

## FEDERAL SPENDING FOR NATIONAL SECURITY

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I propose first to list and then to discuss briefly seven factors which can be expected to influence current and future trends in Federal spending for national-security purposes. The list is illustrative rather than exhaustive, but it is sufficiently complete to show that the level of expenditures is determined by a wide variety of causal factors. To trace their future consequences with all of the resulting interactions requires intensive and, in some respects, a novel type of analysis. I shall have a few things to say about studies which I believe are deserving of attention by this committee.

Major elements examined are:

1. External political, military, or economic pressures which can lead to either reduction in or expansion of the size of our military forces and affect the quality of their armament.

2. The possibility that East and West may adopt a system of mutual inspection leading toward weapons control. Such a system, if adopted, might initially cost more than the weapons it would at first displace.

3. Possible decisions to use international forces in place of national ones to deal with aggression and to maintain order among the countries of the world.

4. Changing technology which may result in more effective weapons or vehicles of war. These may be introduced in this country, a friendly country, or a potential enemy. Such innovations are more likely to be expensive than cheap.

5. Domestic demands for economy in government or, more appropriately, internal United States demands for lower levels of Federal expenditures.

6. Inflation or deflation in the price level in the United States or more specifically in prices paid for goods and services consumed in the national defense.

7. Impact of budget and procurement decisions made prior to June 1957, as they will affect actions that can be taken in fiscal years 1959 and 1960.

On the basis of an extensive analysis of these factors a generalized forecast will be undertaken and suggestions offered for subject areas meriting more intensive study. Before turning to a discussion of these points a brief summary of national-security expenditures in recent years may be of interest.

### RECENT DOLLAR TRENDS

Although the past is not always a reliable indication of what we shall do in the future, it can provide a measure of the way in which we have responded to advances in technology and our changing role

in world affairs. National-defense expenditures and gross national product for the years 1947-56 were:

[In billions of dollars]

Calendar year	National defense expenditures <sup>1</sup>	Gross national product <sup>1</sup>	National defense expenditures as percent of gross national product	Calendar year	National defense expenditures <sup>1</sup>	Gross national product <sup>1</sup>	National defense expenditures as percent of gross national product
1947-----	12.3	232.2	5.3	1952-----	46.4	345.4	13.4
1948-----	11.6	257.3	4.5	1953-----	49.3	363.2	13.6
1949-----	13.6	257.3	5.3	1954-----	41.2	361.2	11.4
1950-----	14.3	285.1	5.0	1955-----	39.1	391.7	10.0
1951-----	33.9	328.2	10.5	1956-----	40.4	414.7	9.7

<sup>1</sup> Source: Survey of Current Business, July 1957, pp. 8-9.

Expenditures during 1954-56 were about three times the pre-Korea level but substantially below the heaviest annual outlays induced by that crisis.

For fiscal year 1958, the combined actions of the Office of the Secretary of Defense and the Bureau of the Budget will try to hold expenditures to a level considerably below that implied by the original force structure projections. The effect of these efforts will be to stretch out existing procurement objectives, to slow up the rate of development of new weapons systems, to reduce force size, and to lower the manning, equipping and activity rates of combat units. It will reduce our flexibility in dealing with external political, military or economic pressure and ability to respond to changes in the technology of military equipment. However, it will bring expenditures to something like the budget estimates previously made for fiscal year 1957 and fiscal year 1958. In this connection, it should be noted that both the January 1956 and 1957 estimates of expenditures turned out to be substantial understatements; but even so drastic actions as those taken in May-July 1957, may not be sufficient to cut expenditures back to the level of the original estimates. Attention must be given to liabilities the Government has under existing contracts which frequently mean that a cutback in quantity or spreading of deliveries does not automatically result in savings in payments commensurate to the cutback.

#### EXTERNAL POLITICAL PRESSURES

There are continuing discussions between East and West on reduction in force and curtailment in the rate of improvement in future equipments. Against this are rumblings of Taiwan, continuing turmoil in the Middle East, northwest Africa and southeast Asia. There also is pressure from Japan, West Germany, Yugoslavia and many other countries for stronger national military forces based in part on economic aid from the United States. Probably most important is the breaking of Churchill's "truce of terror" by nuclear developments among the previous have-not countries. For the moment this seems to be producing a major change in both our foreign policy and ideas about military power.

These pressures are likely to continue. There is and will continue to be widespread debate in this country both on the kind of actions we should take and on the size and composition of military forces

which the United States should have as a result of following one or another policy. Without in any way dealing with the question of what we should do, it is this writer's belief that over the next 5 years—barring a new crisis—this debate will result in decisions which will tend to lower national security expenditures. The result will not be based so much on facts brought out by objective analyses of these issues as it will be on the pressures within the United States for lower taxes and for reduction in the Federal debt. Since as a practical matter substantial reductions can be obtained only by cutting national security expenditures, and because there will be widespread uncertainty as to what we should do about our own armament and the arming of our allies, it will be in these areas the reductions will be made.

Such a cutback by the United States can only result in a net reduction in the total military capability of the free world. Although there is every reason to assume that the Government will interpret external political pressures so as to justify our reducing national security expenditures, intensive and objective study of the problem also should be made. We should examine all possible lines of action and try to avoid taking steps which might result in our ultimate international embarrassment.

#### MUTUAL INSPECTION

The possibility of agreement on plans for mutual inspection by air is attractive for a variety of reasons. I will not try to summarize or analyze the basic proposals but will limit myself to the probable impact on national security expenditures.

The objective is a reduced probability of war, lesser likelihood of surprise attack and surprise developments in lethality of weapons. From this flows the possibility of smaller forces in being, lower expenditures for new equipment, smaller outlays for development of future weapons and equipment, in short, lower national security expenditures.

That may be the final result. In the immediate future, let us say through 1960-62, the impact on defense expenditures would be determined by the extent to which the inspection function is added to other security activities or made a substitute for them. It seems reasonable to assume that we will not sharply curtail or drop selected military and nuclear activities until we have some assurance that the inspection program will produce the desired results. That does not mean that some earlier proposals for expansions will not be eliminated or curtailed, but it seems unlikely that in the next few years such an agreement of itself will produce a net lower total expenditure.

If these assumptions are accepted, it means that the inspection responsibility will call for additional expenditures not now in the budget. Vehicles will have to be built or modified to perform this function, larger quantities of certain equipments will be needed, and additional men will be required in numerous specialties for which additional training will be needed. To perform inspection from the air may require a substantially expanded flying hour program over the level now projected. Although some substitutions will be possible, this new responsibility will, at least initially, call for an increase in national security expenditures.

## POSSIBLE SUBSTITUTION OF INTERNATIONAL FOR NATIONAL FORCES

International forces have been used on several occasions in recent years, notably in Korea and in Suez. In addition, the United States has entered into about 70 alliances providing for joint or bilateral military action. Our policy since 1945 has been to seek joint action at the multination level to maintain world order and preserve the status quo. It seems likely that, with uncertainties about the policy we should follow now that the nuclear technology barrier has been broken, and as a part of our effort to reduce national security expenditures, we will take actions which reduce the size of our forces and the up-to-dateness in their armament. The reasoning which justifies these steps will include emphasis on the possibility of preventing aggression and maintaining order through joint international action.

Every effort should be made to safely pursue paths leading toward joint international action not only because they will permit lower Federal expenditures for national security, but more importantly because world peace may be attained through such actions. Nonetheless, idealism in itself is little protection against men and armor. For that reason, it is important that as we move toward arms reduction we should continue to make the most intensive study of the risks involved in the steps required to implement such a policy.

Unless and until the international police force has sufficient strength and freedom of action to preserve peace and order, it is essential that we have adequate insurance in the form of forces in being against possible failure of the machinery on which we are planning to place our reliance. Since this will be a very delicate situation, it will require the most objective analysis of all of the possibilities in order to protect ourselves against unforeseen and potentially catastrophic risks.

## TECHNOLOGICAL CHANGES IN MEANS OF WAR

Improvements in the weapons, vehicles, and related equipments used in warfare have been so rapid in the past decade that it becomes very difficult to project future growth. Nonetheless, developments now in process indicate further changes just ahead. Some of these will tend to reduce costs, but most of them will mean substantially higher unit prices for future procurement. Probably equally important in an expenditure analysis is the likely sharp increase in outlays required for research and development.

I will not attempt to cover even a major fraction of the possibilities, but, instead, will rely upon an illustration. Improvements in the means of propulsion now indicate the possibility of very much faster airborne equipment—both manned and unmanned. Introduction of these improvements will require basic changes in the materials used in the vehicles. Although there are numerous possibilities, the most likely ones seem to be a change from aluminum and magnesium to alloyed steels.

Such a shift will mean not only an increase in cost per pound of the material required but, more importantly, a twofold to fourfold increase in the material fabricating expenditures and the investment in fabricating equipment. That will mean substantially greater outlays per unit of output. To profit from these possibilities, substantial research and development is required, both in metallurgy and in fabri-

cation processes and equipment. The net effect is likely to be that we will have to choose between modernizing and maintaining the level of expenditures now being set for national security purposes.

Although we can make a unilateral decision to do as much as possible within a prescribed budget, activity outside the United States may force us to review that decision. Western Europe is rapidly expanding its technology. Changes are taking place in Japan, India, Australia, South America, et cetera. In the last few years we have come to recognize how badly we had underestimated the scientific and technical capabilities of the U. S. S. R.

The Government can hope to lead the world in invention and innovation in the means of war and to do this within a fixed and relatively lower budget. However, if results in both friendly and potential enemy countries demonstrate this hope to be a false one, I assume that we will review and, if need be, change the previously established policy.

Once again, careful evaluation is required to determine the precautions required to avoid possible future embarrassment. The research and development lead time is even longer than that for manufacturing. If the technological change is the product of a potential enemy, money may not be able to buy us the time required to catch up. We must, therefore, set a level of research and development which promises to keep us at least abreast of the rest of the world, and maintain both a manufacturing capacity and military capability which will permit us to introduce important interventions or innovations quickly.

#### UNITED STATES DEMANDS FOR LOWER FEDERAL EXPENDITURES

For many years a sizable and influential part of our citizenry has been very much concerned about the large portion of our national product which goes into government spending. Some of their criticism has been aimed at the level of spending; in part, it is concerned with the kinds of taxes levied and their impact on individual and corporate incomes and on estates; and, to some extent, it has arisen from apprehension concerning the inflationary result of continuing government spending at high levels.

Steady growth in gross national product and the lessening impact of government expenditures on disposable income has not reduced this dissatisfaction, and outspoken criticism continues. The Congress is exposed to continuous and almost irresistible pressures to curtail Federal spending, and there is no need to elaborate on that part of the issue.

I feel, however, that some cautionary notes are in order. We must be sure that our actions are based on more than just a demand for lower expenditures. To be sure, we must keep our Government finances in order, for a disorderly national economy is, of itself, a primary threat to our security. But the other factors involved must be fully considered before we can say that the required expenditures are too high.

Once again, painstaking analysis is required, first, to determine a practicable level of military activities, and, second, to establish spending levels which are acceptable to the Nation and, therefore, can be expected to remain stable for a number of years. At this point it should be noted that nothing is more expensive and wasteful than

changes in military plans. It means closing bases at one time and a few years later reopening them or building new ones. It means building factories, buying equipment, and training workers only to use them in an inefficient way. Probably most wasteful and harmful is its effect upon the morale of defense personnel, both military and civilian.

If stability in resources available for national security can be established, that in itself would go a long way toward increasing the security that can be obtained for a given level of spending. However, stability does not assure adequacy, and it is essential that the expenditure amount be set with careful attention to both military requirements as well as acceptable levels of the economic burden.

### INFLATION OR DEFLATION

Inflation has had a powerful effect on national-security expenditures since 1950 through its impact on prices paid for goods and services. The previous portions of this paper have not taken that factor into account. When an opinion has been expressed that outlays would remain steady, increase, or decline, it was based on spending measured in 1957 dollars.

To get a quantitative concept of the impact of inflation in the past decade, it may be appropriate at this point to restate national-defense expenditures since 1947 in terms of 1956 dollars:

Calendar year	Price index (1956=100) <sup>1</sup>	National-defense expenditures		Calendar year	Price index (1956=100) <sup>1</sup>	National-defense expenditures	
		Actual	In 1956 dollars			Actual	In 1956 dollars
		<i>Billions</i>	<i>Billions</i>			<i>Billions</i>	<i>Billions</i>
1947-----	77.0	\$12.3	\$16.0	1952-----	91.6	\$46.4	\$50.7
1948-----	77.5	11.6	15.0	1953-----	89.5	49.3	55.1
1949-----	80.5	13.6	16.9	1954-----	91.8	41.2	44.9
1950-----	83.1	14.3	17.2	1955-----	95.2	39.1	41.1
1951-----	92.3	33.9	37.7	1956-----	100.0	40.4	40.4

<sup>1</sup> The price index used is that for Federal Government purchases of goods and services. Survey of Current Business, July 1957, pp. 24-25.

The recomputation of 1947-54 defense expenditures, using 1956 prices, shows that we would have had to spend an additional \$3 billion to \$4 billion in most years, and almost \$6 billion more in 1953. Even so recent a year as 1955 would have required an additional \$2 billion. These required additions would be even higher were we to consider these items in 1957 dollars.

In most current economic reporting, it is taken for granted that prices will be higher in the rest of 1957 and 1958. The recent \$6 per ton steel price increase of itself is viewed as a major factor. The continuing rise in the cost of living will result in higher wages through the escalator clause in most labor contracts.

Partly balancing the foregoing are continuing low farm prices and the recent significant cuts in the prices of copper, lead, zinc, lumber, and a few other primary commodities. If economic activity expands, prices for most primary metals will recover, and the steel price rise will be incorporated into higher prices for many finished products. If, however, the recent decline in production—3 percent since the De-

cember 1956 peak—should be accelerated, there will develop a price tug of war. Even at higher wage rates, shorter hours will reduce industrial-worker purchasing power. Unless housing, automobile, household appliance, and industrial equipment sales pick up, there is a strong possibility of shorter workweeks for a substantial number of factory workers.

The Department of Defense spring directive eliminated most defense-plant overtime, and its recent actions both will reduce the number of workers and the length of the workweek for many employees. As noted earlier, lower defense-factory payrolls do not automatically translate into lower prices and smaller national-security expenditures. However, a decline in these payrolls will affect the demand for goods and services and, hence, tend to have an impact on the general price level.

It is this writer's judgment that we have passed the peak of the postwar boom. In a paper completed in April 1957 I said:

For business in general, the 1956-57 problem of containing the boom will for 1957-58 become one of sustaining the boom. Although there will be a small upward movement in 1957-58, it will be in the form of price change rather than in expansion of real production. If two of the major components, housing and automobiles, do not improve, there is a threat of a real change in direction of the postwar trend.

That opinion assumed no reduction in defense expenditures. Steps to reduce military outlays since April lead the writer to believe more strongly that the trend has changed and the direction of national economic activity will be downward.

Prices, particularly prices of military goods, will continue upward for about 10 months. Unless there are major reversals not now in sight, economic activity will move downward and general prices will reverse trend by mid-1958. If this judgment should prove correct, national security expenditures will not be subject to further inflationary pressures after the first half of fiscal year 1959.

#### IMPACT OF PRE-JULY 1957 ACTIONS

The budgeting and buying cycle for national security expenditures is a long one with the result that actions taken prior to July 1957 will continue to have a major effect for some years. This will influence current and future expenditures in quite different ways.

Since the fiscal year 1958 cycle began in late 1955, and since legislative and administrative commitments from earlier fiscal years funds will continue to have an expenditure impact through 1959, the combined effect will tend to make for a \$40 billion spending level for the next few years. In contrast, recent cutting of force and equipment objectives plus spreading of deliveries will make for lower expenditures in the following years. Probably most important, since the reductions have been applied to research and development as well as current deliveries and force structure, it will not be easy to turn the trend upward again, when and if current thinking is reversed. A moment's reflection on what happened at the time of the Korean crisis will illuminate that point.

Fiscal years 1948-50 were a period of reducing and holding down national security expenditures. When the events of June 1950 called for a reversal of this trend, although goals were raised immediately, only moderate expansion in armament was achieved in the next year. It really took more than 2 years to approach the expansion objectives.

As we go into the present economy period, we should keep that recent bit of history in mind. Serious study should be given to the lead-time problem and steps should be taken to insure that the time required to build up forces and improve their armament is consistent with our appraisal of our need for security.

It is clear that previous years' actions and the resulting expenditure commitments will not permit sharp cuts in military spending in the next year or two. Administrative lags of this kind mean that the current reductions will make for sharply lower outlays in 1960 and the years immediately following. In all of this we must keep clearly in mind the implications of the resulting smaller military capability if we should be forced to deal with a major international crisis in the years when the cuts will become effective.

#### CONCLUSION

Consideration of the major factors likely to influence current and future trends in national security expenditures indicates that the major effect of current demands for lower outlays will be to hold security outlays at or below the 1957 level through 1959. A major effect of this leveling will be to reduce the expansion and inflation pressures in the national economy. By mid-1958 this should minimize inflation as a factor making for higher national security expenditures.

The demand for lower Federal expenditures will influence the preparation of at least the fiscal year 1959 and 1960 budgets. Reductions will be made and a major justification will be found in possible arms reduction and reliance on international action as a substitute for national action in conflicts between countries.

If these forecasts seem reasonable, then there is a greater need than ever before for objective analysis of the impact of defense expenditure cuts on our ability to attain our announced political goals in the world. Only a short time ago a similar economy drive was followed by the Korean crisis. Aside from its military and international political results, the economic effect of that combination of events—economy reversed by crisis—was inflation at a faster rate than that which occurred during World War II.

Now that we seem bent on repeating this process, it might be wise to give consideration to taking out a little insurance. Since an actuarial basis is not now available, we will have to work out both the kind of policy and amount of national security expenditures that will best provide this protection. I hope my repeated references to studies that should be made are not translated as a suggestion that a long time should or need be consumed in evaluating what we are doing and in determining what we should do.

Probably the most important point I am trying to make is the urgent need for review and that the study be made quickly so that if we are on the wrong road we can change direction before it is too late. A major part of this argument is the basic proposal that we broaden our



terms of reference to include at least the seven elements enumerated at the beginning of my remarks. Also, that we not treat them separately or in twos or threes. All of the factors must be considered or we may formulate not just an incomplete but an inaccurate judgment. These forces have strong interactions and we must be sure that we sum up an accounting of all of them.