
**POSTSCRIPT: FROM DEFICIT POLITICS TO THE
POLITICS OF SURPLUS**

As this report describes, the choices available to policymakers since 1989 have been both shaped and constrained by the priority accorded to deficit reduction, which effectively placed discretionary defense spending within agreed-upon caps. This appendix provides some final thoughts on the potential the current environment of budgetary surplus may afford.

FROM DEFICIT TO SURPLUS, FY 1981–1998

As Table A.1 shows, each of the fiscal years 1981–1997 saw a federal budget deficit, although the annual deficit declined steadily from its peak in FY 1992. The principal efforts to reduce the deficit by controlling discretionary spending—comprising roughly one-third of total federal spending—found expression in a number of public laws and bills over the last decade (see Table A.2). As shown in Table A.3, most of the “balancing” of the budget was accomplished through reductions to the defense budget; the share of total discretionary spending accounted for by defense discretionary spending fell from 60 percent in FY 1990 to 47 percent in FY 2001.

Nevertheless, although there was general agreement as early as the beginning of 1996 that the defense budget would have to rise, it was not until the fall of 1998—when budget surpluses were first projected and the service chiefs voiced their concerns about readiness problems—that real increases in defense resources were proposed and

Table A.1
Annual Deficit or Surplus, FY 1981–2000 (in billions of dollars)

Fiscal Year	Standardized Budget	
	Deficit/Surplus (\$B)	As Percentage of GDP
1981	-79	-2.6
1982	-128	-4.0
1983	-208	-6.0
1984	-185	-4.8
1985	-212	-5.1
1986	-221	-5.0
1987	-150	-3.2
1988	-155	-3.1
1989	-152	-2.8
1990	-221	-3.9
1991	-269	-4.5
1992	-290	-4.7
1993	-255	-3.9
1994	-203	-2.9
1995	-164	-2.2
1996	-108	-1.4
1997	-22	-0.3
1998	69	0.8
1999	124	1.4
2000	236	2.4

SOURCE: Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2002–2011*, Washington, D.C., January 2001, p. 139.

realized through the FY 2000 and 2001 President's Budgets.¹ Discretionary spending caps were also relaxed;² in its FY 2002 budget proposal, the Bush administration has proposed a further relaxation of discretionary spending caps. The political economy had changed, and the nation had entered the politics of surplus.

¹It is worth noting that since 1998, the growth of total discretionary spending has outpaced that of inflation. See Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2002–2011*, Washington, D.C., January 2001, p. 6.

²For example, to accommodate additional discretionary spending in 2001, Congress and the president increased the caps on budget authority and outlays by \$99 billion and \$59 billion, respectively. *Op. cit.*, p. 75.

Table A.2
Caps on BA and Outlays, FY 1991–2002 (in billions of dollars)

Fiscal Year	Defense Discretionary		Total Discretionary	
	BA	Outlays	BA	Outlays
Budget Enforcement Act of 1990 (P.L. 101-508)				
1991	288.9	297.7		
1992	291.6	295.7		
1993	291.8	292.7		
1994			510.8	534.8
1995			517.7	540.8
Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66)				
1994			509.9	537.3
1995			517.4	538.95
1996			519.1	547.3
1997			528.1	547.3
1998			530.6	547.9
FY 1995 Budget Resolution (H. Con. Res. 218)				
1996			-4.0	-5.4
1997			-10.7	-2.4
1998			-4.1	-0.5
FY 1996 Budget Resolution (H. Con. Res. 67-H Rept 104-159)				
1996	265.4	264.0	465.1	531.8
1997	268.0	265.7	482.4	520.3
1998	269.7	264.5	490.7	512.6
1999			482.2	510.5
2000			489.4	514.2
2001			496.6	516.4
2002			498.8	515.1
Balanced Budget Act of 1997 (P.L. 105-33)				
1998	269.0	266.8		(538.8)
1999	271.5	266.5		(538.0)
2000			532.7	558.7
2001			542.0	564.4
2002			551.1	560.8

NOTE: Numbers in parentheses = total of defense and nondefense discretionary spending; does not include violent crime reduction.

SOURCES: "Budget Reconciliation Act Provisions," *1990 CQ Almanac*, Washington, D.C.: Congressional Quarterly Press, 1991, p. 161; "1993 Budget Reconciliation Act," *1993 CQ Almanac*, Washington, D.C.: Congressional Quarterly Press, 1994, p. 139; H. Con. Res. 218; and "GOP Throws Down Budget Gauntlet," *1995 CQ Almanac*, Washington, D.C.: Congressional Quarterly Press, 1996, pp. 2–22.

Table A.3
Defense and Nondefense Discretionary Outlays, FY 1991–2001
(in billions of dollars)

Fiscal Year	Defense Outlays (\$B)	Percentage of Total	Nondefense Outlays (\$B)	Percentage of Total	Total Outlays (\$B)
1991	320	60	214	40	533
1992	303	57	232	43	535
1993	292	54	249	46	541
1994	282	52	262	48	544
1995	274	50	272	50	546
1996	266	50	269	50	534
1997	272	49	277	51	549
1998	270	49	284	51	555
1999	275	48	300	52	575
2000	295	48	322	52	617
2001	301	47	345	53	646

SOURCE: Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2002–2011*, Washington, D.C., January 2001, Table 4.3, p. 75.

THE “FOUR PERCENT SOLUTION”

By 2000–2001, the growing surplus had so fundamentally altered the politics of the fiscal environment that calls were growing for a “four percent solution”—i.e., to raise defense spending to 4 percent (or more) of gross domestic product.³ From a historical perspective, this would on first inspection appear to be a relatively modest increase (see Figure A.1). However, given the dramatic growth of the U.S. economy over the last decade together with projections of continued growth, the likely result of spending 4 percent of gross domestic product on defense would be a substantial—and even unprecedented—level of real defense spending in peacetime (see Figure A.2), eclipsing even that of 1945, the last year of the Second World War.

³See, for example, Daniel Gouré and Jeffrey Ranney, *Averting the Defense Train Wreck in the New Millennium*, Washington, D.C.: Center for Strategic and International Studies, 1999; Center for Security Policy, “The ‘Four Percent Solution,’” Washington, D.C., CSP Publication No. 00-D72, August 7, 2000; and Hunter Keeter, “Marine Commandant Calls for Defense Spending Increase,” *Defense Daily*, August 16, 2000. For a critique, see Franklin C. Spinney, “Madness of Versailles: The 4% Solution,” August 20, 2000, http://www.d-n-i.net/FCS_Folder/comments/c381.htm.

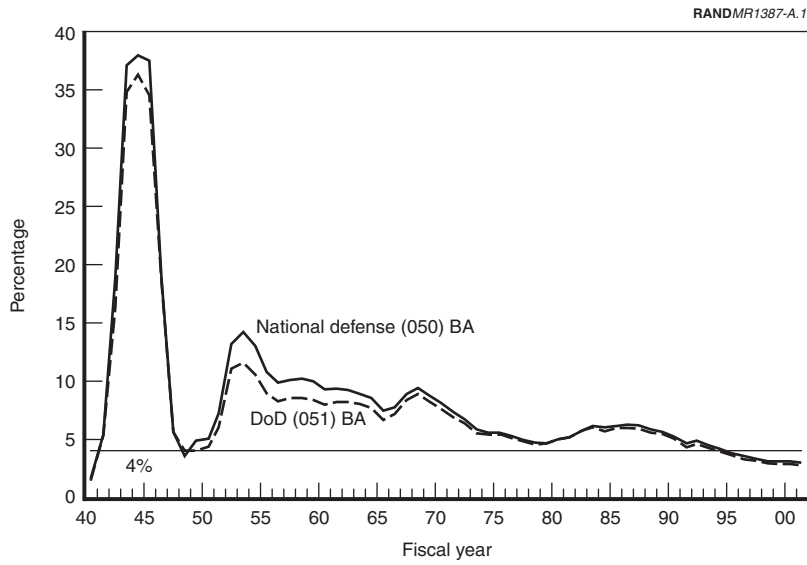


Figure A.1—Defense Aggregates as a Percentage of GDP, 1940–2001

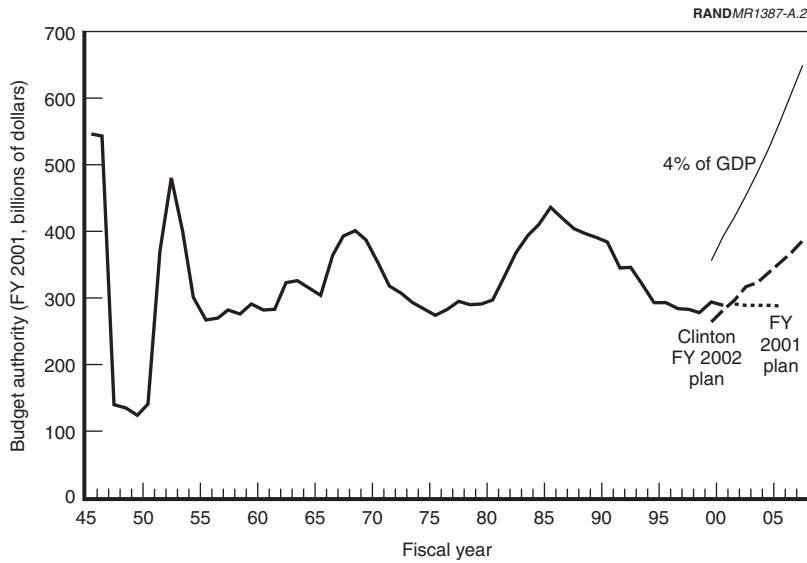


Figure A.2—Notional Budget Consequences of a “Four Percent Solution”

A “four percent solution” could in fact result in an increase of more than \$1 trillion in constant FY 2001 dollars over the six years of the outgoing Clinton administration’s FY 2002–2007 FYDP, or more than \$150 billion a year (see Table A.4). This increase, if continued for another four years, would begin to approximate the ten-year plan for \$1.35 trillion in tax cuts that was passed by Congress. Indeed, 4 percent of GDP would consume more than the projected on-budget surplus and most of the total (on- and off-budget) projected budget surplus.⁴

Table A.4
FY 2002 President’s Budget Request and “Four Percent Solution”
(discretionary budget authority in billions of dollars)

	Estimated 2001	Projected						2002–2007 Total
		2002	2003	2004	2005	2006	2007	
Projected GDP (\$T)	10.5	11.1	11.7	12.3	13.0	13.7	14.4	
FY 2002 President’s Budget Request	296	310	310	317	324	333	342	1936
“Four percent solution”	421	444	468	493	519	547	576	3047
Difference ^a	+125	+134	+158	+176	+195	+214	+234	+1111
In FY 2001 \$B ^b								
FY 2002 President’s Budget	296	304	297	298	298	300	302	1799
“Four percent solution”	421	435	449	463	478	493	508	2826
Difference ^a	+125	+131	+151	+165	+180	+193	+206	+1027

SOURCES: Department of Defense, Annual Report to the President and Congress, Washington, D.C., January 2001, p. 244, and Office of Management and Budget, FY 2002 Economic Outlook, Highlights from FY 1994 to FY 2001, FY 2002 Baseline Projections, Washington, D.C., January 2001, Table II-1, “Economic Assumptions,” p. 24.

^aDifference between the FY 2002 President’s Budget request and the “four percent solution.”

^bConstant FY 2001 billions of dollars, computed by using updated GDP deflators in Office of Management and Budget, FY 2002 Economic Outlook, Highlights from FY 1994 to FY 2001, FY 2002 Baseline Projections, Washington, D.C., January 2001, Table II-1, “Economic Assumptions,” p. 24.

⁴The Congressional Budget Office projects that in the absence of new legislation, total budget surpluses will grow from some 3 percent to more than 5 percent of GDP from 2002 through 2011. Of this, on-budget surpluses would range from 1 to 3 percent over the 2002–2011 period. See Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2002–2011*, p. xiv.

The initial budget for FY 2002 released by the Bush administration in late February 2001 is something of a placeholder, and the top line for DoD does not differ significantly from the outgoing budget plan of its predecessor for FY 2002 (see Table A.5).⁵ Nevertheless, the proposed FY 2002 budget is subject to further revision as the results of the administration’s “top-to-bottom” review of the nation’s defense needs and QDR 2001 become known—although the full impact of the reviews is unlikely to be felt until the FY 2003 output is submitted in early 2002.

As of late March 2001, little more was known about the details of the defense budget beyond the following: The budget adds \$1.4 billion for a military pay raise and allowances, increases by \$400 million funding to improve the quality of housing or reduce out-of-pocket housing expenses, and funds new and expanded health benefits for military retirees. It has also been announced that the administration will propose a \$2.6 billion research and development initiative for

Table A.5
Comparison of Bush and Clinton FY 2002 Defense Budgets
(discretionary budget authority in billions of dollars)

	2000	2001	2002
National Defense Function			
Discretionary budget authority			
Clinton (Baseline Discretionary BA)	301	311	321
Bush	301	311	325
Department of Defense			
Discretionary budget authority			
Clinton	287	296	310
Bush	287	296	311

SOURCES: Office of Management and Budget, *FY 2002 Economic Outlook, Highlights from FY 1994 to FY 2001, FY 2002 Baseline Projections*, Washington, D.C., January 2001, p. 228; Department of Defense, *Annual Report to the President and Congress*, Washington, D.C., January 2001, p. 244; and Office of Management and Budget, *A Blueprint for New Beginnings: A Responsible Budget for America's Priorities*, Washington, D.C., February 28, 2001, p. 197.

⁵Estimates for the out years of FY 2003–2006 simply keep up with inflation.

missile defense alternatives and new technologies to support the transformation of U.S. military capabilities.⁶

Although it is too early to determine whether and how much the new administration will further increase defense budgets in the FY 2002 and FY 2003 defense programs, it seems clear that even in a time of seeming plenitude, the tax cuts will only heighten the competition between defense and other claimants for federal resources.

⁶See Office of Management and Budget, *A Blueprint for New Beginnings: A Responsible Budget for America's Priorities*, Washington, D.C., February 28, 2001.