations with China, Russia, and India will generally be peaceful (the Bush record here is rather good), but conflict could erupt in all three neighborhoods, and the United States could be drawn in too (especially in the Taiwan Strait). Third, by 2014, the Iraq occupation will be over, and that country at relative peace. But extremism, state-sponsored terrorism, and political instability will continue to imperil the broader region. Fourth, North Korea will remain a threat, even if increasingly weak by conventional measures vis-à-vis South Korea. Fifth, major conflict could still erupt between India and Pakistan. Sixth, failed states will still pose not just a major humanitarian concern but a worry in the ongoing struggle against terror, necessitating serious attention to peacekeeping and nation building.

The main premise of this chapter, however, is that, for all its flaws, the U.S.-led alliance system and a strong American military are essential. Absent a strong American security role, regions such as the Persian Gulf and Northeast Asia could easily endure more severe conflict, global oil flows could be disrupted, more states could develop nuclear weapons out of fear for their own security, and more wars could flare among states.

Given these assumptions and objectives, can the United States maintain good national security at reasonable cost? We believe that an average annual real growth of 0.8 percent in defense spending, resulting in \$589 billion in spending in 2014, could yield a defense budget adequate to meet U.S. responsibilities (table 3-1)—but only if the United States makes smart and economical choices about weapons modernization and finally figures out how to save money in defense support activities, and if allies pick up a larger share of the collective cost of projecting force to trouble spots overseas. Otherwise, the real defense budget could easily exceed \$650 billion if not \$700 billion in 2014.

### *Background*

Whether U.S. defense spending is judged high or low depends on how it is measured. Compared with spending in other countries, it is enormous, nearly half of aggregate global military spending. Compared with the nation's cold war norms, it is on the higher side of spending over the past half century, though not out of bounds. Relative to the size of the American economy, by contrast, defense spending alone remains quite modest at under 4 percent of GDP (less than half to two-thirds of typical cold war levels).

Certainly in terms of personnel, the current U.S. defense establishment is not large. U.S. troop levels and most types of military force structure are one-third smaller than they were in the latter cold war years, just over half the size of China's military, and not that much larger than those of India, Russia, and North Korea. Nevertheless, that force is extensively engaged around

the world—with roughly 100,000 troops in Europe, again as many in Asia, and more than 150,000 in the Persian Gulf region.

Republicans and Democrats generally agree about the broad contours of American force levels and weaponry. Secretary Donald Rumsfeld's 2001 Quadrennial Defense Review reaffirmed the active-duty troop levels of about 1.4 million maintained during the Clinton administration and also retained most of the Clinton agenda for weapons modernization. After September 11, Rumsfeld sought and received a great deal more budget authority than President Clinton's defense plan called for, but a Democratic president would almost certainly also have boosted defense spending to cover shortfalls in funding the previous plan. That Rumsfeld retained most Clinton era ideas and programs is relatively unsurprising. Although decisions to buy specific weapons can be debated, the military needs many new or refurbished planes, ships, and ground vehicles because much of the weaponry bought during the Reagan buildup is wearing out. America's technological edge in combat may not require every weapon now in development or production, but the advantages to maintaining a resounding superiority in weaponry are evidenced in the rapid victories and relatively low casualties (on all sides) in Bosnia, Kosovo, Afghanistan, and Iraq. And talk of cutting back on ground forces during the early Rumsfeld tenure has stopped—at least for the foreseeable future—given the challenges posed by postwar Iraq.

Even once the Iraq mission winds down, as it most likely will well before 2014, there will not be unlimited room for programmatic and budgetary maneuver. Since the cold war ended, U.S. armed forces have been designed to be able to fight two full-scale wars at once. Rumsfeld modified the requirement in 2001 so that only one of the victories needed to be immediate and overwhelming. But the basic logic of the idea was retained—and should be retained even assuming the successful stabilization of post-Saddam Iraq. A two-war capability of some sort permits the United States to fight one war without letting down its guard everywhere else, which would undercut deterrence and perhaps increase the likelihood of a secondary conflict. In addition, smaller but longer force deployments for missions such as postwar stabilization cannot be excluded and could even number two or three at a time as they do now.

What forces does the United States need for such possible wars? At least one possible conflict—war in Korea—could closely resemble the U.S. deployment (including half a million troops) for Operation Desert Storm in 1991. Another, war against China in the Taiwan Strait, would likely require roughly the air and naval capability deployed to Operation Desert Storm but far less ground power and total personnel requirements in the range of 150,000 to 200,000.<sup>4</sup> Stability scenarios and peacekeeping missions in South Asia or Southeast Asia or Africa could plausibly require 100,000 or more Americans. Despite sophisticated innovations in warfighting,

as we have been reminded of late in Iraq, such missions are often dominated by fairly mundane and timeless requirements for “boots on the ground.”

In a world in which American national security interests make it urgent to prevent states from failing—and providing refuge and resources to groups like al Qaeda—it may not be possible to debate reducing U.S. ground forces anytime soon. Indeed, a strong case can be made that in the short term the United States needs more ground forces, not fewer, and that it will have to shift more of the burden for ground force operations to its active-duty forces rather than its reserve component (today, Army reserve elements contain slightly more personnel than active-duty forces).

### *Constraining Future Defense Budgets*

The basic logic of the high-quality military personnel, technological preeminence, two-war capability, global deterrent posture, and engagement strategy that drives the size of the American armed forces and hence their budget is sound. But are there practical ways to cap defense spending? If not, not only the country’s domestic agenda, but even its long-term security could be damaged, as the underpinnings of national prosperity and power are eroded.

In particular, there may be realistic means to limit the real growth of the U.S. defense budget to below what we view here as the adjusted baseline—that is, current spending levels adjusted for inflation and population growth. In other words, inflation-adjusted defense spending would still increase, but not as fast as the economy and not nearly as fast as in recent years. Achieving this goal will take some innovative policy ideas, some good fortune, and cooperation from friends and allies. But it may be achievable, and the rough contours of how that would be done are sketched out below.

First, though, to get a rough sense of what is feasible within the Pentagon budget, it is worth noting that while several factors push defense spending up faster than that 0.8 percent real growth level, several may also permit slower (or even zero) growth. Keeping these factors in mind makes it easier to see why 0.8 percent annual real growth is probably the right general frame of reference within which to project future defense spending.

Historically, real operating costs per uniformed individual have grown 2 percent to 3 percent a year. Weapons costs have grown comparably. Rising health care and environmental cleanup costs affect the military as much as any other sector of the economy. And to attract top-notch people, military pay increases must keep up with civilian pay, which can require average real growth of at least 0.8 percent a year.

Several other realities offer some hope of savings. Greater use of relatively inexpensive high-technology computers and electronics can allow rapid improvements in military capabilities at modest cost. Defense efficiencies through privatization and other reforms may save at least modest sums. And greater assistance from allies may reduce overall demands on American forces, especially over a ten-year period like that being considered here.

It should also be noted that the direct military costs of the war on terror, while large, are not astronomical. Leaving aside the one-time mission in Iraq, they include about \$10 billion a year in added costs for military base security, less than \$5 billion in Defense Department contributions to homeland security, less than \$10 billion a year in offensive counterterrorist missions, and about \$5 billion in added intelligence costs. That total of less than \$30 billion a year is substantial, but less than half the overall increase in real defense spending since 9/11 (not even counting the costs of the Iraq mission today). Moreover, absent another major interstate war related to terrorism, some of the above numbers may decrease with time.

#### *More Burden Sharing?*

Today the United States outspends its major allies by about 2 to 1 but outdistances them in military force that can be projected overseas and sustained there by a ratio of at least 5 to 1. Most American allies spent the cold war preparing to defend their own or nearby territories against a Soviet threat, while American forces focused on how to deploy and operate forces many thousands of miles from home. Most U.S. allies have gotten serious about this effort only since the cold war ended (if then).

Shifting defense responsibilities to our allies is an attractive idea—but it is not really our choice. And near-term prospects for success are not good. Although many U.S. allies have good militaries, strong military traditions, and a high-tech industrial base, political obstacles to defense buildups are formidable. Several European countries face large fiscal deficits. Other nations believe, perhaps wishfully, that force is less important today than it once was. Incentives to free-ride on U.S. capabilities are strong. European nations also often cite, with some justification, their large peacekeeping forces. Germany and Japan are disinclined to remilitarize, and their former adversaries, including many Americans, hesitate to dissuade them.

Some progress has been made. European militaries are developing the combined capacity to deploy up to 60,000 troops afar and to sustain them there for a year. Japan is slowly enlarging its interpretation of which military missions are consistent with its post-World War II constitution. U.S., British, and French programs are slowly helping African militaries improve their skills. And the recent transatlantic quarrel over Iraq may spur European countries to strengthen their militaries to gain more clout in global decisionmaking about the use of force.

Reallocating about 10 percent of current major allied military spending could give other industrialized countries fully half as much deployable military capability as the United States within a decade—if they had the political will.<sup>5</sup> If they could summon that will, U.S. forces might shrink modestly with completion of the Iraq mission, assuming the world were to stay at least moderately stable. Reductions in military manpower of a few percent would be needed to hold spending growth to the planned 0.8 percent real growth yearly level.

*Emphasizing Advanced Electronics and Computers in Defense Modernization*

One reason the Pentagon budget is slated to grow so much in coming years—with real increases closer to 2 percent a year than the 0.8 percent targeted here—has to do with buying weaponry. Some of the upward pressure arises from high-profile issues such as missile defense. But most comes from the main combat systems, which are generally wearing out. Living off the fruits of the Reagan military buildup, the Clinton administration—generally a rather good custodian of the American armed forces—spent an average of \$50 billion a year on equipment, only about 15 percent of the defense budget as against a historical norm of about 25 percent. This “procurement holiday” is about over. The procurement budget climbed to \$70 billion in 2003 and is slated to reach \$100 billion in 2009 (in constant 2003 dollars)—thus regaining its historical norm in real terms.

Some of this budget increase is needed, given aging weapons and the imperative of adding new capabilities such as at least a modest ballistic and cruise missile defense capability. But the Pentagon’s plan may be excessive. Despite Bush’s presidential election campaign promise to “skip a generation” of weaponry, his Pentagon has canceled only one major weapon system—the Army’s Crusader howitzer, which was not even particularly expensive. Although procurement budgets must continue rising, economies can almost certainly be found through expanded applications of modestly priced technologies, such as the smart weapons and communications systems that starred in Afghanistan. Such cost-cutting measures too will be needed to hold real Defense Department budget growth to 0.8 percent a year on average.

The Bush plan lacks clear priorities. Like the Clinton administration, it proposes to replace major combat systems *throughout* the force structure with systems costing twice as much. A more discriminating and economy-minded modernization strategy would equip only a portion of the armed forces with the most sophisticated and expensive major weapons platforms including ships, planes, and ground vehicles. That high-end component would hedge against new exigencies, such as an unexpectedly rapid modernizing of the Chinese military. The rest of the military establishment would be equipped primarily with relatively inexpensive upgrades of

existing weaponry, including better sensors, munitions, computers, and communications systems. Such an approach would not keep the procurement budget in the \$70-75 billion range. But it might hold it to \$80-85 billion a year instead of \$100 billion or more.

### *Operations and Maintenance*

All defense planners would love to save money in the relatively unglamorous but critical parts of the Pentagon budget known as operations and maintenance. These accounts, which pay for a wide range of activities including training, overseas deployments, upkeep of equipment, military base operations, and health care costs—in short, for near-term military readiness—have been rising fast in recent years, and it will be hard to stop the overall upward trend.<sup>6</sup>

Some specific savings are already in the works. Congress has agreed to authorize another round of base closures in 2005.<sup>7</sup> Since the cold war's end, U.S. military forces have shrunk by more than one-third, yet domestic base capacity has fallen only 20 percent. Once completed, retrenchment of base capacity will save at least \$4 billion annually. Overhauling military health care services by merging the independent health plans of each military service and introducing a small copayment for military personnel and their families could save \$2 billion or more a year, though these steps would be controversial.<sup>8</sup> Other savings in operations and maintenance are possible. For example, encouraging local base commanders to economize by letting them keep some of any savings they can generate for their base activities could save a billion dollars a year or more within a decade.<sup>9</sup>

All that said, these accounts are crucial to national security and have proved tough to cap or contain. Privatization is no panacea; it takes time and generally saves much less than its warmest advocates attest. But if overall operating costs can be held to a 0.8 percent real rise instead of the historical norm exceeding 2 percent, the budget path envisioned here may be within reach.

### **Homeland Security**

Since the attacks of September 11, 2001, much has been done to improve the safety of Americans, not only in the offensive war on terror abroad but in protecting the homeland as well. Americans, aware now of the harm terrorists can inflict, are on alert, providing a first, crucial line of defense. Air travel is much safer. Intelligence sharing, especially regarding individuals suspected of ties to terrorism, has improved. Suspicious ships entering U.S. waters are screened more frequently. Steps have been taken to reduce the country's exposure to biological attacks, and oversight has been tightened on labs working with biological materials. Private terrorism insurance is now backstopped by a new federal program. Well-known bridges, tunnels, and

nuclear reactors are protected by police and National Guard forces when terrorism alerts so advise.

But much remains to be done. Most of the above steps respond to past tactics of al Qaeda, rather than anticipating new ways that al Qaeda or other terrorist groups might try to harm Americans. Part of the answer is to continue to build the new Department of Homeland Security (DHS), especially those elements involved with border security, intelligence, and the federal government's interactions with state, local, and private efforts to improve the country's safety.

Far more urgent than creating a new bureaucracy, however, is filling the gaps that remain in the current homeland security effort. These range from creating a new networked intelligence capability to anticipate and prevent future terrorist actions, to better protecting private infrastructure like chemical plants and skyscrapers, to strengthening the Coast Guard and customs (within DHS). They also include making sure first responders can communicate over commonly accessible radio networks during emergencies, hastening development of port security plans, and improving security of transportation networks aside from airports.<sup>10</sup>

It is not possible to stop every type of terrorist violence. But by focusing on preventing catastrophic attacks, the United States can approach homeland security systematically and with a better chance of preventing future attacks on the scale of the 9/11 tragedy. That will take more attention from Congress and the administration—and more money, perhaps \$10 billion a year (less than 3 percent of the defense budget) above what the administration proposed to spend a year ago, for a total of about \$65 billion in 2014 in federal funding.

Homeland security is daunting in its complexity and in the sheer number of potential terrorist targets in an open country of nearly 300 million people. As such, it requires a conceptual foundation and set of priorities. Recognizing as much, the Bush administration put forth a strategy for homeland security on July 16, 2002.<sup>11</sup> Acknowledging that terrorists are themselves strategic, adaptive actors who will pursue new modes of attack and new weaponry, including weapons of mass destruction, the strategy emphasizes the crucial roles played by state and local governments as well as the private sector and individual citizens. Indeed, according to administration estimates, of about \$100 billion a year in total national spending on homeland security today the federal share is only about \$40 billion.

The Bush administration approach involves six “critical mission areas”: intelligence and warning, border and transportation security, domestic counterterrorism, protecting critical infrastructures and key assets, defending against catastrophic threats, and emergency preparedness and response. The administration also proposed four key methods or “foundations” for enhancing all six areas: law, science and technology, information sharing and systems, and international cooperation. The administration's strategy makes a start, but it leaves out four key priorities for action. One is major infrastructure in the

private sector, which the Bush administration largely ignores. A second is information technology and its proper uses, especially information sharing in government at all levels and between the public and private sectors. A third is the unrecognized need to expand greatly certain specific capacities for homeland security such as the Coast Guard and Customs, as well as security for forms of transportation such as trains. The fourth is intelligence reforms, especially the ability to monitor terrorists and to anticipate where their next attacks may come. Here the administration has fallen short. Incredibly, it has to date not even fully integrated the various suspected terrorist watch lists of various agencies.

Expanding these capacities in existing federal agencies will require more money, though far less than for the post-September 11 defense buildup. But annual funding for this federal responsibility, which has already doubled from roughly \$20 billion to \$40 billion, needs to grow further, to about \$65 billion in 2014, if the country is to take reasonable precautions against future terrorist attacks that could be at least as destructive as those of 2001.

### **“Soft Power:” The Foreign Affairs Budget<sup>12</sup>**

Even before September 11, 2001, many thoughtful observers worried that the United States was underinvesting in the nonmilitary tools of foreign policy. Although funding has since increased substantially, we believe that there is still a compelling case for expansion relative to the CBO baseline projection to effectively address infectious diseases such as HIV/AIDS and malaria, global poverty, complex emergencies, and America’s new strategic interests. In many cases, such as the HIV/AIDS pandemic and the reconstruction of war-torn states, greater commitments of resources early on can diminish the overall cost to the U.S. taxpayer. And U.S. resources can also be leveraged by making the extra effort to build international support.

### *Foreign Affairs Spending in Historical Context*

Over the past four decades, U.S. foreign assistance has been driven primarily by traditional national security priorities, especially the cold war and developments in the Middle East. The end of the cold war, disillusionment with aid’s many failures, and the drive to balance the budget produced a slash-and-burn approach to the foreign affairs budget during the 1990s. Today American spending on foreign aid, never generous, looks paltry compared with that of many other wealthy nations. Although the United States is one of the top two donors in absolute terms (Japan is the other), it spends less relative to its income than any other wealthy nation. At 0.1 percent of GDP, U.S. official development assistance is less than half the industrial country average of 0.22 percent.<sup>13</sup> Per capita, U.S. aid of \$35 a year is far below the industrial country average of \$62.<sup>14</sup>

Several recent developments argue strongly for increased spending on foreign aid. First, American resources are absolutely critical to combat the HIV/AIDS pandemic, a humanitarian tragedy of epic proportions that threatens to reverse impressive gains on child survival and health, life expectancy, productivity, and literacy in the world's poorest countries. Second, the acceleration of globalization has raised growing concern that unless the benefits are better shared, the divide between rich and poor could contribute to civil conflict, extremism, conflict over resources, and environmental degradation. Third, activists have developed a powerful recipe for mobilizing public support for greater international giving, by focusing on a simple and compelling goal and enlisting high-profile public champions to help forge coalitions across the political spectrum. Finally, the post-September 11 war on terrorism has greatly expanded the strategic calls on foreign aid—directly to reward allies, shore up frontline states, and rebuild Afghanistan and Iraq and indirectly to address the poverty that weakens states and provides space for terrorist networks to grow.

Although foreign aid is a central component of U.S. national security policy, spending on aid has lagged far behind the “hard” dimensions of security since September 11, 2001. For example, for fiscal year 2004, the administration requested an increase of \$96 billion, or 31 percent, for defense;<sup>15</sup> an increase of \$24.4 billion, or 185 percent, for homeland security;<sup>16</sup> and an increase of just \$5 billion, or 22 percent, for foreign affairs relative to fiscal 2000.<sup>17</sup>

#### *Major Programs in the Foreign Affairs Budget*

Conceptually, foreign affairs spending can be divided into seven main programmatic categories. Table 3-2 shows spending on the main components of the foreign affairs account in fiscal 2003, what spending would be in 2014 if the account were to grow in line with inflation and U.S. population growth (the adjusted baseline scenario) if the programmatic shares remain the same, and our recommended spending for 2014. We believe that the new imperatives associated with combating killer diseases, global terrorism, and global poverty warrant higher growth in the foreign affairs budget than elsewhere in the budget. But given how little the United States spends on foreign affairs and given projected declines in selected major components, our recommended increase is only about \$11 billion above the baseline in 2014.

Although more than 40 percent of the foreign affairs budget—the development, trade, and investment and the politically allocated assistance categories—supports economic activities, most of this is allocated among countries based on political considerations.<sup>18</sup> Only about 10 percent of the foreign affairs budget is spent on development assistance in the strict sense that it is

Table 3-2. *Major Program Areas in the Foreign Affairs Budget*  
*Billions of dollars unless otherwise noted*

<i>Type of assistance</i>	<i>Spending in 2003</i>	<i>Share of foreign affairs spending in 2003 (percent)</i>	<i>Projected spending in 2014</i>	<i>Recommended spending in 2014</i>
Total	33.0	100.0	48.4	59.6
Development, trade, and investment	6.6	20.2	9.8	27.5
Politically allocated assistance	6.6	20.3	9.8	8.4
Humanitarian assistance	1.6	4.8	2.3	2.3
Security assistance	6.8	20.7	10.0	10.5
International organizations and programs	1.1	3.2	1.6	1.4
Complex emergencies <sup>a</sup>	4.3	13.0	6.3	1.7
Diplomacy	5.9	17.9	8.6	7.8

Source: Authors' calculations; Public Law 108-7; "Making Further Continuing Appropriations for the Fiscal Year 2003"; and Public Law 108-11, "Emergency Wartime Supplemental Appropriations Act, 2003."

a. The category complex emergencies includes funds allocated to Iraq Relief and Reconstruction, the Office of Transition Initiatives, the President's Fund for Complex Emergencies, Emergency Refugee and Migration Assistance, and funds related to reconstruction/relief activities in Afghanistan and Kosovo.

allocated according to primarily economic criteria.<sup>19</sup> Development aid has recently received a boost from two directions. First, the growing consensus surrounding the urgency of the HIV/AIDS pandemic and our ability to effectively contain and combat it have expanded spending in this area. Second, the administration has proposed a large, permanent increase in bilateral development assistance of \$5 billion a year by fiscal 2006, allocated through a new, more flexible and performance-oriented program, the Millennium Challenge Account (MCA).<sup>20</sup>

Projecting to 2014, there are a variety of external estimates of the total price tag for combating global poverty and HIV/AIDS. The midrange of estimates of the cost of achieving the

internationally agreed UN Millennium Development Goals for poverty reduction and human development (including fighting HIV/AIDS) implies a global increase of \$65.6 billion over current expenditures by 2014.<sup>21</sup> We recommend that the United States assume a share of this burden in proportion to its share of OECD income,<sup>22</sup> which would imply a total U.S. contribution of \$23.8 billion in 2014 (on top of existing programs in investment and trade), sufficient to fully fund the MCA and significantly increase funding for HIV/AIDS and growth and poverty reduction more broadly. While this increase would require significantly more resources in 2014 than the adjusted baseline assumptions, it is a sound investment that should yield dividends not only from a humanitarian perspective but also in boosting America's perceived legitimacy abroad and thus helping to advance our agenda internationally.

In many other categories of the foreign affairs budget, there is reason to expect spending to grow in line with or below the adjusted baseline projection. Both politically allocated economic assistance and security assistance for foreign military training and capabilities, which together account for more than 40 percent of foreign affairs spending, are slated to decline under agreements negotiated with Egypt and Israel, the largest recipients.<sup>23</sup> Assistance to former Warsaw Pact countries can also be expected to decline.<sup>24</sup> For humanitarian assistance, where public support is generally strong, the baseline scenario is compatible with growth in line with inflation and world population growth.<sup>25</sup>

Since September 11, 2001, with growing concern that the United States is losing the battle of hearts and minds in the Islamic world, numerous task forces have called for substantial expansion of U.S. public diplomacy. Spending on diplomacy, which we define to include all State Department operational costs and public information activities, including broadcasting, has recently received a significant boost to upgrade embassy security, following declines in the 1990s. Although we support the calls for improved public diplomacy, even big expansions to these programs would have little impact on the overall budget, because of their relatively modest cost.

Overall, the foreign affairs account of the U.S. budget measures the priority America places on the exercise of diplomacy and foreign assistance abroad. Over the next ten years, there is good reason to expect and indeed support continued real expansion in foreign affairs spending to combat threats to our national security from the HIV/AIDS crisis, global poverty, and global terrorism.

*Strengthening the Civilian Response to Complex Emergencies*

One other area of the foreign affairs budget—complex emergencies, and particularly post-conflict reconstruction—requires more comment. Although candidate Bush derided U.S. forays into “nation building” during the 2000 election, just three years later the United States is engaged in two new and ambitious (particularly in the case of Iraq) such exercises. This follows on four post-conflict reconstruction projects initiated in the past decade alone (one initiated under the first President Bush, making the endeavor fully bipartisan).<sup>26</sup> Like it or not, stabilization and transition in post-conflict societies are likely to remain unavoidable U.S. responsibilities. Failing to prepare for this reality would be negligent and shortsighted.

We recommend strengthening budget resources and programmatic coherence for complex emergencies, an area where the potential for overlap between military and civilian capabilities is high.<sup>27</sup> In Iraq as elsewhere, the United States often asks the military to do things that are largely civilian in nature, simply because it is better equipped to respond quickly and to find the necessary resources to fund unanticipated missions. This is efficient for some “dual-use” capabilities, where replicating capacity in a civilian agency separate from the Department of Defense would be hugely redundant and costly (the scale can run to tens of thousands of soldiers). But in situations where the U.S. military is not deployed and in stabilized post-conflict environments, it would be more cost effective to draw on a stand-by capacity of perhaps 500 to 1,000 civilians capable of quickly undertaking efforts to aid and rebuild countries in distress. In Iraq, for example, it makes little sense for the Pentagon to execute multibillion dollar development and reconstruction contracts for the country’s electricity grid, phone network, or highway system. Similarly, in the southern sectors of Iraq, where the U.S. armed forces are not present, multinational divisions in place do not have adequate spare logistical capacity to handle even the immediate postwar economic and humanitarian activities.

We therefore advocate creating, within the State Department’s Agency for International Development, an integrated office to respond quickly to complex humanitarian emergencies, which might merge and expand the existing capabilities of the Offices of Foreign Disaster Assistance and Transition Initiatives and related units with the effect of creating new standing capacity ready to react quickly. These individuals would not be so numerous as to rebuild a country on their own; rather, they would develop and oversee the execution of plans to rebuild a country or address other complex emergencies, relying on private contractors from the United States and abroad as well as nongovernmental organizations.

Congress routinely and understandably rejects administration requests for standing funds for contingencies as “slush funds,” instead financing these operations through often slow and cumbersome supplemental budget requests. Congress could prepare for more rapid and cost-

effective interventions by underwriting a stand-by civilian capacity with modest contingency funding, which could be scaled up rapidly through emergency supplemental funding. Congress has taken a step in this direction with its recent decision to grant the administration's request for a \$100 million contingency fund.

The cost of such a new program would be modest, perhaps a few hundred million dollars with an additional \$100 million annually if the United States also created a dedicated police force of up to 1,000 officers for deployment to post-conflict zones—a critical need in recent crises.

Using adjusted baseline assumptions, we project spending on all programs currently addressing complex emergencies to be \$6.3 billion in 2014.<sup>28</sup> Although America's reconstruction spending in Afghanistan and Iraq should taper off by 2014, sharply reducing spending in this category, the importance of preventing failed states in an age of global terror adds a hard-headed security rationale to an already compelling humanitarian case for devoting adequate resources to complex emergencies. Thus, for 2014, we suggest that non-Defense Department U.S. spending on complex emergencies could be twice the average of U.S. spending between 1999 and 2003 (when civilian costs were low and military costs were dominant), amounting to \$1.7 billion, including the costs of a standing civilian agency. A more deliberate approach to dividing up responsibilities between military and civilian personnel might also entail some reallocation between the defense and foreign affairs accounts.<sup>29</sup>

## **Conclusion**

Even in these difficult fiscal times, the United States needs to spend more on its foreign policy and national security activities broadly defined. The state of the world and the country's national security interests require it. Indeed, in real-dollar terms, the United States should make further modest increases in all three major budgetary elements of its national security activities—the armed forces, homeland security, and international affairs—which means that in real-dollar terms future spending levels will attain the peak levels of the cold war.

The nation surely can afford this, however, given the growth of its economy since the cold war. In that sense, the 1990s post-cold war peace dividend will not be entirely lost. Defense budgets that ranged from 5 percent to 10 percent of GDP during the cold war could remain comfortably below 4 percent and need only grow slightly faster than inflation to address likely demands of the strategic environment. The federal homeland security budget, less than \$20 billion annually before 9/11 and now about \$30 billion, needs to increase further to roughly \$65 billion. But even that will represent less than half a percent of GDP. International affairs budgets for diplomacy and aid, while needing much larger relative increases (given their scant funding in



## ENDNOTES

1. The authors are grateful to Gordon Adams, Susan Rice, and Jim Steinberg for extremely thoughtful comments and to Una Lee for excellent research assistance.
2. Authors' calculations based on Office of Management and Budget, *Historical Tables, Budget of the U.S. Government, Fiscal Year 2004* (2003) and Office of Management and Budget, "FY04 Supplemental: Iraq and Afghanistan Ongoing Operations/Reconstruction" (2003) [available at [www.whitehouse.gov/omb/budget/amendments/supplemental\\_9\\_17\\_03.pdf](http://www.whitehouse.gov/omb/budget/amendments/supplemental_9_17_03.pdf)]
3. The 1.2 percent real growth rate was constructed using average annual inflation of 2.6% over 2003-2014.
4. Michael O'Hanlon, *Defense Policy Choices for the Bush Administration*, rev. ed. (Brookings, 2002).
5. For backup on those estimates, see John E. Peters and Howard Deshong, *Out of Area or Out of Reach? European Military Support for Operations in Southwest Asia* (Santa Monica, Calif.: RAND, 1995); Michael O'Hanlon, "Transforming NATO: The Role of European Forces," *Survival*, vol. 39, no. 3 (Autumn 1997), pp. 5-15; Congressional Budget Office, *NATO Burdensharing after Enlargement* (2001).
6. Gregory T. Kiley, "The Effects of Aging on the Costs of Operating and Maintaining Military Equipment" (Congressional Budget Office, August 2001). Congressional Budget Office, *Paying for Military Readiness and Upkeep: Trends in Operation and Maintenance Spending* (1997).
7. Some optimists tend to exaggerate the savings from possible base closings, however. Wayne Glass, *Closing Military Bases: An Interim Assessment* (Congressional Budget Office, 1996).
8. See Congressional Budget Office, *Restructuring Military Medical Care* (1995); Russell Beland, *Accrual Budgeting for Military Retirees' Health Care* (Congressional Budget Office, 2002).
9. Robert F. Hale, *Promoting Efficiency in the Department of Defense: Keep Trying, but Be Realistic* (Washington: Center for Strategic and Budgetary Assessments, 2002).
10. See Jack Weiss, *Preparing Los Angeles for Terrorism* (City of Los Angeles, October 2002).
11. See Office of Homeland Security, *National Strategy for Homeland Security* (July 2002), available at [www.whitehouse.gov](http://www.whitehouse.gov).
12. We borrow the term "soft power" from Joseph Nye. "Soft power lies in the ability to attract and persuade rather than coerce. It means that others want what the United States wants, and there is less need to use carrots and sticks. Hard power, the ability to coerce, grows out of a country's military and economic might. Soft power arises from the attractiveness of a country's culture, political ideals, and policies." Joseph S. Nye, Jr., "U.S. Power and Strategy After Iraq," *Foreign Affairs*, vol. 82, no. 4 (July/August 2003), p. 66. Here we use the term broadly to encompass foreign assistance and diplomacy.
13. Lael Brainard, Carol Graham, Nigel Purvis, Steven Radelet, and Gayle Smith, *The Other War: Global Poverty and the Millennium Challenge Account* (Brookings, 2003), p. 197.
14. Ibid.
15. Authors' calculations based on Office of Management and Budget, *Historical Tables, Budget of the U.S. Government, Fiscal Year 2004* (2003), p. 83.
16. Office of Management and Budget, "FY 2004 Budget Fact Sheet" (2003) available at [www.whitehouse.gov/news/releases/2003/10/20031001-7.html](http://www.whitehouse.gov/news/releases/2003/10/20031001-7.html) and Office of Management and Budget, *Securing the Homeland and Strengthening the Nation* (2002), p. 8.
17. Authors' calculations based on Bureau of Resource Management, *Summary and Highlights: International Affairs (Function 150) Fiscal Year 2004 Budget Request* (U.S. Department of State, 2003). [available at <http://state.gov/m/rm/rls/iab>]

18. Authors' calculations and Public Law 108-7, "Making Further Continuing Appropriations for the Fiscal Year 2003" and PL 108-11, "Emergency Wartime Supplemental Appropriations Act, 2003."
19. Ibid.
20. Brainard and others, *The Other War*, p. 3.
21. Authors' calculations based on United Nations Development Program, *Human Development Report 2003* (Oxford University Press, 2003), p.146.
22. Organization for Economic Cooperation and Development, *OECD Economic Outlook No. 73 -Statistical Annex Tables* (2003).
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24. Authors' calculations based on Office of Management and Budget, *Analytic Perspectives, Budget of the U.S. Government, Fiscal Year 2004* ( 2003), pp. 690-91.
25. Authors' calculations based on U.S. Census Bureau, "Current Population Projections" (2003) ([www.census.gov/ipc/www/worldpop.html](http://www.census.gov/ipc/www/worldpop.html)).
26. James Dobbins, John G. McGinn, Keith Crane, Seth G. Jones, Rollie Lal, Andrew Rathmell, Rachel Swanger, Anga Timilsina, "America's Role in Nation-Building: from Germany to Iraq" (RAND, 2003).
27. We are indebted to Susan Rice for insights in this section, especially related to reconstruction and humanitarian relief and contingency funds.
28. Average cost of reconstruction includes funds allocated to Iraq and Afghanistan, as well as Bosnia and Herzegovina, Kosovo, the Federal Republic of Yugoslavia, Croatia, Macedonia and Albania after U.S. and allied military operations in the region in 1999. Estimate assembled from a number of different sources: Lois B. McHugh and Joyce Vialet, "Kosovo: Refugee Assistance and Temporary Resettlement" (Congressional Research Service, 1999), p. 4. Bureau of Resource Management, "Congressional Budget Justifications: Foreign Operations, Fiscal Year 2004" (Department of State, 2003). [available at <http://www.state.gov/m/rm/rls/cbj>] Bureau of Resource Management, "Congressional Budget Justifications: Foreign Operations, Fiscal Year 2003" (Department of State, 2002). [available at <http://www.state.gov/m/rm/rls/cbj>] Bureau of Resource Management, "Congressional Budget Justifications: Foreign Operations, Fiscal Year 2002" (Department of State, 2001). [available at <http://www.state.gov/m/rm/rls/cbj>] Kenneth Katzman, "Afghanistan: Current Issues and US Policy" (Congressional Research Service, 2003),pp. 35-36. Office of Management and Budget, "FY 2004 Supplemental: Iraq and Afghanistan Ongoing Operations/Reconstruction" (Office of Management and Budget, 2003) [available at [http://www.whitehouse.gov/omb/budget/amendments/supplemental\\_9\\_17\\_03.pdf](http://www.whitehouse.gov/omb/budget/amendments/supplemental_9_17_03.pdf)]
29. In fact, within the 2004 supplemental request submitted by the Department of Defense, we have identified over \$1 billion in funding for activities related to humanitarian and disaster aid, reconstruction, counter-narcotics activities, support for the Coalition Provisional Authority, and capabilities enhancement for local security forces. The \$2 billion "Iraq Freedom Fund," with its own transfer authority, may also in part fund humanitarian and disaster assistance activities. Department of Defense, "FY2004 Supplemental Request for Operation Iraqi Freedom (OIF), Operation Enduring Freedom (OEF), and Operation Noble Eagle (ONE)" (September 2003).
30. Authors' calculations based on Office of Management and Budget, *Historical Tables, Budget of the U.S. Government, Fiscal Year 2004* ( 2003). Also see Isaac Shapiro, "As a Share of the Economy and the Budget, U.S. Development and Humanitarian Aid Would Drop to Post-WWII Lows in 2002" (Center on Budget and Policy Priorities, June 18, 2001).