Defense Budget Transparency and the Cost of Military Capability

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Executive Summary

As the defense budget approaches $1 trillion per year in the next decade, the public and policymakers should be prepared to discuss what constitutes national security and what national security actually costs.

The definition of national security, and thereby defense, has expanded to include numerous nondefense federal functions and missions. As a result, the Pentagon and its budget have become an "easy button" to address problems that are not part of the defense core mission and function. Some of these activities may seem small in the scheme of the overall budget, and many are worthy efforts. However, they artificially inflate the defense budget and distract from true defense priorities.

As national policymakers continue to insist on budget agreements that mandate parity between defense and nondefense accounts in discretionary spending, which are the appropriations other than entitlements and government debt service, they are looking at an inaccurate picture of that balance from the start. If the data underpinning this first assumption are incomplete, masked, or just plain wrong, all the assumptions and decisions that follow will be flawed.

The report divides the defense budget into three categories for examination: (1) military capability, direct support of military operations, and nonmilitary support to the force and the National Defense Strategy; (2) compensation and personnel support to the all-volunteer force; and (3) nondefense programs and activities.

Using these categories and a detailed examination of defense budget tables and justification documents, analysis reveals that the fiscal year 2023 defense budget request of $773 billion contains close to $109 billion in programs and activities that do not directly contribute to military capability.

This report is designed to shed light on the largest discretionary agency budget and inform important discussions about the definitions of national security and defense, the implications of decisions regarding what the Pentagon is asked to do and manage, and the potential ramifications of blurring domestic and defense roles and missions. There is no doubt such light will also bring differing views and interpretations about how spending is categorized and portrayed. This is good.

Defense, as the only mandatory and exclusive job of the federal government, should not be *a* priority; it should be *the* priority. Americans should understand what this priority costs, along with where current strategic and resourcing mismatches exist and what options should be considered to improve transparency, productivity, outcomes, and above all, security.

Defense Budget Transparency and the Cost of Military Capability

Elaine McCusker

Many people know that the United States defense budget is approaching $800 billion per year, so they understandably think that is the cost of the military. But what is really in the defense budget? How much of the budget actually buys military capability? And why is transparency important?

The bottom line is that the US is not spending as much on its defense as people may think.

The US has always, and will always, debate how to appropriately spend taxpayer dollars—which it should. Although increased spending is needed to meet stated strategic objectives, this report is not an argument about how much the US should spend on defense.[1] But what does, and should, guide our thinking about federal priorities?

The Declaration of Independence asserts that the government's first duty is security, as it lays out self-evident truths—including the unalienable rights to life, liberty, and the pursuit of happiness.[2] A strong national defense is foundational to all three of these rights. In addition, the US Constitution makes clear that national defense is the only mandatory function of the national government and that it is a function exclusive to the national government.[3]

Today's federal government does many things. This report does not debate the merit of those things. But it does adhere to the view that defense, as the only mandatory and exclusive job of the federal government, should not be *a* priority; it should be *the* priority. Americans should understand what this priority costs. To do so, we must also know the full range of activities currently supported by the defense budget.

In an increasingly violent and chaotic world, it has never been more important that Americans and their leaders know what the US defense budget buys. We should know how much of the budget is spent on compensation, benefits, and related activities necessary to support an all-volunteer force. We should be aware of those parts of the defense budget where nondefense spending resides and where the Department of Defense (DOD) is diverted from its core function.

The notion of a "core function" is crucial to this report. It means the things that the DOD is expected to do and that *only* it can do, such as building a Navy, Army, Air Force, Space Force, and cyber proficiency capable of competing with China; sustaining and modernizing air, marine, ground, and special operations forces with power projection competence; and maintaining America's nuclear capabilities.

Budget transparency matters. As the defense budget approaches $1 trillion in the next decade, the public and policymakers should be prepared to discuss what constitutes national security and what it costs. A clear and complete understanding is necessary to make wise decisions about a wide range of things with national and global implications, including the annual appropriation of funds to federal departments and agencies.

The unacknowledged diffusion of the defense budget from military competitiveness and modernization necessary to deter and defend against strategic adversaries undermines the National Defense Strategy. It also forces the Pentagon to use its resources

to perform missions for which other agencies are responsible.

The lack of defense budget transparency is particularly harmful given the politics of government funding overall. As national policymakers continue to insist on budget agreements that mandate parity between defense and nondefense accounts in discretionary spending, which are the appropriations other than entitlements and government debt service, they are looking at an inaccurate picture of that balance from the start. If the data underpinning this first assumption are incomplete, masked, or just plain wrong, all the assumptions and decisions that follow will be flawed.

A full understanding of what the US is spending to generate and maintain its military capability is important, but we do not currently have that full understanding.

This report takes an initial step to clarify the picture. It is organized in five broad sections. The first provides background on how nondefense spending initially crept into the defense budget. It also reviews the analysis previously done on the subject. The second defines what should be regarded as appropriate defense spending and describes the types of activities funded by and through the DOD and the methodology for categorizing those activities. The third explains the results of the analysis. The fourth reveals how spending on military capability is masked and discusses the implications of that lack of transparency. The last section offers concluding insights, including thoughts about remaining questions. Given the size and scope of the defense budget and the near certain need to increase it in response to security challenges, this should be considered phase one of an ongoing effort to lend analysis and facts to an important subject.

How We Got Here

One of the distinguishing features of the annual National Defense Authorization Act (NDAA) is that it is the only major policy bill nearly guaranteed to become law each year. As such, it is not surprising that the bill often gets loaded with programs, policies, and even entire pieces of legislation that have nothing to do with defense. This mindset has spilled into the defense appropriations bill, which is the largest of the annual appropriations measures that has always eventually become law. Both bills are magnets for congressional special interests.

This is also largely a tale of the best intentions gone awry. In 1992, Sen. Tom Harkin (D-IA), who had lost two sisters to breast cancer, decided there wasn't enough money in the domestic budget for a spending increase for research on the disease.[4] He used his role on the Appropriations Committee to add $210 million to the 1993 defense budget for this purpose. Defense officials at the time noted that such research was not essential for battlefield medicine, and the Pentagon has never since requested funding for it. Nonetheless, each year Congress adds the funding to the defense budget.

Many have since followed the Harkin playbook, adding funding for a variety of other health problems—such as numerous other types of cancer, autism, epilepsy, and Lou Gehrig's disease—to the defense budget.[5] In 2022, Congress added $1.5 billion in directed medical research programs for areas in which the National Institutes of Health, which has the mission to do this research, is already spending $42.3 billion out of a total agency budget of $292 billion.[6] Although this is much-needed research, not only is the Pentagon the wrong vehicle for it, but the diffusion of resources across divergent departments cannot be the most efficient way to spend the money.

Medical research has not been the only beneficiary of diverted defense funding. In 1995, the *Baltimore Sun* reported that the defense budget contained funding for dozens of nondefense programs, including:

> $1.6 million for the Oregon Museum of Science and History; $2 million for homeless shelters; $3 million for urban youth programs; $3 million for the Boy Scout Jamboree; $3 million for the Special Olympics; $5 million for a coal utilization center; $6 million for a natural gas fuel cell demonstration; and $5 million for the Solomon Islands parliament building.[7]

Over the years, the floodgates have opened. According to a study by the Heritage Foundation, a conservative think tank, as the overall defense budget fell 25 percent between 1990 and 1994, nondefense spending in the defense budget more than tripled, from $3.6 billion to $13 billion.[8]

As it began, so it continued. Once the defense appropriations bill, and the DOD more generally, was seen as a way to solve domestic budgetary, priority, and capability challenges, the annual defense policy bill mushroomed in size and content; legislation that was once a few dozen pages now runs into many thousands. Periodic attempts have been made to illuminate this evolution and define its terms. In the 1990s, the General Accounting Office (GAO)—renamed the General Accountability Office in 2004 to better reflect its mission—Congressional Research Service (CRS), and Heritage Foundation each took shots at this.[9]

In November 1993, the GAO released a report titled *Department of Defense Support for Domestic Civil Activities*, which it defined as "domestic activities in areas other than those involving its core mission of preparing for or conducting military operations."[10] Although the study initiated the discussion of methodologies for assessing the amount of nondefense items in defense budgets, it noted that doing so was subjective, signaling a difficulty in putting a box around the subject that persists today.

The 1993 GAO report was prepared at the request of Rep. Floyd Spence (R-SC), then ranking member of the House Committee on Armed Services and soon to become the committee's chairman. Rep. Spence had long been a proponent of restoring higher levels of defense spending and was dismayed at how supposedly military funding was being diverted to other purposes. The report noted that the Pentagon lacked any system for tracking the department's domestic activities outside of military operations or even the ability to compile a list of such activities.

To define the scope of its research, the GAO confined itself to defense documents, including a 1993 Joint Chiefs of Staff paper on nontraditional military operations and a draft Army field manual covering domestic support operations. It then supplemented these with independent interviews and individual reports about examples of spending that fit into its definition. While acknowledging the list produced was incomplete, the GAO indicated that the Pentagon spent at least $10.4 billion for 1990–93—a number the GAO argued was understated due to the difficulty in determining the distinction between core and noncore activities. It further calculated that the amount of nondefense funding had increased more than threefold, from 0.5 percent to 1.8 percent of the overall defense budget.

The following year, the CRS weighed in with a complementary report with the catchy title "Items in the Department of Defense Budget That May Not Be Directly Related to Traditional Military Capabilities." As the GAO had done in November 1993, CRS in March 1994 acknowledged the limited amount of quality data available and thus declined to make programmatic judgments. The researchers instead identified "a broad range of activities that may or may not be considered peripheral to DOD's primary military activities."[11] This caveat captures the important struggle to completely and accurately portray how much of the defense budget—and, correspondingly and perhaps disproportionately, leadership attention—is devoted to activities tangential to its core mission. This remains a struggle this report attempts to inform nearly 30 years later.

Finally, with two short reports in 1994 (March and December), John Luddy, a Heritage Foundation policy analyst, used the GAO and CRS data to quantify nondefense spending in the defense budget. This was to make an argument about the inadequacies of defense spending. Similar to the concerns raised by Rep. Spence, Luddy expressed a particular worry about declining levels of unit combat readiness and military capability, indicating how these could be improved by applying the funds in the defense budget that were going to other purposes.[12]

After initial coverage of these few reports in the mid-1990s, there appears to be little subsequent attention paid to or deeper research on this subject. In particular, there has been little discussion aimed at creating a uniform assessment of which elements in the defense budget represent core functions. Indeed,

the definition of US national security has become more elastic and less rigorous, exacerbating the problem of transparency.

Defining Defense Spending

The definition of national security, and thereby defense, has expanded to include numerous other federal functions and missions. As a result, the DOD and its budget have become an "easy button" to address problems that are not part of the DOD's core mission and function. Some of these activities may seem small in the scheme of the overall budget, and many are worthy efforts. However, they artificially inflate the defense budget and distract from true defense priorities.

Further, the military's relative competence in planning and carrying out programs magnifies the tendency to diffuse its missions. For example, the DOD runs excellent schools, but should funding for this be considered "defense" in budget discussions? And should the Pentagon maintain an infrastructure for management and oversight of this activity, thereby pulling attention from its primary purpose and the military missions that only the DOD can carry out?

The tendency to rely on defense capabilities and funding is increasingly widespread. This same strain occurs with energy, environmental, and medical priorities. Other federal agencies with more technical expertise in these respective areas should take the lead on these efforts and ensure that their management systems are effective. Assigning these responsibilities to DOD results in an overinflated sense of what the nation is spending for its security and diffuses attention from military capabilities.

There is also a second-order corrosive effect of the habit of deferring to defense planning, management, and response expertise. Assigning nondefense missions to the Pentagon has ramifications for civilian-military relations. As the military is asked to perform nonmilitary activities, the lines between military and civilian roles and responsibilities get blurred, which risks damaging the military's historical, appropriate place in society.

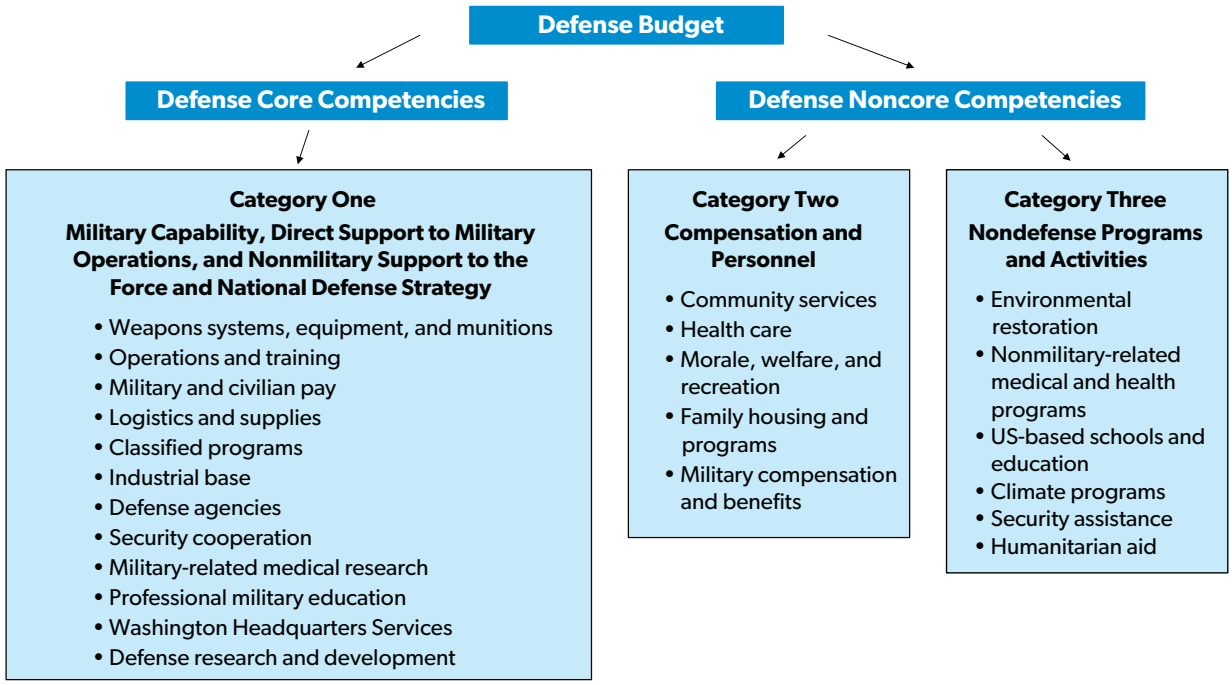
Therefore, this report's budget analysis adheres to a traditional definition of national security, one that underpins the DOD mission to "provide the military forces needed to deter war and ensure our nation's security" and perform those duties only it can do.[13] When there was doubt during the data collection, a program or activity is categorized as defense spending, favoring under- rather than overreporting for those elements of the defense budget that are not directly producing a military capability.

Categorization. For simplicity and transparency, this report divides the defense budget into three categories for examination, as seen in Figure 1: (1) military capability, direct support of military operations, and nonmilitary support to the force and the National Defense Strategy; (2) compensation and personnel support to the all-volunteer force; and (3) nondefense programs and activities.

Category One. The first category is limited to programs that produce military capability, directly support military operations, and provide nonmilitary support to the force and the National Defense Strategy. It includes weapons systems and platforms, equipment and munitions, operations, training, nearly all research and development, military pay, civilian pay (if in direct support), logistics and supplies, and classified programs. It also encompasses defense industrial base programs, defense agencies that are not allocated to other categories, security cooperation (intelligence sharing and partner networks), military medical readiness programs, joint exercises and communications, the State Partnership Program, professional military education, and Washington Headquarters Services management of facilities and compensation.

In sum, these programs are core military competencies and the infrastructure necessary to manage the business. These are at the heart of US military capability, competitiveness, and lethality; personnel, logistics, and direct support to military plans and operations; and security cooperation with partners and allies, which are essential to warfighting coalitions in support of national security objectives.

Figure 1. Three Categories of the Defense Budget



Source: Author.

Category Two. Broadly speaking, the second category captures the indirect costs of supporting and retaining the all-volunteer force. These include non-pay compensation; retirement and other personnel benefits; diversity training and programs; sexual assault prevention and response; family and spouse programs; childcare; morale, welfare, and recreation; off-duty voluntary education and tuition assistance; medical care; and family housing. They also include overseas military construction for the schools that serve military member families stationed outside the US.

Category two contains all those programs and activities that support the force. They are an extended part of the compensation package, and, though they are important for maintaining an all-volunteer force and taking care of that force and its families, they do not directly contribute to military capability. They have also expanded in cost and scope as DOD struggles to compete with the private sector for talent. It is important to understand these efforts and costs and the portion of the budget they consume in the context of discussions on defense spending.

Category Three. The third category is where we find nondefense programs and activities. Among these are environmental programs and cleanup, nondefense medical and health programs and facilities, US-based schools and education, climate programs, security assistance, humanitarian aid, and a variety of extraneous missions assigned to DOD.

To be sure, this categorization deserves further debate and research. But such analysis is essential to the defense spending challenges facing the nation. One must be precise and rigorous in defining national security and defense. Transparency is required to properly assess America's strength relative to its adversaries and to be worthy stewards of Americans' tax dollars. The methodology employed here can be simply described as permissive yet unafraid, using a traditional definition of national security that recognizes the dangerous missions undertaken by the all-volunteer force.

2023 by the Numbers

With each year's budget request, DOD releases an avalanche of dense and detailed publications breaking down and describing each major defense spending account. To decode these documents, it is necessary to understand a bit of Pentagon jargon. Key to the code are huge appropriations spreadsheets, or "budget appendix displays," used to justify the administration's plans for the coming fiscal year. They are colloquially called "Dash-1s"; military personnel programs are in booklet "M-1"; procurement programs are in the "P-1," and so on. There are seven in total.

Applying the methodology described in the section above, the Biden administration's Dash-1s released with the Fiscal Year (FY) 2023 President's Budget request of $773 billion were used for a line-by-line assessment to determine if a budget activity line was entirely composed of spending that aided the defense core mission and therefore fit in category one, more appropriately fit in categories two or three, or needed to be split to be categorized correctly.

This analysis required a second arduous step. Since the Dash-1s do not include the details of each program, and the line titles themselves are necessarily short and lacking in descriptions, the program narratives in the budget justification books that also accompany the budget request were employed. Only by cross referencing the two sets of documents is it possible to understand the real goal and activities supported by the funding in each line item.[14] The justification books also allowed line items to be split and binned into more than one category, according to the funding elements within programs.

When faced with funding requests and justifications that did not have adequate descriptions or seemed to teeter between supporting the DOD's core competencies and not doing so, this analysis assumed that funding should be included in category one to ensure that the spending in categories two and three was not overestimated. While underestimating the totals for categories two and three in this report is disadvantageous in providing the full understanding we seek, it was more important to be entirely confident that the funding that was deemed noncore was not inflated. For example, the FY2023 President's Budget contains over $80.2 billion in classified programs, which were all assumed to support DOD core competencies because they could not be described otherwise.

This is not to suggest that gray areas do not remain. Items funded in the operation and maintenance (O&M) accounts, for example, can be extremely opaque and hard to deconstruct. The budget justification books accompanying these requests include not just the funding for a certain program's activities but also the number of civilian full-time equivalents (FTEs) that support the work of that program. However, the formula for doing this is not always consistent, adding another inherent uncertainty. Depending on the service and the program, some of the O&M justification exhibits included FTE baseline numbers for the entire line item. In other cases, the civilian estimates were provided only for an element of the line item. Some exhibits only listed FTE increases and decreases from an unknown baseline. Other exhibits left out any mention of FTEs entirely. Accordingly, only the FTEs included in the O&M justification books that could be linked to category two and three programs and activities were added to the total of noncore spending described in this report.

Lastly, reimbursable funded FTEs were not included in these calculations. Since it is not clear whether these are reimbursed with defense funding or from outside the DOD, it was not appropriate to incorporate them, again to err on the side of including costs in category one. The costs of FTEs are based on estimates from the Office of Management and Budget.[15]

The categories described above and their definitions were created before the data collection. They were updated as the research took place, allowing the data collection to inform and improve the report's analysis.

Analytical Results

Using the categories and methodology described above, the defense budget contains close to $109 billion in

Table 1. Appropriation Title Breakdown

By Title	Budget Transparency (Millions of Dollars)
O&M	$52,867
Military Personnel	$38,649
Military Construction	$2,683
RDTE	$1,057
Procurement	$572
Other (FTEs and Revolving Funds)	$12,733
Total Budget Transparency	**$108,561**

Source: Author's analysis of FY2023 President's Budget materials.

programs and activities (Table 1) that do not directly contribute to military capability and that should be highlighted to understand the range of activities and programs the defense budget supports.

Operation and Maintenance. The appropriation with the largest portion of funding that falls under the compensation and nondefense categories (two and three) is the one-year O&M accounts. With nearly $53 billion of the total noncore budget identified (49 percent), this appropriation is loaded with spending on health, community, family, climate, education, and security assistance programs.

The Defense Health Program (DHP) makes up 67 percent, or $35 billion, of that O&M total, providing in-house care, private-sector care, health support, information management, education and training, and base operations.[16] As seen in Table 2, DHP also supports a research, development, test, and evaluation (RDTE) enterprise ($910 million), some of which overlaps domestic agency health research, and a procurement budget ($570 million) larger than what the DOD spends on buying Hellfire missiles, small-diameter bombs, and long-range anti-ship missiles combined.

Given the magnitude and cost of this activity and the recent attention and debate regarding the way it should be carried out, it is important to highlight the programs it contains and be fully aware of how much of the defense budget is devoted to these activities.[17]

Private-sector care ($18.5 billion) represents over half of the DHP budget, followed by in-house care at $9.9 billion. Over FY2012–18, private health insurance premiums and national health expenditures per capita rose 25 percent (or 3.7 percent annually),[18] further contributing to the overall increase in personnel and compensation costs.

The budget includes $6.5 billion in civilian personnel costs ($5 billion of which is for in-house care) and $4 billion for pharmaceuticals and drugs.

By far the largest expense in private-sector care is managed care support contracts, at close to $7.5 billion.[19] A distant second is Military Treatment Facility (MTF) enrollee purchased care ($3.5 billion), followed by supplemental health care ($1.9 billion) and retail pharmacy and miscellaneous purchased care ($1.3 billion each).

In-house care ($9.9 billion) provides medical and dental care plus pharmaceuticals received by DOD eligible beneficiaries in MTFs and dental treatment facilities in and out of the continental United States. The majority of the cost for medical centers, hospitals, and clinics—$7.2 billion—is in the United States, with about $526 million outside the US.[20]

Moving on from DHP, the Army force readiness and base operations support funding lines contain over $4 billion in O&M for programs and activities that are really part of the compensation or support package for service members and their families or extraneous to the warfighting mission. For example, over $1.7 billion of the base operations support budget, which one would expect is devoted to maintaining and running the Army's garrisons, is actually spent on community services, environmental programs, and climate change.

The Air Force and Navy base operating and service support activities are necessarily different from the Army's, but similar activities appear, totaling close to $4.5 billion for the Navy and $1.5 billion for the Air Force. Again, these programs are important to caring for the families of an all-volunteer force and preventing and responding to sexual assault. But as

Table 2. Defense Health Program Breakdown

Defense Health Program	President's Budget FY23 (Millions of Dollars)
O&M	**$35,314**
In-House Care	$9,907
Private-Sector Care	$18,455
Other	$6,952
RDTE	**$910**
Procurement	**$570**

Source: US Department of Defense, *Defense Health Program: Fiscal Year (FY) 2023 President's Budget*, April 2022, 11, https://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2023/budget_justification/pdfs/09_Defense_Health_Program/00-DHP_Vols_I_II_and_IV_PB23.pdf#page=15.

evidenced by the low Air Force number compared to the Navy and Army numbers, it can be difficult to find and understand the budgets devoted to these activities in such large O&M accounts.

One could argue that the military departments should provide support to the communities where they operate. They should clean up the environmental effects of their activities. And they should contribute to efforts to address climate change. While this sounds reasonable, the military services are primarily warfighting organizations, charged with developing, deploying, and operating lethal capabilities to protect the nation and its citizens. The federal government has entire departments devoted to the environment and climate. While defense can and should be a good partner, and it should support military families in local communities, it is important to know how much money is currently in the budget to lead these efforts. As described above, the answer is billions of dollars.

The O&M accounts also cover numerous defense agencies, including two in particular that support billions of dollars in activities that are rightfully the missions of other federal departments. The first, DOD-dependent education, devotes $3.3 billion to more than 46,000 students in 106 schools located in 11 countries.[21] It also subsidizes non-DOD schools by paying to enroll close to 3,600 students in those educational programs. As with a number of these large benefits programs for service members' families, they are worthy but duplicate the missions of other federal departments, distract DOD from its primary purpose, and should not be considered defense spending.

The second, the Defense Security Cooperation Agency, as its name implies, supports the defense mission of security cooperation. However, it also contains close to a billion dollars in security assistance funding, which is a State Department mission.

As with the definition used for "national security," there is plenty of room for debate and interpretation of the definitions of "security assistance" and "security cooperation." Initially, these two tasks were separate and conducted by their corresponding departments—State and Defense. Legislation in the 1960s and 1970s appropriated security assistance funds through Department of State accounts.[22] In the 1980s, legislation brought DOD in to conduct security cooperation.[23] Management of these two separate but related activities started to shift after 9/11, when State Department authorities and funding were viewed as inadequate in light of the expanded US security objectives. In response, Congress supported DOD in conducting security assistance activities and funded those programs through the defense budget. Between 2001 and 2017, the number of US security assistance programs increased from 57 to 107, with DOD funding 48 of the 50 newly created programs.[24]

This report uses a traditional interpretation of security cooperation, one that places cooperation as an element of assistance and expects that the larger, umbrella activity of security assistance should be managed by and funded through the State Department. There were good reasons to expand defense responsibilities for these programs 20 years ago, as the State Department did not have the bandwidth or workforce to manage them. But it is time for the State Department to take these on in a serious way. For example, funding for the Ukraine Security Assistance Initiative, border security, regional centers, and security governance all fall under the State Department's responsibilities and mission: "To protect and

promote U.S. security, prosperity, and democratic values and shape an international environment in which all Americans can thrive."[25]

Finally, the O&M accounts support personnel who are working and managing programs on a daily basis. As noted above, the calculation of FTE ($11.5 billion) costs for those efforts categorized as compensation or nondefense is imperfect at best and likely well below the actual level of effort these programs consume in personnel costs.

Military Personnel. The large, and growing, military personnel accounts total close to $174 billion in the FY2023 request and provide pay and benefits to the all-volunteer force of over 2.1 million active reserve and guard personnel in that year.[26] There are three basic facts relevant to this analysis, which categorizes approximately $38.7 billion of the total account into the benefits category.

First, people are expensive and have been getting more expensive. For example, in FY2002, the military personnel budget was $137 billion in FY2021 dollars, but it supported nearly 2.3 million personnel.[27] That force was over 109,000 personnel larger than the force of just over 2.1 million personnel in 2021, but it cost 26 percent less than the $173 billion in the budget that year.[28] Second, the salary part of compensation is widely acknowledged as insufficient on its own to constitute a living—to say nothing of a competitive—wage for the all-volunteer force. Third, a portion (22 percent) of the military personnel appropriation is actually for benefits. For example, the pay accounts cover contributions to member retirement plans, the Medicare retiree health fund, education benefits, and housing allowances.

The scope of service members' benefits has been expanding since the creation of the force, from efforts in the 1940s, such as the GI Bill or the opening of the first DOD Dependents Schools, to more recent evolutions, such as the military's version of health care for its uniform service members, retirees, and their families—TRICARE for Life—which was established by the FY2001 NDAA.[29]

Such benefits have greatly contributed to the growth in costs of the all-volunteer force. As Seamus Daniels of the Center for Strategic and International Studies has detailed, in the past 30 years, personnel costs have constituted between 25 and 33 percent of the Pentagon's budget, dwarfing other kinds of programs—weapons, training, and other operational costs. In fact,

> as the size of the active duty military fell by 64 percent from its post–World War II high in fiscal year (FY) 1952 to its trough in FY 2016, total personnel costs grew 110 percent in real terms, peaking in FY 2010.
>
> Between FY 2000 and FY 2012, the average cost per service member increased 64 percent, adjusted for inflation, or a compound annual growth rate of 4.2 percent.[30]

As noted in a recent essay collection, *Warriors and Citizens: American Views of Our Military*, devoted to the role of the military in American society, there is a risk when "apportionment of the defense budget skews strongly toward pay and benefits to the detriment of training, equipment and numbers in the force, key factors in sustaining a strong military capable of winning battles and bringing more troops home alive."[31]

Although these benefits, among the many others noted in this report, are essential to supporting the force, it is important to understand the costs and the way they are budgeted.

Military Construction. In reviewing the DOD military construction (MILCON) budgets, while military schools, especially abroad, are important in supporting service members' families, the nearly $2.7 billion in this category is tangential to any military capability. Projects such as Germany's Baumholder and Clay Kaserne Elementary Schools and Japan's Nile C. Kinnick High School are examples of defense spending in this category. Other MILCON projects, such as Texas's Joint Base San Antonio (Lackland) Ambulatory Care Center Replacement (Dental) are additional examples. Although dental care is appropriately part of a service member's compensation package and important for the medical readiness of the force,

should the Pentagon be building the facilities where these services are provided?

Research, Development, Test, and Evaluation. The DOD RDTE accounts are robustly funded at $130 billion in the FY2023 budget request, less than 1 percent of which is highlighted here.[32] In evaluating these lines for visibility on activities that do not support the defense mission, a very permissive approach was used. For example, nearly all basic research is not highlighted here, and even though it could—and does—have wide-ranging benefits for defense, it is difficult to assess as being defense specific.

The military departments and the Defense Advanced Research Projects Agency conduct important research necessary for a ready medical force and a medically ready force and to confront military-specific injuries and health problems. For example, blast injuries from improvised explosive devices present a wide set of challenges—in developing protective gear and reducing the number of and treating wounded service members—that require defense investments in research and development.

However, as noted above, the DHP includes a large RDTE program ($910 million), which addresses some military and some nonmilitary challenges. For example, the DHP budget request includes $59 million for research dedicated to breast and gynecological cancer and similar nondefense related efforts, all of which would be more appropriately funded by other agencies whose mission it is to tackle these challenges.

Notably, the budget request does not include continuation of the $1.8 billion in onetime FY2022 congressional additions for medical research, signaling that those continue to fall outside what the DOD believes it should support.[33]

In addition, the Army, Air Force, and Office of the Secretary of Defense RDTE budgets each contain minor amounts of funding for education, environment, and social sciences research efforts that duplicate the work of other agencies or do not contribute to the DOD mission.

Procurement. Most of the procurement budget is also categorized as core defense spending and is not highlighted here, except for the DHP. At $570 million, the programs fund acquisition of capital equipment in MTFs and other selected health care activities, which include equipment for initial outfitting of newly constructed, expanded, or modernized health care facilities; equipment for modernization and replacement of uneconomically reparable items; and Military Health System information technology requirements. Although providing the best health care possible is important, transparency on these costs is necessary to consider whether they should be considered defense spending.

The Importance of Transparency and Understanding the Defense Budget

Lack of understanding regarding what is in the defense budget and an unclear representation of nondefense spending in the defense budget have resulted in a flawed public and institutional awareness of the cost of true military capabilities. This lack of understanding has colored public policy debates of both critics and proponents of defense spending trends for over 30 years.

As briefly noted in the introduction to this report, it is important to shed light on this dark space, because the public and policymakers should be informed about (1) what is in the defense budget and the cost of military capability, (2) the implications of distracting the Pentagon from the role and missions only it can do, (3) government-wide reverberations of diverting resources from other agency core missions to defense (known as mission creep), (4) how US defense spending compares to that of our allies and adversaries, and (5) real spending on defense and domestic priorities during discussions of budget parity.

Public perception is that the defense budget is growing exponentially and that it only pays for military capabilities and operational spending. This is misleading. For years, the defense budget has included funding for programs and activities that do

nothing to advance military capability or increase national security.

Every time a new mission is assigned to DOD, it must manage, plan, execute, assess, and report on the activity. This draws personnel, management focus, and resources beyond those appropriated for the function away from what should be DOD's core mission: preparing for, fighting, and winning America's wars.

It remains crucially important for agencies with complementary missions—such as the Departments of Defense, State, Homeland Security, and Energy—to work closely together. And though interesting arguments could be made to combine or collapse some of these currently separate missions related to national security into fewer agencies, this should not be done by putting the budget for an agency with primary responsibility—and accountability—into another agency's budget and organization.

For example, Security Assistance, Overseas Humanitarian Disaster and Civic Aid, and foreign economic assistance are State Department–led missions. Yet the defense budget has resources for each of these missions—and not just a few million dollars to support the defense contribution to these activities but billions of dollars. This requires manpower to manage and pulls resources from the Pentagon, which maintains ultimate responsibility for their coordination and execution.

A GAO report, *Humanitarian and Development Assistance: Project Evaluations and Better Information Sharing Needed to Manage the Military's Efforts*, issued in February 2012, concluded that DOD, the State Department, and the United States Agency for International Development (USAID) were conducting similar humanitarian assistance efforts. Department of State and USAID officials, who are responsible for humanitarian assistance for the federal government, noted potential negative consequences resulting from the Pentagon performing these missions. They pointed out that defense personnel may lack expertise and education on this type of work and that the "political or social implications of performing humanitarian assistance projects in a country . . . could lead to unintended consequences or misused resources"[34] or even distrust among communities receiving assistance.

To produce the best results for the taxpayer, funding should be aligned to support each agency in doing things in its own domain and area of expertise. For example, the federal government has an agency—the Environmental Protection Agency (EPA)—assigned with "protect[ing] human health and the environment."[35] With its specific mission, designated expertise, and accountability for performance in that area, EPA should receive the funding it needs, which is now included in the defense budget, for environmental cleanup and restoration, climate change, and related research.

The National Institutes of Health, under the Department of Health and Human Services, has the mission to "seek fundamental knowledge about the nature and behavior of living systems and the application of that knowledge to enhance health, lengthen life, and reduce illness and disability."[36] As such, it is conducting basic and applied medical research on cancer and autism, among other things. DOD should not be duplicating this important work.

The Department of Education exists "to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access."[37] DOD runs good schools and should continue to make sure the children of its service members receive a quality education. But it should not be building, managing, and running a school system separate from the federal department charged with doing so.

The same rationale applies to housing and grocery stores. DOD has privatized housing, but it does not take a lot of research to discover there is room for improvement, as numerous problems have resulted in the need for a tenant bill of rights.[38] Loading the defense budget with resources for these activities that the federal government is just not that good at managing does not best serve our uniformed personnel—or the taxpayer.

In many of these cases, the discussion is not about whether the programs should exist, though that should happen, too, but about where they should be most effectively and appropriately managed and resourced.

Dangers of Comparing Defense Budgets Among Different Countries

The complications of comparing defense spending among nations make the use of such comparisons misleading and counterproductive.

Countries choose to include and exclude various parts of what the US considers defense spending in their reported budgets, obscuring the comparison picture.

For instance, the already unreliable numbers published by the People's Republic of China are made further irrelevant by omitting vital defense spending categories, including its space program, research and development costs, foreign weapons procurement, defense mobilization funds, recruitment bonuses for college students, and provincial military-base operating costs.[40] All of these categories of costs are included in the US defense budget.

Turning to the Russian defense budget, entire forces that augment the military are funded outside the government budget, such as the Wagner Group, a mercenary organization that works with the Russian armed forces.[41] The United States does not use similar forces and, therefore, employs all its defense personnel within the government's defense budget.

Iran uses a similar approach to Russia's. For example, Iran reports spending on its conventional military and the Islamic Revolutionary Guards Corps separately, making any real comparison with US defense spending difficult.[42]

These different definitions of defense spending, combined with vast disparities in cultural approaches toward transparency, make comparison across nations misleading. These hurdles are overlaid with the ever-expanding compensation and expenses that do not directly contribute to military capability in the US defense budget. This makes any attempt at credible comparisons unreliable and, depending on how they are used, dangerous.

Budget transparency is also important when attempting to compare US defense spending to that of allies, partners, and adversaries. For example, the US defense budget cannot be compared to that of China, or any other adversary, for numerous reasons, but partly because the US and other free democratic countries tend to overestimate when reporting what they are spending on their security.[39] In contrast, countries such as China, Iran, North Korea, and Russia purposely underreport and disguise what they are spending on security.

Finally, though mandates for parity between defense and nondefense discretionary spending should be abandoned for constitutional reasons related to the primary function of the federal government, if budget agreements must continue to reflect such parity, it is necessary to really understand what department and agency budgets are supporting.

Concluding Comments

This report (1) provides background on how nondefense spending first crept into the defense budget and what analysis has previously been done on the subject; (2) defines defense spending and describes the types of activities funded by and through defense, along with the methodology for categorizing those activities; (3) explains the results of the analysis; (4) describes how spending on military capability is masked and the implications of that lack of transparency; and (5) provides concluding insights.

This report is designed to shed light on the largest discretionary agency budget and inform important discussions about the definitions of national security and defense, the implications of decisions regarding what the DOD is asked to do and manage, and the potential ramifications of blurring domestic and defense roles and missions. There is no doubt such light will also bring differing views and interpretations about how spending is categorized and portrayed. This is good.

Numerous questions are raised by this analysis, and work remains to address its inherent inadequacies. For example:

- What additional research would be useful to refine the three report budget categories for further transparency?

- Should the Pentagon continue to take on new and expanded missions on behalf of the nation? What are the implications of doing so?

- Should the federal national security effort be collapsed under one department? What would be included in addition to defense? The Department of Energy National Nuclear Security Administration programs? The national intelligence community? The Department of State? The Department of Homeland Security? The Federal Emergency Management Agency? Others?

- Is the current military compensation model working for today's service members and their families, and for the nation, in recruiting the required skills and talent?

As the defense budget creeps toward $1 trillion over the coming years, it is wise to understand what real military capability costs, along with where current strategic and resourcing mismatches exist and what options should be considered to improve transparency, productivity, outcomes, and above all, security.

About the Author

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Appendix A

Table A1. Master Table of Budget Transparency

Category	Appropriation Title	Service or Program	Budget Transparency (Millions of Dollars)
2	Operation and Maintenance	Army	$4,076
2	Operation and Maintenance	Navy	$3,811
2	Operation and Maintenance	Air Force	$1,019
2	Operation and Maintenance	Defense Health Program	$33,203
2	Operation and Maintenance	Other Defense Agencies	$928
3	Operation and Maintenance	Army	$196
3	Operation and Maintenance	Navy	$644
3	Operation and Maintenance	Air Force	$447
3	Operation and Maintenance	Defense Health Program	$2,112
3	Operation and Maintenance	Derpatment of Defense Education Activity	$3,276
3	Operation and Maintenance	Defense Security Cooperation Agency	$1,053
3	Operation and Maintenance	Other Defense Agencies	$2,101
Operation and Maintenance Total			**$52,867**
2	Military Personnel	Basic Allowance for Housing	$23,740
2	Military Personnel	Medicare Eligible Retiree Health Fund Contribution	$9,743
2	Military Personnel	Thrift Savings Plan Matching	$958
2	Military Personnel	Other	$4,208
Military Personnel Total			**$38,649**
2	Military Construction	Army	$267
2	Military Construction	Navy	$762
2	Military Construction	Air Force	$588
2	Military Construction	Department of Defense Education Activity	$151
2	Military Construction	Other Defense Agencies	$57
3	Military Construction	Army	$95
3	Military Construction	Defense Health Program	$434
3	Military Construction	Other Defense Agencies	$329
Military Construction Total			**$2,683**
2	Research, Development, Test, and Evaluation	Army	$1
2	Research, Development, Test, and Evaluation	Air Force	$9
3	Research, Development, Test, and Evaluation	Defense Health Program	$910
3	Research, Development, Test, and Evaluation	Other Defense Agencies	$136
Research, Develop, Test, and Evaluation Total			**$1,057**
3	Procurement	Defense Health Program	$570
3	Procurement	Derpartment of Defense Education Activity	$2
Procurement Total			**$572**
2	Revolving and Management Funds	Defense Commissary Agency	$1,211
	Full-Time Equivalents		$11,522
Other Total			**$12,733**
Total			**$108,561**

Source: Author's analysis of FY2023 President's Budget materials.

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