
**NATIONAL  
PRIORITIES**

BY MICHAEL O'HANLON

U.S. spending on foreign policy has declined about far enough. Additional cuts still planned under the 1997 balanced budget agreement would go too far. Fortunately, those cuts are likely to be rethought in light of the newfound federal budget surplus.

# Defense and Foreign Policy

## The Budget Cuts Are Going Too Far

The 1999 defense budget calls for spending \$270 billion—down \$50 billion from the Cold War average (and down \$100 billion from the 1980s average) in real dollar terms. In 2002, under the balanced budget accord negotiated by Congress and the White House in 1997, annual defense spending is slated to go down yet further—to \$255 billion (in terms of constant 1999 dollars). Relative cuts in international spending over the 1990s have been nearly as large as these defense cuts. The 1998 budget for development aid, support for the United Nations, U.S. diplomatic efforts abroad, and security aid to the Middle East, Bosnia, and Russia is about \$18 billion—down from an average of more than \$20 billion since the 1960s (and some \$23 billion in the 1980s). And the decline continues, with projected real spending

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in 2002 of \$17 billion.

Some further reductions in the Defense Department's manpower and base infrastructure are still possible, but that does not mean that the defense budget can drop much further. Why not? Partly because we need to spend a little more on pay, spare parts, and base upkeep. But mostly because equipment purchased in large quantities during the Reagan defense buildup of the 1980s will soon wear out, putting an end to the 1990s "procurement holiday." If it does not end, the force will be less reliable, less safe, and less effective. The only question is whether to revise the balanced budget agreement right away, using some of the surplus to even out defense spending between now and 2002, or to continue the cuts and then reverse course and increase spending after 2002. Given political realities, the first course seems wiser.

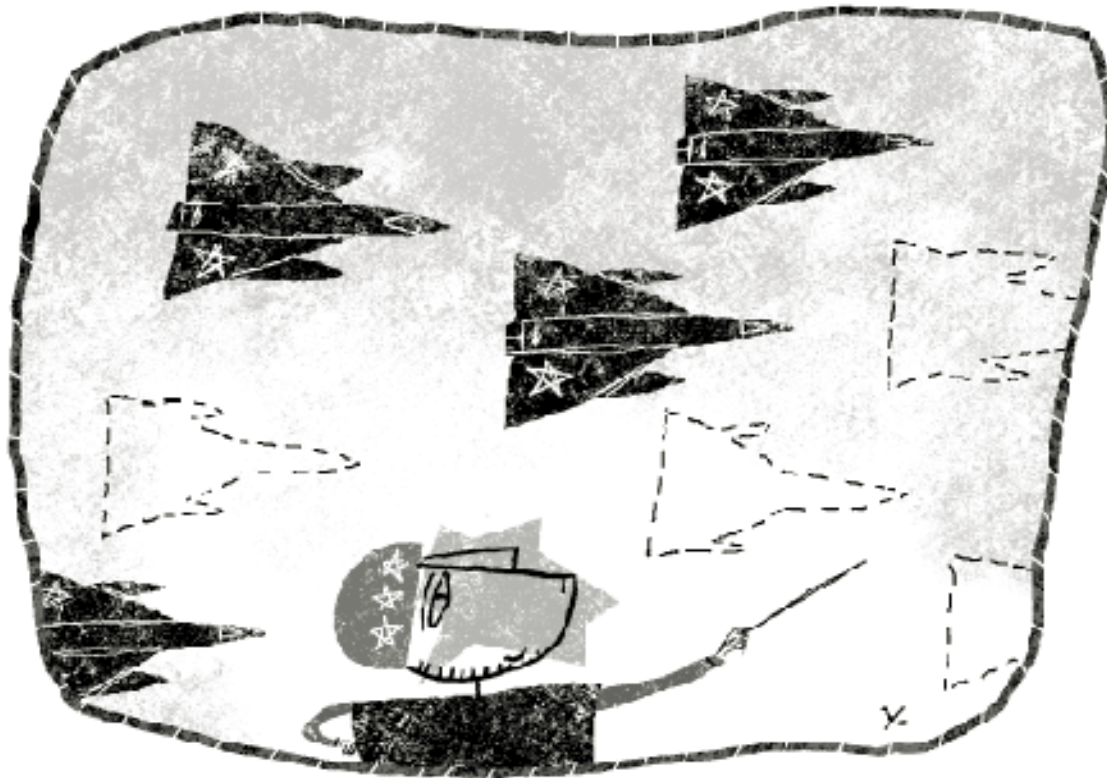
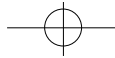
### Where Can the Savings Come From?

Current U.S. defense policy is based on the May 1997 Quadrennial Defense Review, which, when combined with earlier reviews, projects a cut in U.S.

forces by 2002 of fully one-third from the Cold War levels. Although the military readiness of the trimmed-down forces is still fairly good, maintaining it under tight budget conditions is not easy. Can those forces be made even leaner and more efficient without damaging their basic fabric and effectiveness? Yes, but not easily and not indiscriminately.

One place to start looking for savings is with the core of the strategy adopted in the QDR, which plans for fighting two overlapping wars, one on the Korean peninsula and one in the Persian Gulf, both against local adversaries. Although being ready for two simultaneous conflicts seems prudent, the current concept of fighting two full-fledged wars at once is both unrealistic and unnecessarily cautious.

The Pentagon scripts two simultaneous "Desert Storms"—the major offensive using half a million American troops to force Saddam Hussein's troops out of Kuwait in 1990. In this scenario, two allies are attacked at nearly the same time. Both are assumed incapable of fending off the initial assault and lose much territory in the process. Initial U.S. reinforce-



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ments over several weeks allow allied forces to stanch any further losses, set up a strong defense, and begin to weaken enemy forces through airpower and other long-range weapons. After roughly three months, enough heavy U.S. ground reinforcements arrive to permit a major ground counteroffensive to evict enemy forces and conduct a possible counterinvasion into the enemy's own territory.

A more realistic model would be a "Desert Storm plus Desert Shield" approach. Desert Shield was the initial U.S. deployment intended to protect Saudi Arabia from Iraqi attack in 1990. It involved about 200,000 troops before reinforcements began arriving in preparation for Desert Storm. Adopting a scaled-down Desert Storm plus Desert Shield approach, while also allowing some forces for places like Bosnia, would make it possible to cut overall troop levels by another 10 percent. The cuts would come primarily by reducing the size of individual units, while retaining current numbers of army divisions and air force wings to provide a base for rotating units through difficult longstanding missions, such as Bosnia, without exacerbating

their high tempo of operations. Transforming the two-war strategy allows us to make do with less military capability within each unit (though in fact today's more powerful weapons mean that there would be little loss of capability), and the 10 percent troop cut would go far to get the Pentagon out of its current budgetary straits. There are three reasons why the Desert Storm plus Desert Shield model makes sense.

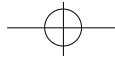
First, a 200,000-strong Desert Shield force would be extremely effective in many scenarios. It could defend allied territory and key military infrastructure against virtually any armored threat the United States might face in the world today. Its airpower, nearly as large and capable as that of a Desert Storm force, could wreak havoc on an enemy's military and industrial infrastructure. Increased deployment of U.S. forces and equipment in the Persian Gulf and Northeast Asia over the past decade, combined with improved U.S. shipping capabilities, means that a Desert Shield-like force could, when teamed with allied units, probably be on site in time to prevent significant loss of allied

territory in most future conflicts.

Second, the Iraqi and North Korean military machines are notably weaker now than they were several years ago. Iraq's forces are only about half the size and strength they were before Desert Storm. North Korean armored forces are even more obsolescent than Iraq's, and their readiness has been declining with their country's economic conditions.

Third, its recent economic troubles notwithstanding, South Korea's armed forces are much improved and still getting better. Although South Korea has less armor than North Korea, its technological edge evens out the overall military hardware balance. Factoring in South Korea's excellent state of readiness gives the South net superiority over the North, in my judgment. South Korea might in fact be able to hold off a North Korean attack itself—though not for sure, since much about war is unpredictable.

Because the need for a major ground counteroffensive or the outbreak of war in a place where the United States is less prepared to respond quickly might one day necessitate another Desert Storm,



keeping the capability to unleash one such operation is critical. But planning for two overlapping Desert Storms is excessive. Scaling back that capability and reducing the size of the force a little more would save \$5 billion a year.

**Weapons Purchases**

As the procurement holiday draws to a close, the Pentagon will need to buy more weaponry simply to keep the force safe and reliable. Equipment procurement spending will certainly need to increase from the current \$45 billion a year. But Pentagon plans translate into likely average procurement spending of some \$70 billion a year in the next decade. Surely procurement spending will have to go up. But can that price tag be reduced?

Some analysts, claiming that we are on the threshold of a “revolution in military affairs,” insist that we must spend every penny of that \$70 billion or risk being

Experimentation with joint-service operations must be as realistic and vigorous as possible. Fortunately, existing defense plans already endorse most of these approaches and goals. But they must be preserved. The coming defense funding crunch must not squeeze out funds for R&D and experimentation and for buying promising new technologies like advanced sensors, communications, and munitions on a case-by-case basis.

One way to protect funds for R&D and key innovations is to scale back planned purchases of gold-plated major weapons platforms. Although they would be desirable, they are not critical. As just one example, the QDR cut the planned purchase of the F-22 Raptor aircraft to 339. But that is still a moderately large F-22 program. It was retained on the implicit presumption that we might need Raptors against threats like North Korea and Iraq in two regional wars at once—

which strains credulity. It makes more sense to buy enough to deploy a significant Gulf War-like air superiority force to a single future war against a potentially more capable adversary. By that logic, 150 F-22 planes (roughly the number of F-15Cs we deployed to the Gulf War for the air superiority mission) would serve. Remaining fighter requirements could be met with new production runs of those same F-15s (or modified F-16s) as old ones wore out.

Scaling back this purchase and other inessential planned purchases could save about \$10 billion a year in procurement relative to current plans. Real procurement spending would still need to increase, but to around \$60 billion rather than \$70 billion. The money could be found by making the added force cuts noted above—meaning that real defense spending would not need to go up. But neither should it go down much more, if at all.

**International Affairs Spending**

Although some economies in international affairs spending also remain achievable, the argument is strong for restoring international spending to roughly its 1980s levels. The end of the Cold War did not substantially reduce the challenges addressed through these U.S. federal activities. The need to provide security aid to places like NATO’s southern tier and to direct international broadcasting into communist states has been supplanted by the need to support democratic and economic transitions in former Warsaw Pact regions, conduct conflict recovery efforts in places like Bosnia, and assist historically high numbers of refugees around the world.

Of the \$18 billion the United States spent on international activities in 1998, about \$9 billion was “official development assistance”—economic and humanitarian assistance, given as grants or concessional loans, for developing countries (not counting Central and Eastern Europe, but counting economic aid to the Middle East). The remainder is for aid to the formerly communist states, military aid to the Middle East, United Nations activities, U.S. diplomatic efforts, international broadcasting, and export assistance.

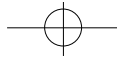
Many critics of official development assistance claim that we should start to phase out overseas aid as a major instrument of foreign policy. They point, for example, to the roughly \$130 billion of private capital—and about the same amount in bank loans and bonds—flowing to developing countries in 1996 (clearly, flows have declined since). With the marketplace making so many resources available, they question why aid, which totaled \$55 billion by all donors combined in 1996, is still needed. In fact, however, most developing countries do not receive much private capital from abroad, even in good times (and many do not gain a great deal from global trade either). Countries in Africa and South Asia, for example, generally receive many times less private money per capita than those in East Asia or South America.

Critics also argue that aid “does not work.” But aid has already done a good job helping to improve basic health and education indicators in the past several

Resolving the Defense Budget Crunch	
	Billions of 1999 dollars
1999 defense spending	270
2002 defense spending under balanced budget deal	255
2003–2015 defense spending average under QDR	285
Annual saving from changing two-war strategy	-5
Other changes (naval and nuclear forces)	-5
Annual saving from scaling back purchases of advanced major weapons systems	-10
Resulting defense spending 2003–2015	265
Needed annual increase relative to 2002 level	+10

Source: Michael O'Hanlon, *How to Be a Cheap Hawk*.

left in the high-tech dust. But what country could plausibly leave us behind in the near to medium-term future? Thus, a sober, balanced, and evolutionary approach to future defense planning seems wiser than radical measures. One key is maximizing the effectiveness of military research and development. Ample funds must also be available for targeted improvements such as unmanned aerial and underwater vehicles when technologies become mature, as well as advanced munitions, computers, and communication systems.



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decades. Aid has supported child immunizations, greater availability of rehydration salts and nutritional supplements, and provision of clean drinking water. Since 1960, these and other efforts have reduced the proportion of children in developing countries who die before reaching their fifth birthday by more than 50 percent. Partly as a result of increased availability of contraceptives, now used by 55 percent of the world's couples, the fertility rate per woman is down from 5 to 3 over that same period—a much more economically and environmentally sustainable growth rate in most countries.

It is true that, absent good economic policies on the part of developing countries, aid does not tend to spur economic growth. It can even slow growth by serving as an “opiate of the policymaking elites” and retarding the formation of a consensus for economic reform.

But it is also true that, when given to recipient governments with good policies, aid does tend to help their economies grow more quickly. Statistically, the average magnitude of the effect—above and beyond the benefits that sound economic policies themselves generate—is to increase growth rates by nearly half a percent a year relative to countries not receiving much aid, which adds up over time. So we should reduce aid to some countries with bad policies—but increase it significantly for many of those bent on reform.

Why the focus on growth? Economic growth is the surest way to alleviate poverty dramatically, as evidenced most notably in East Asia over the past several decades (recent setbacks notwithstanding). On average, inequality does not worsen with growth, so a rising tide tends in most cases to lift all boats. In addition, increasing economic growth correlates with declining population growth. Robust economic growth and moderate population growth together appear to offer the best hope for reducing the appeal of political extremism; it is often the large numbers of unemployed and underemployed young men who provide much of the

grist for radical movements in places like the Middle East.

Aid donors, led by the multilateral organizations, have been trying to be more selective in their aid disbursements for at least a decade. But that has often meant attaching dozens of specific conditions to aid packages and demanding that recipients satisfy them in detail—an approach that tends to swamp weak bureaucracies in developing countries with red tape. Moreover, given the number of conditions, donors often continue to provide funds even when many of the most critical are not satisfied. What donors should do instead in most cases is declare that they will preferentially support countries with solid macroeconomic frameworks—low inflation rates, modest-sized public sectors, small government deficits, dependable property rights, generally open trade regimes, and reasonable exchange rates. Ample room for debate exists on the specifics, as has been made clear in the wake of the Asian economic crisis of 1997. But the need for solid core economic fundamentals is beyond dispute.

As Carol Graham and I noted in our 1997 book, *A Half Penny on the Federal Dollar*, there is a strong case for increasing total aid provided by all countries worldwide from the current \$55 billion a year to \$80 billion. Today, many poor countries that have good economic policies—and that would be likely to put aid to good use—receive far less aid per capita than development success stories like Korea and Taiwan once received. Raising the aid to these poor countries to levels comparable to those once flowing to Korea and Taiwan, while giving countries with weak economic policies only enough assistance for grassroots projects and humanitarian relief, would be more costly but likely to produce far more benefits. The added

money should go to priorities like debt relief for poor countries in Africa, increased availability of primary education as well as primary health care and family planning services, construction of infrastructure, recovery from conflicts, “social safety nets” to help the poor when countries adopt painful economic reforms, and narrowly targeted environmental programs. This global aid initiative in turn implies an annual U.S. aid increase of \$3 billion to \$4 billion.

### Time for a Change

Defense and foreign affairs are the only two major federal budget categories in which spending has declined in real terms in the 1990s. They have provided as much as \$100 billion in annual deficit reduction since the end of the Cold War, ranking with tax increases and the economy's good performance as the primary causes of the fiscal balance the United States has now attained.

The rationale for significant cuts in defense spending was compelling given the end of the Cold War, but the further cuts now planned are inadvisable. In international affairs accounts, cuts have already gone too far (and are still being made).

Should the country spend some of any surplus on foreign policy? The answer is “yes.” Not a lot of additional funds are needed. But an additional \$3 billion in annual aid expenditures and \$10 billion in the yearly defense budget, relative to expenditures now planned for 2002, will be required. In fact, increases of such modest amounts would not be increases at all, but simply enough money to keep foreign policy spending steady relative to inflation.

It is often said that democracies in peacetime tend toward isolationism. That may be true, but with a few more billion dollars devoted to foreign policy in the years ahead, the United States can be reasonably confident of having the resources to maintain a foreign policy as vigorous and successful as that which won the Cold War and helped usher in the greatest waves of global economic growth and democratization in world history. ■