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GUNS VS. BUTTER IN THE 1980s

by Allen Cheadle

The debate over the composition of the federal budget has been a central feature of the Reagan era. The Reagan Administration is fighting to convince the public and Congress to reject the growth in social welfare spending of the last two decades in favor of a rapid military buildup. The 1984 budget debate represents a key battle in that struggle. This article will briefly review the recent budget history and discuss the various proposals for fiscal year 1984.

Recent History -- In 1960, one-half of the budget was devoted to National Defense. By 1981, one-quarter was for defense. The difference represents rapid growth in domestic spending, particularly Social Security and other income maintenance programs, that made up 35% of the budget in 1981, up from 20% in 1960. These programs have done much to alleviate poverty, but they are blamed by the Administration for undermining work incentives and slowing productivity growth.

To reverse these trends in spending, the Administration proposed a freeze on the "social contract" (i.e., income maintenance) portion of the budget as a percent of GNP, accompanied by rapid rearmament --\$1.6 trillion for defense over the next five years. The Administration was remarkably successful in achieving these aims with the 1982 budget; Congress approved \$27 billion of the \$31 billion in cuts proposed in domestic spending, and adopted most of the defense proposals. Opposition stiffened over the 1983 budget and compromises were forced on both the growth of the defense budget and the extent of domestic cuts.

Proposals for 1984 -- The 1984 budget submitted to Congress in January represents an attempt by the Administration to retake the initiative in the budget process. Non-defense programs are to be cut \$23.4 billion from the 1983 "current services" level (the amount required to fully fund programs operating in 1983), of which \$7.3 billion will come out of income security programs. Defense spending is to rise 10% in real terms; the tax cuts and tax bracket indexing passed in 1981 are to remain in place; and the projected deficit is \$188 billion.

The House Democrats, displaying an unusual degree of party unity, sharply criticized the Administration budget and passed an alternative proposal in early April. The Democratic version restores \$29 billion in domestic spending and limits the annual real growth of the defense budget to 4%. The net effect is an increase in proposed outlays to \$864 billion (vs. \$848 billion for the Administration). To avoid widening the deficit the Democrats propose raising additional revenues of \$30 billion by foregoing the third year of the Reagan tax cuts.

In addition, a third proposal has emerged that incorporates features of both Administration and Democratic budgets. Senate Republicans on the Budget Committee, angered by the Administration's unwillingness to compromise, passed resolutions limiting the growth of real defense spending to 5% and adding small amounts to various domestic programs, including \$5.3 billion for the education and re-training of jobless workers.

Defense--How Much is Enough? -- A thorough understanding of the defense budget is critical for any group interested in achieving a different set of budget priorities. Given the current size of the defense budget and the magnitude of its proposed buildup, relatively small changes in its annual growth rate can result in large absolute savings. If, for example, real growth is limited to 4% (the Democratic proposal) savings of \$77.7 billion will be realized over the 1984-86 period, including \$38.8 billion in 1986 alone. Several points are important in evaluating the alternatives.

First, the Administration buildup has been designed to reach a specific strategic capability by the 1990s. The nuclear triad (land, sea and air) is to be maintained and rendered "invulnerable" with the addition of the MX missile and B-1 bomber. Conventional forces are to be strengthened to the extent that conventional wars can be fought simultaneously in several parts of the world. Second, the steps

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necessary to reach this capability are not spelled out explicitly in the budget. The yearly real increases, whether 4% or 10%, will be divided between expanding conventional forces and acquiring new weapons systems according to Pentagon assessments of strategic needs. Third, decisions made to acquire new weapons systems are difficult to reverse when future needs change. If, for example, the B-1 bomber is approved only to be rendered obsolete by future advances in technology, Congress will find it difficult to discontinue production.

An alternative defense budget should be based on a specific set of strategic goals. Responsible experts in and out of the military, have questioned both the necessity of maintaining the third (land-based) leg of the nuclear triad, and the need for a globally encompassing conventional capability. A program embodying specific goals would enable Congress to reject the large new weapons systems that involve expensive long-term commitments without appearing soft on defense. Such a program would probably limit the real growth of the defense budget to 3-4% per year. The savings resulting from freezing the real level of military spending altogether are obviously much greater--\$150 billion over the next three years, nearly \$80 billion in 1986 alone.

Social Spending--How Can Our Needs Be Met? -- The United States is faced with several critical domestic problems that cannot be solved without the intervention of the federal government. There is a broad consensus that the educational system is not providing the skills that will enable people to work in a more technologically advanced society. Costly investments must be made in the infrastructure (e.g., roads and water systems) that city and regional governments cannot be expected to finance alone. Jobs must be created to reduce the unemployment rate from its current disastrous level and retraining and other forms of aid must be provided to unemployed workers in declining industries.

Yet precisely at a time when these social needs are greatest, the Administration's commitment to a rapid military buildup with no new tax increases forces them to make sharp cuts in domestic spending or face rising deficits. The ability of Democrats to resist these cuts and introduce positive legislation is closely related to their ability to find new sources of revenue. The defense budget has been mentioned here as one source. Canceling the MX and B-1 bomber alone would result in \$56.8 billion in savings by 1987.

Conclusion -- As this article goes to print, an uneasy compromise is being hammered out between Administration, House and Senate positions that will leave no one satisfied. The introduction of a more humane set of budget priorities will require a more complete understanding of all areas of the budget coupled with realistic assessments of our society's needs.

- Allen Cheadle

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