

And Higgs doesn't include much of NASA, approximately \$25B in "black budget", or CIA/NSA.

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Billions more for defense -- and we may not even know it

Good guess: Double the Pentagon budget

by Robert Higgs

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When President Bush signed the defense authorization bill for fiscal year 2004 on Nov. 24, the event received considerable attention in the news media. At \$401.3 billion, the public's visible cost of funding the nation's defense seemed to be reaching astronomical heights, and the president took pains to justify that enormous cost by linking it to the horrors of 9/11 and to the "war on terror." He pledged that "we will do whatever it takes to keep our nation strong, to keep the peace, and to keep the American people secure," clearly implying that such payoffs would accrue from the expenditures and other measures that the act authorizes.

Although the public may appreciate that \$401.3 billion is a great deal of money, few citizens realize that it is only part of the total bill for defense.

Lodged elsewhere in the budget, other lines identify funding that serves defense purposes just as surely as -- sometimes even more surely than -- the money allocated to the Department of Defense. On occasion, commentators take note of some of these additional defense-related budget items, such as the nuclear-weapons activities of the Department of Energy, but many such items, including some extremely large ones, remain generally unrecognized.

Since the creation of the Department of Homeland Security, many observers probably would agree that its budget ought to be included in any complete accounting of defense costs. After all, the homeland is what most of us want the government to defend in the first place.

Many other agencies, such as the Department of Justice and the Department of Transportation, also spend money in pursuit of homeland security.

According to the government's budget documents (Budget of the United States Government, Fiscal Year 2004, Table S-5), in fiscal year 2002, all these other agencies together added approximately 50 percent to the amount spent on homeland security by the agencies later incorporated into the Department of Homeland Security.

Much of the budget for the Department of State and for international assistance programs ought to be classified as defense-related, too. In this case, the money serves to buy off potential enemies and to reward friendly governments who assist U.S. efforts to abate perceived threats.

A great deal of U.S. foreign aid, currently more than \$4 billion annually, takes the form of "foreign military financing," and even funds placed under the rubric of economic development may serve defense-related purposes indirectly. Money is fungible, and the receipt of foreign assistance for economic-development projects allows allied governments to divert other funds to police, intelligence, and military purposes.

Two big budget items represent the current cost of defense goods and services obtained in the past. The Department of Veterans Affairs, which is authorized to spend more than \$62 billion in the current fiscal year, falls into this category.

Likewise, much of the government's interest expense represents the current cost of defense outlays financed in the past by borrowing.

To estimate the size of the entire de facto defense budget, I have gathered data for fiscal year 2002, the most recent fiscal year for which data on actual outlays were available at the time of this writing. In that fiscal year, the Defense Department itself spent \$344.4 billion. Defense-related parts of the Energy Department budget added \$18.5 billion. Agencies later to be incorporated into the Homeland Security Department spent \$17.5 billion, and other agencies (not including the Defense Department) added \$8.5 billion for homeland security. The Department of State and international assistance programs spent \$17.6 billion for activities arguably related to defense purposes either directly or indirectly. The Veterans Affairs Department had outlays of \$50.9 billion. When all these other parts of the budget are added to the budget for the Defense Department itself, they increase the total by nearly a third, to \$457.4 billion.

To find out how much of the government's net interest payments on the national debt ought to be attributed to past debt-funded defense spending requires a considerable amount of calculation. I have added up all past deficits (minus surpluses) since 1916 (when the debt was nearly zero), prorated according to each year's ratio of national security spending -- military, veterans, and international affairs -- to total federal spending, expressing everything in dollars of constant purchasing power. This sum is equal to 81.1 percent of the value of the national debt held by the public in 2002. Therefore, I attribute that same percentage of the government's net interest outlays in that year to past debt-financed defense spending. The total amount comes to \$138.7 billion.

Adding this interest component to the previous all-agency total, the grand total comes to \$596.1 billion, which is more than 73 percent greater than Defense Department outlays alone.

If the additional elements of defense spending continue to maintain approximately the same ratio to the Defense Department amount -- and we have every reason to suppose that they will -- then in fiscal year 2004, through which we are passing currently, the grand total spent for defense will be approximately \$695 billion. To this amount will have to be added the

\$58.8 billion allocated to fiscal year 2004 from the \$87.5 billion supplemental spending authorized on Nov. 6, for support of U.S. military actions in Afghanistan and Iraq and for so-called reconstruction of those despoiled and occupied countries.

Thus, the super-grand total in fiscal year 2004 will reach the astonishing amount of nearly \$754 billion -- or 88 percent more than the much-publicized \$401.3 billion -- plus, of course, any additional supplemental spending that may be approved before the end of the fiscal year.

Although I have arrived at my conclusions honestly and carefully, I may have left out items that should have been included -- the federal budget is a gargantuan, complex and confusing document. If I have done so, however, the left-out items are not likely to be relatively large ones.

Therefore, I propose that in considering future defense budgetary costs, a well-founded rule of thumb is to take the Pentagon's (always well- publicized) basic budget total and double it. You may overstate the truth, but if so, you'll not do so by much.

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Defense Outlays in Fiscal Year 2002

(in billions of dollars)

Department of Defense	\$344.4
Department of Energy	18.5
Department of State	17.6
Department of Veterans Affairs	50.9
Agencies incorporated into Department of Homeland Security	17.5
Department of Justice (homeland security)	2.1
Department of Transportation (homeland security)	1.4
Department of the Treasury (homeland security)	0.1
National Aeronautics & Space Administration (homeland security)	0.2
Other agencies (homeland security)	4.7
Interest attributable to past debt-financed defense outlays	138.7
Total	596.1

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