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QI Panel:

The True Cost of a \$1.5 Trillion Pentagon Budget

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Ben Freeman

Hey, good afternoon, and welcome to the Quincy Institute's webinar entitled *The True Cost of a \$1.5 Trillion Pentagon Budget*. I'm Ben Freeman, the director of the Quincy Institute's democratizing Foreign Policy Program, and the co author with William Hartung of the recently released book *The Trillion Dollar War Machine*. Which brings us to the topic of today's discussion, the \$1.5 trillion War Machine. That's the amount of military spending President Trump is soon expected to request from Congress to put that in perspective, Trump is asking for a nearly \$500 billion increase in pentagon spending, which would be the highest level of US military spending since World War Two, more than we spent at the height of the Korean War, the Vietnam War, and even more than when we had 100,000 boots on the ground in Afghanistan and Iraq. No Trump administration official has offered a compelling justification for this unprecedented increase in military spending. Trump's own budget officials allegedly can't even figure out how to spend such an extraordinary sum. The president's own budget chief has warned that it would further exacerbate the US is already surging national debt.

All of this raises myriad questions, which is why I'm thrilled to be joined today by three of the most brilliant minds in defense and foreign policy analysis. Justin Logan is director of defense and foreign policy studies at the Cato Institute. Heidi Peltier is Senior Research Associate in International Public Affairs at Brown University, and a long time contributor to its cost Award project. Last, but certainly not least, Steve Kowziak, he's a Quincy Institute non resident fellow with a long career of budget analysis at OMB CSBA CNAs and elsewhere. The remainder of this webinar will proceed first with opening remarks from each of our distinguished panelists. I'll then open the Q and A with questions from the panel, and then we're going to turn to audience questions. So please, if you're joining us via zoom, feel free to begin adding your questions to the Q and A, and we'll strive to answer as many questions as possible in the hour that we have all of that big preamble said, I'm very pleased to introduce our first panelist, Justin Logan, Justin, thanks so much for joining us. The floor is yours.

Justin Logan 3:13

Thanks very much. Ben. Thanks to you and to Quincy for hosting this event. It is timely in the extreme, so I think it's quaint, actually, to start with my tasking was to sort of situate this in the context of us strategy. And the way that I used to think about the relationship between us strategy and the US defense budget was, you know, to argue that we should come up with a strategy in the world, right? What are the threats to the United States? What are the proper

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ways to counter those threats, and then we should affix onto that strategy a budget, right? We should, we should say, this is what we aim to achieve in the world, and this is what it will cost to achieve it. And I think as I've gotten a little older and more cynical, I've come to think that that's a weird, kind of kooky, Egghead way to think about how defense politics actually works. And I'll be very interested to hear Heidi and Steven's remarks about fiscal constraints, because I think if the causal arrow sort of goes in the opposite direction, right, budgetary constraints are more likely to influence strategy than strategic shifts are to influence the budget.

And I think, in the hue and cry over the past few months about the National Security Strategy and national defense strategy and the events of this past week, it's quite easy to see that changing strategy with these sort of thought out documents isn't actually how American foreign policy works. So to start, I'm not even going to talk about a trillion and a half a year. I'm going to start by talking about a trillion a trillion a year. And I think if you include, as everyone knows, the nuclear weapons portion of the Department of Energy budget, Veterans Affairs, it's probably more like one, two, or maybe even more than that. But we're spending this huge amount of money, and as we've just discovered in the last hours and day, really the minute the balloon. Goes up anywhere we discover we're broke. We have no money. We're going to need a supplemental budget to pay for these wars. So a trillion bucks a year, or 1.2 trillion a year isn't enough, which is suggestive of what I'm going to argue later, which is that we have a strategy problem, not a budget problem, but there is this growing sense that the United States is insolvent, to use Walter lippmann's phrase, right?

There's a question of the alignment of our aims in the world and the resources dedicated to pursue those aims. And it used to be restrainers and realists who used to say, we're overstretched and we can't afford to do all these things. And I wrote a piece 15 years ago, saying, No, the problem is that we can afford it, right? And that's why we're going to continue doing it. But in the intervening years, I think the picture has darkened considerably, and that is to say that we're going, if we're going to face a change in strategy, it's going to come from these fiscal constraints. And increasingly, you're hearing defense and strategy hawks like the national defense strategy review commission say we're under resourced right. Our resources in the world aren't commensurate with our goals in the world, and they had this sort of heroic footnote in their report where it says, To be sure, the debt and deficits are a real problem, and therefore these increases in defense spending, which by my count are three or \$400 billion per year are going to have to be funded by budget cuts and tax increases, to which I would say you probably want to show your work on that argument, because it's quite difficult to see both political parties in the United States now agree that pensions, health care and interest on The debt, the top three items in federal spending are largely off the table in terms of reforms. And guess what? The fourth item is the military budget. So I think that we're going to back into this rather than going into it with our eyes wide open.

And just as a CODA, to mount up on one trusty hobby horse here and ride for a little bit, you'll hear defense hawks talk about United States defense spending being being at all time historic post war lows. What they're doing is they're using the share of GDP dedicated to defense. There's a fundamental problem with this, which is that getting wealthier doesn't make us less

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safe. If you're juxtaposing military expenditures against economic production, the problem is the denominator. And in fact, the better denominator to use is the share of world military spending. If we have to use these sorts of metrics to judge about what the United States needs to do in the world. And if you do that, you discover that the United States itself comprises about 40% of world military spending. And if you combine the United States with its treaty allies, we comprise about two thirds of world military spending. So if that's not enough, I'd submit that we had a strategy problem, not a budget problem, and with that, I'll leave it there.

Ben Freeman 7:50

Thank you so much, Justin, I feel like I got several bumper stickers just from your brief remarks there. So we'll definitely circle back. Then. Next up, I'm very pleased to introduce Heidi Peltier, Heidi, thank you so much for joining us. The floor is yours.

Heidi Peltier 8:06

Thanks very much, Ben. And I'll pick up exactly where Justin left off. And you know, start with the context of where the US is in terms of how much we spend on our defense budget in a global context, so we spend as much as the next nine countries combined. We spend three times as much as China, six times as much as Russia. When you look at the federal budget in the US, DOD spending makes up 14% roughly of the entire just discretionary spending, it's about half, and now we're talking about adding 50% to the defense budget. So of course, all of those figures go up significantly if we're talking about bringing the trillion dollar budget up to a trillion and a half. And so what I want to do is just kind of lay out the series of trade offs that are entailed in defense spending and any kind of increase in defense spending. So we can look at current trade offs, we can look at future trade offs.

And I'll just touch on future trade offs, because Steve will talk more about that. So current trade offs, you know, if we're looking at an increase in defense spending and the goal is to prevent an increase in the deficit or to prevent any increase in debt, then the the two options are either to raise revenue or to decrease non defense spending. So an increase in defense spending could be matched with an increase in taxes, or what we've done historically, selling war bonds, which we no longer do, or what Trump is proposing an increase in tariffs, which is awesome. Relatively the same as raising taxes is essentially a consumption tax, largely regressive, and so you can raise revenues to offset the increase in defense spending. And that trade off is that consumers or businesses that are that are being hit with these taxes no longer have that money in their pockets or money in their accounts to spend money on what they would have been spending money on food or shelter or investments in their businesses or health care or so on.

On the other hand, you could not raise revenues, which is, over the last 25 years, the US government has not raised revenues in order to increase defense spending. So you could look at keeping the budget even not increasing deficits, not increasing debt, and decreasing non defense spending in order to finance an increase in defense spending, and then you're facing cuts in non defense programs which have other kinds of opportunity costs. So, you know,

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cutting programs in, you know, all kinds of other non discretion, or other kinds of discretionary programs that might be the Forest Service, for example, which just suffered a huge cut, something on the order of 75% of the Forest Service was just cut. And I'm not going to give lots of facts and figures. I just want to give kind of the context of the kind of the big picture of trade offs. And so by not, or rather, by cutting non defense spending, you have different kinds of trade offs you have the opportunity cost of the jobs that would have been created in the other sectors where non defense spending is cut. You have the R and D that would have been pursued in those sectors. You have the productive investments that don't happen in things like roads and bridges that could stimulate economic growth and so on.

And you know, one, one of the other impacts we're currently seeing is the decrease in education R and D and education researchers that are starting to leave us institutions for institutions abroad where they can pursue some of their research. So you know if, if there is a budget constraint, or if there is a goal of increasing defense spending while not increasing the deficit, then the options are either raising revenue or cutting non defense. The other option is to increase the debt, which is what we've done, which then, you know, we face a series of trade offs in the future, but we also face increased interest costs starting now, which not only raises what we are all paying, starting now in interest, but also crowds out what we could be spending rather than what we could be spending on interest, what we could be spending elsewhere. And at this point, I think it's a good time to turn it over to Steve.

Ben Freeman 13:20

Thanks so much, Heidi, some some profound remarks there that I'm definitely coming back to as well. Last, but certainly not least. Steve Kosiak, non resident fellow with us at Q and I and Qi, and one of my favorite minds in the Pentagon budget space, Steve, thanks so much for joining us. The floor is yours. Okay?

Steven Kosiak 13:39

Great. Thanks. And thanks for organizing this as as others have said, it's certainly very, very timely. So at the outset, I should probably start off by by saying, we don't, we don't yet know what this budget increase really means. If this were any other administration or in the past, I would say, well, if they're saying they're going to increase, you know, the defense budget to \$1.5 trillion that's a \$500 billion increase in 2027 and then we presume it will, it will grow after that, right? It'll at least stay flat and grow or grow with inflation, and probably more than that. And that's what I'm assuming when I when I give these remarks. Now it could be something else. It could be that it's a \$500 billion one time plus up. That's in the reconciliation bill, for example, which would be a significantly smaller increase. But again, I'm, I'm I'm judging it the same way I would this kind of proposal that would come out of any other administration. But it is unclear at this point. We'll have to wait until the budget comes out to see exactly what is, what is meant by that. Can I have the first slide?

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All right, so this is a very simple slide. It's just showing what. And I should say the dollars here are in constant dollars, so it gives a sense for what has happened and what is projected to happen under the proposal in real purchasing power, right? So this cancels out the effects of inflation. So it tells what in real, in terms of what the Pentagon, Pentagon combined, has bought, how much it has in terms of budgetary resources. So the squiggly line going up to 2026, is just what's that? What the pattern has been historically, and then obviously going to \$1.5 trillion there, right? And projected ahead for the next 10 years and presumably beyond that, it's, this is just to say it's a really big increase, right? I mean, it's much larger than what we spent historically, much higher, and it's much higher than we're spending today. It's about a 50% increase from what we're spending today, which is about \$980 billion the red line there is the \$794 billion that's if you take out over the last 25 years, if you take out all the money that we've spent on wars, right? So that's what's sometimes called the base budget for defense. So that's been roughly \$800 billion over the last 25 years. So that's probably a better baseline to judge the \$1.5 billion increase to because the \$1.5 billion is no pretense that that covers war costs.

If we happen to get involved in an in a in another war, and you've probably seen reports that we there may be a south there almost certainly will be a supplemental for the ongoing war in in Iran, perhaps as much as \$50 billion that wouldn't be included, presumably in the \$1.5 billion so if you want to do apples to do apples to apples here, you'd really kind of look at the \$800 billion going to 1.5 which is about a 90% increase, right? So it's just a big increase, right? And if you look at the very far end of the column there, in 1985 that was the peak year of the Cold War for spending, and that was a little under \$800 billion so even compared to the peak year the Cold War, it's just it's enormous increase.

So next slide, this is comparing it to to what other countries spend on defense. And this is a pretty generous view of what other countries spend, because it uses a rather than looking at market exchange rates, it looks at ones that incorporate purchasing power parity for both Russia and China, which makes their budgets look relatively higher. But even with that, we are currently spending, you know, close to three times more than China and four times more than than Russia and our allies spend, you know, obviously spend a lot as well. So again, it doesn't seem to have much connection with sort of analytics behind what other countries are spending.

So let's look at the next slide. This is compared to our own defense plans, right? So you know, if this were, if someone were suggesting we go to 1.5 trillion, because that's what we need to actually buy our defense plan, that there might at least be a logic to it, but that's it's completely unrelated to that, right? So even if you look at the the last trump plan, and this was the long term plan of the last trump administration, the last long term defense plan that they had in there in that administration, it was actually roughly what we are spending today, that was going out about 15 years based on CBOs estimates of the plan, right? So, so 1.5 isn't something we need to do. You know, do what we what we need to spend to actually implement the the last trump plan, at least, right? And it's way more than is needed to do a more restrained approach, which Quincy came up with when we did the Active Denial report back in 2022 where we did sort of two options, a high level and a low level, the lower level, which is more restrained, and made assumptions about getting less involved in other parts of the world, like Europe, which seems

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kind of consistent. With the what Trump has said, at least rhetorically, that would actually allow for something like \$135 billion cut from where we are today, not a \$500 billion increase.

So again, it's, it's not related in any way to a plan, right? And that's why this is taking so long to get out, is because there is no plan that justifies this, right? And the, you know, even during the Reagan administration, when we had a major build up, it was a major build up over five years, we didn't shoot up 50% in one year. It's just, it's, it's not, it's not doable, right? I mean, that's why it's taking so long. And if this budget comes out, and it is actually a \$1.5 trillion dollar increase, just in 2027 there's going to be slush funds and stuff like that in it, because no one's going to have an idea how to spend all that money, even even though it's taking longer to put together this budget, they're not going to have a refined plan for how to spend that much money.

So next slide. So getting to what I think Quincy really wanted me to focus on. This is sort of my estimate of what this additional spending on defense is going to do to the debt. And a common way to look at that, the most common way to look at it, is GDP. Is the debt as a share of GDP, basically. So this is saying that currently, the debt is about equivalent to about 100% of our annual GDP, right? And if we were to solve our our long term debt problem, which would mean, as Heidi suggested, raising taxes and or cutting programs, that's sort of the bottom line, and we could, we could maintain the current debt to GDP ratio, right? And that actually isn't that hard to do. I mean, that's an important thing to bear in mind. I mean, if the political will were there, it would require cutting a combination of cutting spending and, you know, programmatic spending and increasing revenue of about, you know, five or six, 7% in both directions, right? So it's, it's actually doable, but we're not on that. We're not on that course. Obviously, the next one up from the bottom there is the pre one big beautiful Bill baseline, which CBO put out, and that was just basically based on current policy, before we had the tax cuts and other changes in the one big beautiful bill, where would we go and we'd get up to about 156% of GDP.

The The next one is incorporating the one big beautiful bill, and that now we're projected to get up according about 175% of GDP by 2056 but that is very optimistic for and CBO would acknowledge it. It's just they have rules for how they do these projections, and they are just assuming that they're not. They're not assuming that everything in the one big, beautiful bill is extended permanently. They're assuming that some of the Temporary Provisions actually expire, which makes it a cheaper bill. And they're also assuming a continuation of all the tariffs that are currently in in place, which the Supreme Court just struck down, two thirds of them, right? So that's very optimistic. If you take out, if you if you assume all the provisions will be extended, and you assume that two thirds of the tariffs will go away, which seems like a reasonable proposition, then the baseline would increase, and this is my estimate, would increase to about 215% of GDP by 2056 if you add on top of that, going up to \$1.5 trillion for defense, that brings it up to about 275% of GDP, which is about 100% greater, 100, you know, 100% 100 percentage points of GDP greater than the current OB, BBA baseline of 175% So in any event, it has a big impact on the on the debt. Will have a big impact on the debt.

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So next, and I think last slide. Oh, well, this Okay, so we can talk more about this in Q and A, but these are just listing some of the main concerns that people have about having such a large debt. One is that it, and Heidi touched on some of these. You know, is this going to slow economic growth because you have federal borrowing crowding up private borrowing, right? Another one is, and I think this, personally is a really significant one, is in economic downturns, when tax revenue really goes down and you really need relief for people, it'll be very hard for the government to get up the political will to actually expend that money or lower those taxes or whatever, to do stimulus and relief, right? And that's a, I think, a huge concern. And then the cost of borrowing will go up. Eventually interest rates will go up. And then there's also the potential of a financial crisis where people, my God, the debt's gotten so big that something goes wrong. People start, you know, not wanting to buy US debt anymore, and it creates a, it really shoots up interest costs, right?

So next slide, and this is just to I think this is a good one for people to look on if anyone has a discussion about debt, is just to get because it's important to understand what's really driving the debt, and it's not growth and spending, really as a share of GDP you see here primary outlet. And that means programmatic outlays, money we spent, not on interest, everything else, defense, Medicare, Medicaid, Social Security, all of those things as a share of GDP. It's been remarkably constant over time. It's averaged about 19% really going back over like the past 50 years, and it's projected over the next 30 years to be between 20 and 21%, so this isn't a big spending problem. I'm not saying that cutting spending shouldn't be part of the solution, but I'm saying that's not really what's driving this, right? What's driving it is that gap, which you see growing over time. You know, the last 50 years, it's been sort of up and down a little bit, but it's projected to indefinitely, kind of grow now, right? That gap between revenue and primary outlays, and what that means is we're spending more and more and more on interest payments, right? And that's the part of the budget that's projected. When you look at these deficit projections, that's the part of the budget that's really growing is interest costs. It's not primary spending, right? It's not programmatic spending.

And so my point being here that I think it's, it's, it's, it's just important not to lose sight of the fact that we actually could solve this, right? You, when you see those big debt things are sometimes, I think, a tendency for people just to go, oh, well, we can't do anything about that anyway. It's just, oh my god, right, and that's not a good that's not, that's not a reasonable or accurate sort of Outlook. I mean, this is solvable and doable, but you have to change policies. So I'll stop there. I'm sure I've gone over my time.

Ben Freeman 26:27

You've gone over your time in the best way. Steve, you know you can't have a proper Pentagon budget talk without a bunch of wonderful charts. So so thank you for that. I want to start the Q and A off here, and also a reminder for those of us joining us on Zoom, please do, please do put your questions into the Q and A and we'll try to get to as many as possible. I'm going to kick it off. You've moderator's prerogative. And I want to go back first to something that you said Justin, and that was, we have a strategy problem, not a budget problem. Open ended question, can

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you, can you elaborate more on that? What? What do you see as the US problem with strategy right now? Are, are we seeing it right now as we turn on the news and watch what's happening with the Iran war?

Justin Logan 27:16

Yes, is the short answer, and the long answer. We don't have nearly enough time to get into but I'll do maybe 30 or 62nd outlook. You know, United States got, got really warmed up ideologically after the Cold War. And even I think sometimes people draw a neat distinction between the Cold War and the end of the Cold War, the Vietnam War looks pretty crazy in retrospect, and looks a lot like some of the craziness that we were up to in the post cold war era, but in the absence of constraints either domestic or international, the United States cooked up some wild and crazy ideas about remaking the world in our image, about going after countries that were undemocratic, about being the preeminent military power in Europe, the Middle East, East East Asia forever.

And I think you know, thinking about what you know, the sort of or opposite numbers would be saying here, they'd be talking about how bad US defense procurement is. It is guilty, but you have to take in mind that your aims in the world are going to be expensive, right? National security is not produced efficiently. It's not a market. It's not this sort of libertarian, utopian free market business, right? It is a sort of planned, lumbering, bureaucratic federal government type program. So if your strategy relies on exquisite efficiency in the production of national security, you're going to run into trouble pretty quick. And you know, that's how you wind up spending a trillion bucks a year and telling yourself you're not safe.

Ben Freeman 28:48

Yeah, spot on. Spot on. Heidi, you also said something that really jumped out to me when you were talking about China. And I believe you said that the US right now is spending three times as much as China is. And now I want our viewers to hear that comment as many times as possible, because in Pentagon budget debates, all too often, the justification that we hear the to Justin's point, the alleged strategic justification that we hear, is that there's this great China menace out there, they're ramping up their military spending, and you know, they're going to sort of launch some sort of Red Dawn invasion overnight. But what you're telling us is that we are, we are already even forget about the \$500 billion proposed ad, and you were saying we're already spending three times as much. I'd very much welcome your comments on that.

Heidi Peltier 29:43

Yeah, and I'm happy to share a slide if I can put one up. Since you just said you love slides, I do share away, please. All right, I'm sending a request to share that's all right. Okay, so this, this is based on CP data, Stockholm Institute. So here's 2024 spending data, the US on top, obviously far surpassing so 997 billion, China at 314 billion, Russia at 149 and you can see the next quite a few countries. This was put together, right Statista, but it's separate data. And then, you know,

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if you look at I'll stop this year now, but if you look at Bill Hartung at Quincy, put out a short paper with us at cost of war a year or two ago where he looked at the relationship between US and China spending and confronted a few of those questions that often come up when when people say, Well, you know, Chinese labor and purchasing power parity and some of the other questions that come up, you know, are we actually comparing apples to apples? And he goes through a few of the different comparisons, and even with purchasing power parity, which is one of the things that Steve showed in his slide, still we're outspending them.

Steve's slide showed three to one bill. Showed a series of calculations. It's at least two to one at current levels. So if we add another 50% to our budget, you know, that's, that's, you know. And if you look at, you know, comments by various people in the White House, they're saying they don't even know what they would do with an increase in 50% of the budget, you know. So in we owe. And the other thing I will mention is, just this week, the cost of war put out two related papers about how much the US has spent over the last 20 or so years in the ramp up in kind of how much we've spent in confront, I'm sorry I'm getting the wording wrong, but kind of in ramping up against the Chinese threat, putting that in quotes, and already, it's a significant amount of money. And anyway, I'll just leave that there, but that's on the cost of war website. If anybody's interested in that.

Ben Freeman 32:21

We'll see if we can track those down and get them in the chat, actually, yeah, that'd be great. Those are wonderful resources. I've checked them out, Steve, I want to, I have so many questions based on your wonderful charts, but I'm gonna, I'm gonna first present a problem for you, and that's that, in addition, your charts are wonderful, but we're already hearing from from Congress talk of a supplemental, a wartime supplemental, to add even more money on top of that. And you know some of the it's a little bit rumor mill right now, but it may be given to Congress as early as tomorrow, and it may be an ask of as much as \$50 billion for the Department of Defense. So I'm curious to hear your thoughts on that and and kind of, how supplemental these wartime supplementals, you know, compound some of the problems that you laid out.

Steven Kosiak 33:12

Yeah, well, I mean, if, again, if you, if you went back and look at, looked at that slide we've spent, I, you know, something like 2.5 I mean, depending on you, can kind of cut some of this up differently, but something like \$2.5 trillion on defense, basically defense supplementals over the past 25 years related to the wars, primarily to the wars in Iraq and Afghanistan, but also Syria and some Other places, right? So, yeah, it's just, it's another level of spending. It is, I mean, the way you generally handle these things is you try, the Defense Department has some flexibility in how it spends money and and it will generally Take, eat the costs initially, from finding places to take it out in the defense budget, in the existing defense budget, and then ask for a supplemental to pay those extra costs to, you know, buy, buy money for ammunition expended and things like that, and extra operations and support costs and things like that.

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So it's not surprising. I mean, it's it would be anticipated that for major military operation like this, you're going to have a significant supplemental and, you know, but if it's a long, if it's a long war, or it turns out to be kind of a series of wars, or whatever, and if you look at Iraq and Afghanistan, you know, no one, no one thought those things were going to last for years and years and years and years. And they did, right? So, \$50 billion this year, you know, it could be and \$50 billion might not even be enough for this year, you know, depending on how the war goes, I will say we really don't have a great idea at this point what this war is going to cost. I mean, we don't know how long it's going to last. And so I think it could be \$50 billion it could actually turn out that the costs are less than \$50 billion i. Mean, I think we just don't know at this point.

Ben Freeman 35:03

Yeah, it's worth noting too that I saw Steve, that you worked with some of the folks at the Center for American Progress cap, who came out with an estimate of costs already in just the early days of the world, and they put the sort of floor of the spending that's already occurred at \$5 billion count?

Steven Kosiak 35:24

Yeah. I mean, the optimistic view is that, is that, you know, initially you're spending really, you're spending a lot on really high cost precision guided munitions that have long range precision strike. And as you gain air superiority, you don't have to spend that much on those. You can use cheaper munitions and things like that. But again, you know, on the other hand, if you put boots on the ground, it's a whole new game, because that's where the real costs come in. So we just don't know at this point, I think, but it's going to be, it's going to be a significant chunk of money.

Ben Freeman 35:52

Couldn't agree more. I got just one more question for you, and then, you know, I will turn to the Q and A. I see we got a wonderful queue going in the Q and A. That's great. I see a real disconnect here between the Trump administration asking for a \$1.5 trillion Pentagon budget at the same time as it's telling our allies all over the world that they need to spend more on defense in that you know, there's this so called burden sharing argument. I don't, I can't rationalize this in my head, how you're telling our allies that they need to be spending more and more and more, and at the same time you're saying we are going to have this unprecedented increase in military spending. Am I crazy? And maybe this we can go to Justin Bregman. I'm curious to hear everybody's thoughts on this, but, but, you know, and I know Justin, the burden sharing argument is something that you is near and dear to your heart. But am I crazy here to think that if we do up this budget to \$1.5 trillion our allies might just say, Oh, no, you know, we're good. We're not going to raise our budgets. The US has got it going to play World cop once again.

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Justin Logan 36:59

I mean, the logic there is that, you know, if you envision a given amount of spending, and it's comprised of partly our spending and partly our allies spending, and we say, we want to shift some of that to them, if you're increasing the overall amount of spending, it's easy for our allies to say, Well, hey, wait a minute. How much you know? When do we reach a good money after bad situation here, and historically, you know, I think the United States there's a trade off right between control and burden shifting. And if you think about, you know, if you think about our allies spending nothing, right, we would have a lot of control over what they did in the world and how they allowed us to use their territory for operations and all the rest of it.

And then, if you think about a situation where our allies spent everything on behalf of their own defense, and they really weren't our allies, we wouldn't have a lot of control over them. Historically, the Americans have prioritized control. Right in the 1990s was a perfect time to hand off responsibility for Europe to the Europeans, but we thought we wanted to be the big dog in Europe still, and so we said, Well, hey, wait a minute, we can kind of step on their heads a little bit and prevent them from doing things for themselves. And if we do that, we can remain the top dog. So, I mean, I think you know, to counter your point, we might spend it badly enough that our allies would say this doesn't add a lot of firepower to the tables, despite the, you know, immense monetary expenditure. But you're quite right that if the overall amount that we're spending grows exponentially, then our allies could well say that we need to pick up that much to share the burden.

Ben Freeman 38:35

Steve Heidi, any thoughts on that one?

Steven Kosiak 38:38

Well, I guess I just say, you know, firstly, the \$1.5 trillion is, I don't know what that means. I don't know what it's for. I mean, it's just really hard to say, right? So I would say if, if, if this were pre this Trump, you know, I would say that the Allies would, there be no incentive for the allies to provide and they provide less money for defense, right? Because you don't need that much money. I mean, it's kind of silly if we're spending \$1.5 trillion Europe doesn't need to spend that kind of money, right? I mean, that's just logic, right? And supported by analytical looking at the action, analyzing the problems they face, right? I think what makes it more difficult to know how Europe would react is because I don't know that they think they can rely on the US, no matter how much we're spending anymore or what they would use that for. I mean, I think it's a different paradigm, right? I mean, it's not, I'd say, anyway, so yeah, I mean, I think you're right to see a disconnect there, right? And, and, you know? But I again, I do think it's, it's, it's so unclear what this is for, and the reliability of the US as an ally has, I think, fundamentally, kind of gone away. I mean, I think that's going to be something that's gonna be hard for any new administration, or this Trump administration, to really sustain going forward, no matter how much they spend.

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Heidi Peltier 39:56

And I'll just add to that, you know, the. Um NATO members had set 10 years ago, or maybe it was more than that, a 2% target for defense spending, which recently got revised to 5% and Trump was, you know, one of the advocates for having other countries, you know, spend their fair share, and that the US was overspending, and with an increase in \$500 billion why would, you know, I'll echo what the other panelists have said, why would other countries want to spend more? And also, I saw in the Q and A, you know, somebody asking, Did this never come out of thin air, essentially. And as far as I can tell, absolutely yes.

Ben Freeman 40:47

Yeah, yeah, completely agree. I'm gonna speaking of the Q and A, I'm we're gonna turn to it. We got about 20 minutes here, and we, I see some wonderful questions here. I'll sort of start at the top. David vine has jumped in. He's got wonderful research on a lot of these topics that we're talking about here. And David makes the argument in the Q and A that even as scary as these numbers are that we're talking about, even the numbers that we're talking about might be an undercount when you consider their totality of what we're spending on national security in the US. And you know, David points out that other things not included in this, you know, things like DHS is budget, then the Veterans Affairs Administration, you know, some of the retirement, the health care benefits that these, these wars, all these conflicts that Justin and others talked about engender David puts the figure, you know, if you add all that stuff up, you know, in the neighborhood of 1.7 to possibly even \$2 trillion dollars already, if you include some of that deficit, deficit spending that that we're incurring because of these wars. Curious to hear any folks comments on that, if you know, if we should be mentioning some of these other war related or, you know, Pentagon related costs?

Steven Kosiak 41:56

I would say, I would say, definitely. I mean, I did. I did an analysis back in January, where I estimated that national security spending the US is about 25% of the budget, and 50% is for pensions and healthcare, basically, and then the rest is everything else, including interest. So national security, which 90% of it is defense or VA, is a huge, huge it's much bigger than if you just look at defense spending. So I would agree.

Justin Logan 42:22

I'll just add that this brings it back to the sort of China question. There was an excellent article that I'll promote, a colleague's article in the Texas national security review that looked at the US and China against one another. And there were two interrelated problems that this article dealt with. It was Taylor fravel, Eric hagenbotham, George gilboy, and a fourth author I forget, in the Texas National Security Review. So we have the currency valuation issue, market exchange rates versus purchasing power parity. And I know everybody's eyes are going to glaze over, but the bottom line is that you want to apply those different currency valuations to different parts of

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the military budget, right? Because labor is different than capital, et cetera, et cetera. So they have a sort of systematic way of applying that.

And then the other question, which brings it back to the question David vines question is, are you comparing the same functions? Right? So the Chinese military budget includes, reasonably, I would argue, the Chinese intelligence apparatus, the American military budget does not include the intelligence community, which probably is spending these days, about 100 billion bucks a year. So what they did is both applied the different currency valuations and brought apples to apples in terms of which functions are being included. I think Chinese nukes, weirdly, are not included in so there are all these things that are like missing from one side or the other. And they said, Well, hey, wait a minute. If we're going to count something for China, we should count it for the US and vice versa. And they oddly wound up at the number 1/3 has been bandied about here, roughly 1/3 but I think that did bring the US top line to 1.4 ish, something.

So, yeah, I mean, if you're gonna have something that you're calling a Department of Homeland Security, surely that falls into the realm of defense. Now, we all know that. You know you're getting frisked at the airport and everything else that's not actually about defending the homeland, but you know at some point you've got to call those things something and calling them military, Security, Defense, doesn't seem unreasonable to me.

Ben Freeman 44:29

Yeah, yeah, fair enough. Tracy Wilson has a has a great question in the Q and A, what's normally the question I would reserve to the very end, but so good. I want to make sure we have time for it. And I think Tracy's in the same boat that I am. You guys have all scared the heck out of us. You know, there is this, there is this looming, you know, fiscal crisis that I think Steve and, you know, Heidi really touched on strategy issue that Justin really hammered home, you know, with if we buy new all of it, what? We do, you know? How do we energize the public? This is Tracy now, how do we energize the public and their elected representatives to pay attention to this looming crisis? Do we give them? Steve slides, you know, you know, what do we do to put a stop to this?

Steven Kosiak 45:18

Well, I guess I'll, I'll jump in. I'm not sure what we do, right? Obviously, it's a big it's a great question. I mean, I do think part of it is, and this is why I ended my my slides with this, is that I think it's, it's important to recognize that this is a solvable problem, you know, because I think it is really easy to just go, Oh, my God, it's government spending is on a control we can't do anything about it. Why even try? Right? You know, maybe it'll be okay if we have the severe debt, right? And I think that's that, in fact, it's not small, relatively small tweaks, and things can make a diff, a big difference over the long term. Because, again, a lot what this is, the reason the debt really goes up is because year after year after year, you have a relatively small discrepancy between revenues and and I don't want to understate the nature of the problem, but

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I mean, in all things considered as a kind of a relatively small you know difference between revenues and and and outlays.

And if you can start to shut that, rather than expanding it, you can, you can make a really meaningful difference in those out your debt projections, right? Because, again, the vast majority of the spending that is projected to add to the debt over the next 30 years is because interest payments, right? So I think it is solvable, and that is an important and that is an important point, and that and that we all, that we all have to share in in how we get there, and taxes have to be part of the solution. They can't be the whole solution, they can't be the whole solution, but they definitely have to be part of it.

Ben Freeman 46:46

Heidi, Justin, any thoughts on that one?

Heidi Peltier 46:49

I have lots of thoughts, and we only have 13 minutes. Okay, so I'll try to be concise, and I'll just try to hit a few points. Okay, so I mean, if you were a household and you were facing, you know, an insurmountable amount of credit card debt, you would do something about it. You would have phone numbers to call. You would, you know, figure out one of those advertisements you see on the TV to figure out how to consolidate your credit card debt, you would do something. And I'm not going to look that up on my computer, because I don't want to start getting advertisement. But you know the also to respond to one of the questions that came up in the in the Q and A like the DoD cannot pass an audit. You know, for the last seven years, they have not been able to pass an audit.

And so this relates also to that, the question of and and also related to that, I'm going to try to weave together these points. You know, routinely, we find that there's about 30 to 40% of waste, fraud and abuse, within contract spending within the DOD right now the DoD budget, 50% of it goes to contractors. So 50% of the DoD budget is going to contractors, and 30 to 40% of that is lost to waste, fraud and abuse. That's hundreds of billions of dollars we're talking about each year. So that's, that's, you know, certainly one place we could start by reducing, you know, the spending and therefore the debt that is accruing. And you know, if we could pass an audit, we could figure out where to start making those cuts. So there are opportunities for oversight that can start with things like just improving, you know, accounting systems, improving oversight, improving, you know, just the way we we do business within the government.

But then there are other things that require cultural shifts. Like, you know, what it means to be a patriot and that it's not unpatriotic to question how much we're spending on defense, or, you know, also related to one of the questions that David vine brought up, like, why are we calling it defense when we're going elsewhere and attacking that's not actually defense anyway, so The fact that, you know, Congress people are afraid to cut defense spending. I just did it myself. Again. They're afraid to cut the budget, the military budget, because it will be seen as

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unpatriotic. They're afraid to cut the military budget because they're afraid that it will be harmful to jobs.

And this is one of the things I do my research on, is to show actually the trade off is that we could create more jobs through lots of other types of federal programs or even through private channels. It doesn't necessarily have to be federal, but that millage. Military spending is not the best source of job creation, but we have this public notion of, you know, this public myth that we need the military for job creation, we need military spending for job creation, and that makes people in positions of political power afraid to cut military spending. So, you know, combating that, that public misperception, combating the notion of, you know, it's unpatriotic to cut defense spending. I think there are some cultural myths in there, and I think there are kind of fiscal responsibility questions of how we can better manage the massive budget that the military has.

Justin Logan 50:39

I'll just add a quick, short one to that. I think we're doomed. I basically don't. I think we're like, in a terrible death spiral. And if you don't like doomed, I think it's going to get worse before it gets better. That's, that's the optimistic version of mine. I mean, the household metaphor is wonderful, and it appeals to people, and we should use it. But households can't print money. Policymakers can, and they do, and by God, they really seem to love doing it, and they have this problem of time horizons, right? All these geezers down the road here are in their 70s or 80s, and you're asking them to do things that are going to hurt, right? They're potentially going to get them kicked out of office by raising people's taxes and cutting people's benefits are, in all likelihood, doing both.

And I think the incentives are so profound for them to kick the can down the road that they're going to continue doing what they've been doing. I mean, I think that the look, you could say what you want about, like the reality about Republican plans to do things with Medicare or Social Security or whatever, and that's fine, but now we're not even pretending right. This sort of right of center is said, we're not going to touch Social Security, we're not going to touch Medicare, you know, and at that point you've given up the game on a huge chunk of it. So I have a dismal view of you know. And look, it's good to be King Dollar, right? People keep buying our debt, whereas on paper, you could say to yourself, What in the world are people thinking? But everybody keeps doing it. So God bless them. I hope they keep doing it, but when they stop, it's going to be a real problem.

Ben Freeman 52:14

All I can say, Justin, is that, thank God we still have eight more minutes of this panel. God, if we, if we had to end on that note. My goodness, man, not that I disagree. We've got a couple ideas. Shameless plug for the Trillion Dollar War Machine by William Hartung and I, we do have some ideas in there to this question. And I will say to Heidi's point on this. And you know, in a little more optimistic note, perhaps, is that, you know, as we go around and talk to folks about the book, both Bill and I have experienced this firsthand. The people who love our book the most

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are active duty folks and veterans, because they know just how wasteful the system is. You know, they know that we need a course correction, both in terms of what you were talking about, strategy and in the way the Department of War does business. And so, you know, working with some of those folks, you know, lifting up some of those voices who have seen the waste, fraud and abuse that Heidi identified firsthand, I think is a part of the solution here. So, Steve, did you want to jump in on this one too?

Steven Kosiak 53:12

I think I maybe already did, but I think the, I would say on the, you know, on Justin's point about perhaps this is hopeless. I mean, I guess I don't think it's hopeless, but I also think that not making it worse is a big step, right? I mean, you know, 175% debt is a lot better than 100 275 right? So just not making it worse, and that should be doable, is a big step.

Ben Freeman 53:39

This takes me to I'm going to consolidate a couple questions in the Q and A and A question I personally wanted to ask you guys too. It's about the defense tech incursion, invasion of the Department of Defense. And you know, we're seeing this from on high, the VC guys, you know the Vice President of the United States. VC guy, very well connected to Peter Thiel, you know, the Secretary of the Army, also, VC guy, very, very tech supportive folks. We're seeing some of these are these upstarts, the palantirs, the anderelles, the space X's really surge into the defense contracting space. And in just a few weeks, weeks ago, we had Palmer lucky, who's the founder of anderelle, and he's a, way, he's a very Florida forward fashion.

So, you know, I love that part of him. But he had the bumper lucky. Had the suggestion that you could spend 500 about, forget adding \$500 billion to the Pentagon budget. He said you could cut \$500 billion from the budget if you were, if the Pentagon was spending money wisely. And I think what he meant by that was spending money on his products in the defense tech sectors, products so but I am curious to hear from our wonderful panelists, what do you make of these the defense tech sectors and kind of burgeoning role in the defense space? Do you think you know they're going to hold true to some of the savings that they've been promising us?

Steven Kosiak 55:00

Well, I guess I'll volunteer and ask for that. I mean, I think it, you know, obviously the history is that things get layered on. They don't get replaced, right? So, I mean, I guess that would be a one observation, right? Is that is, maybe they would offset some things. But you know, typically, when some new capability arises, it is layered on to what we currently have, and nothing is taken away, right, especially in the short term, right? So I think we have to see also. I think, you know, I kind of go back to the we need to have a strategy here. We need to figure out what we want to do. Because, depending on what you want to do high tech solutions might be very good, and they might not be so good. You know, it really depends on what you want to do. There's a lot of things where you still have to have, if you want, if you want to do Iraq and Afghanistan and

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potentially the same kinds of things in in Iran, you know, that's, that's a, you know, high tech can help you there, but probably limits on how much can it can help you there, if you're, if you're talking about, you're talking about high tech for kind of destroying targets, and that, we're pretty good at that already. And I'm sure they can make they can make it better. But, I mean, I think it really does go back to, you know, without a strategy, how do you measure this stuff? I mean, what are you trying to accomplish? So it's very hard to say how, how these kind of technologies can contribute.

Ben Freeman 56:23

Do you see? And maybe this is a question for two Justin, because, you know, it's a strategy question. Do do you see in those national defense strategy, the NDS or the National Security Strategy? Do any of you see a strategy? I couldn't, I will, I will confess.

Steven Kosiak 56:44

No, I would say not, not a coherent strategy. No, and certainly not. If there's a strategy there, it's certainly not linked to how much we're spending or how we're spending money now, or a \$1.5 trillion increase.

Justin Logan 56:57

Heidi, I don't know if you want, maybe you should get a bite at it before I explode.

Heidi Peltier 57:04

If it helps prevent an explosion. A second, yeah, you know, I'll just, I agree with what Steve said, and I will just add that, you know, if the problems in contracting are repeated with the the tech contractors. That have happened with the non tech or the the kind of legacy contractors, which is that there are these kind of sole supplier contracts, lifetime supplier contracts, various types of contracts that essentially grant monopolies, then we're going to have an increase in cost, not a cost reduction. So you know, contracting is supposed to increase competition, reduce costs, increase quality. And what we've seen in the DoD is that contracting has resulted in increased costs to the DOD, which is one of the reasons, one of the many reasons, that the DoD budget is as high as it is. So I don't have any faith that you know Anduril, will you know, somehow miraculously cut the DoD budget by 50%.

Justin Logan 58:19

So I co authored an article several years ago saying we should just get rid of the national security strategy and the national defense strategy, because they're basically BS. I think that's case has become even stronger in the intervening years, right? I think whatever you made or didn't make of the NSS and the NDS, did they foretell a bolt from the blue strike against Iran. I didn't see it at all so that like the idea that policymakers are sitting down and carefully

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considering the nation's interests, allocating resources commensurate with the nation's interests, is just, again, we think tank dorks love that.

That's how we think things should work, but they don't work that way policy too often, or budgets to react to changes in the international system, right? Like we don't. We don't have a left to right story where we set out to do things in the world and procure things that are useful for doing them. You know, you think about the MRAP, right? We found ourselves in these stupid counterinsurgency wars in the Middle East, and people were getting blown up all the time by improvised explosive devices. And we thought, holy moly, we need a sort of big project to figure out how to produce mine Mine Resistant Ambush Protected vehicles. And we spent billions of dollars on that, and we wound them up and we got some MRAPs. And is anybody in the counter insurgency game anymore?

I mean, like, it's just, it's pathetic, really. And that, you know, if anybody talking about, is there a strategy? Is the national defense strategy, strategy is the NSS a strategy, if you think that Donald Trump has read those strategies, I got a bridge to sell you, right? He didn't read them. He didn't think about them. He's not going to read them. He's not going to think about them.

Ben Freeman 1:00:07

Justin eight minutes ago, I said I wouldn't let you leave us on a note like that. And yet, here we are at 1pm No, I kid. But thank you for your wonderful remarks. Heidi, Steve, thank you so much. This as I expected, this hour has absolutely flown by. Want to be respectful of your time in our audience this time. Thank the three of you so much. Needless to say, the conversation will go on, but we thank you so much for spending the time with us today. Thank you very much. Thank you. Thank you. Thank

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