



*Ad Astra
Institute
of Kansas*

Guns and Mortarboards

Is US defense crowding out education?

Presented by

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Presented for a panel on

**In Defense of Public Education:
Fund Schools, Not War!**

Sponsored by

*The American Friends Service Committee, and
The Institute for Labor Studies, UMKC*

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David Burress

- Research Economist
- Retired from KU's Institute for Policy and Social Research in 2004
- Focus on public economics, regional economics, benefit-cost analysis, law and economics
- President and lead founder of Ad Astra Institute of Kansas, Inc.

Ad Astra Institute of Kansas

Mission:

A broad spectrum progressive think tank

- 501(c)(3) nonpartisan nonprofit since 2005
- Membership organization
- Scope: Kansas-relevant policy research
 - Objective but value-driven policy analysis
 - Political strategy analysis
 - Communication analysis
- Goal: pragmatic progress for ordinary people

TOPICS

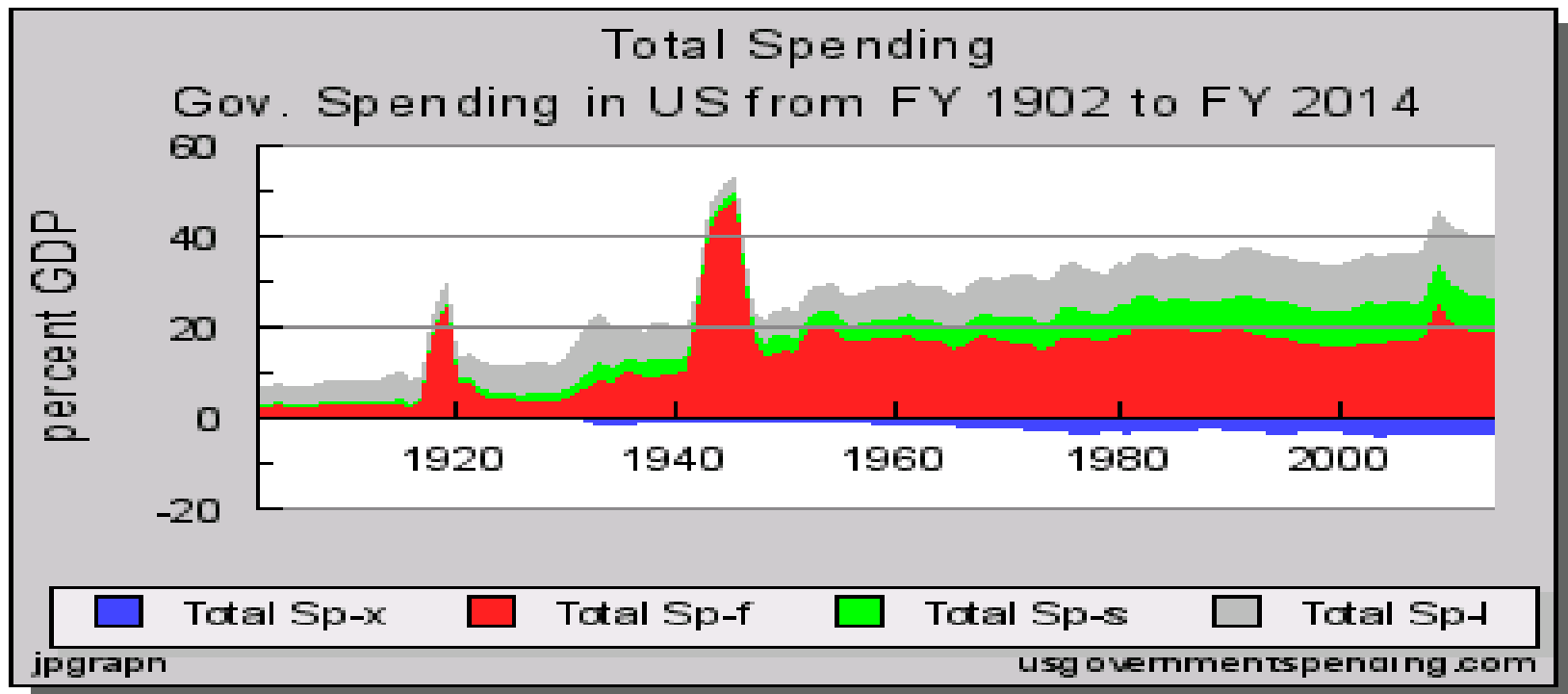
- Trends in federal state and local education
- Trends in national defense finance
- Does more defense mean less education?
- What else is squeezing education?
- What are some reasonable education finance targets?
- What are some reasonable “maintenance of posture” defense targets?
- Can we meet both targets and still cut taxes?

Comment on data methods

- All taxes and expenditures expressed as percent of GDP
 - That is the most stable and meaningful measurement over time.
- Federal, state, and local expenditures are aggregated.
 - That is the best way to get at total expenditures on education.
 - Federal transfer to states show up in state expenditures (and also in blue below the line)

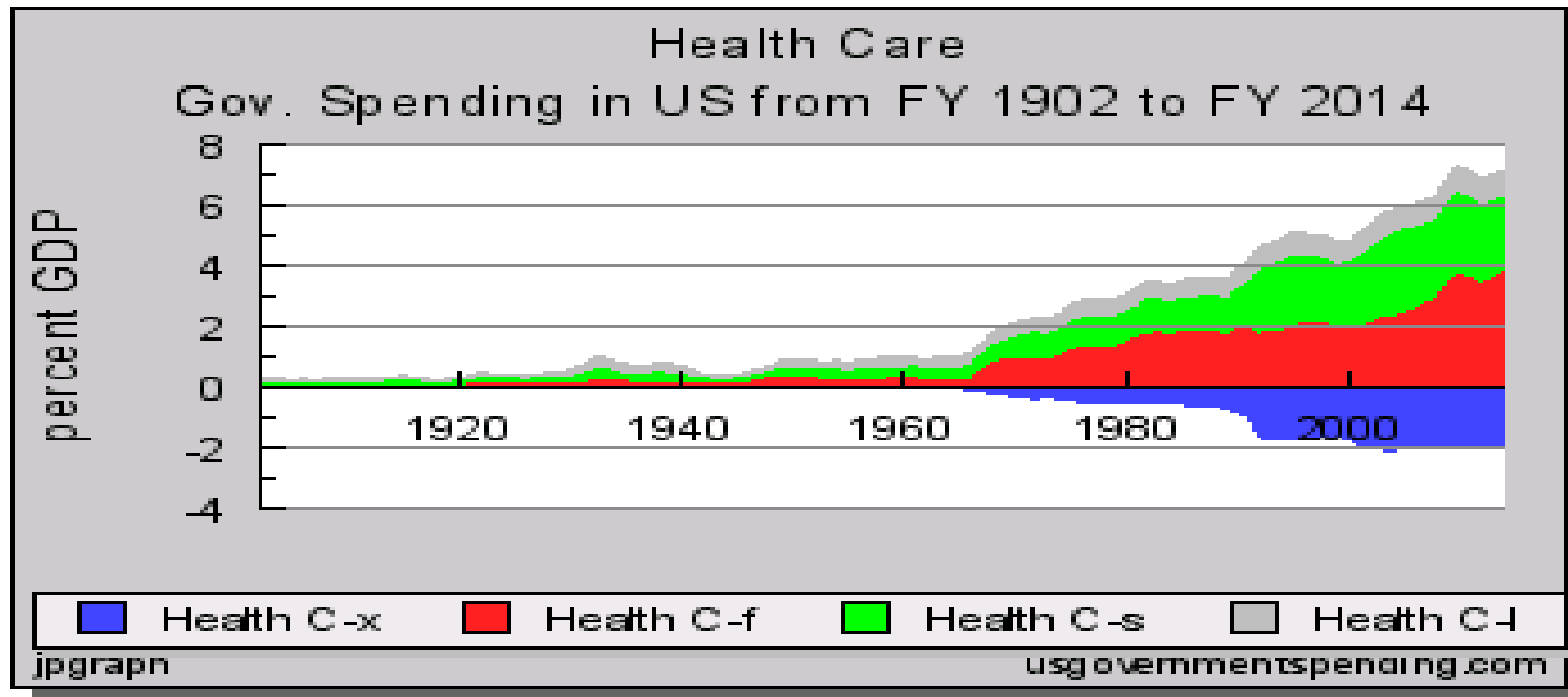
What are the major long-term factors squeezing public education?

- Rising need for education
- Rising cost of education
- Increase in total government expenditures, especially
 - Health care
 - Warfare
 - State and local services
- Growing national debt
- Resistance to tax increases
 - Affected by stagnant wages, rising private health care costs, rising inequality



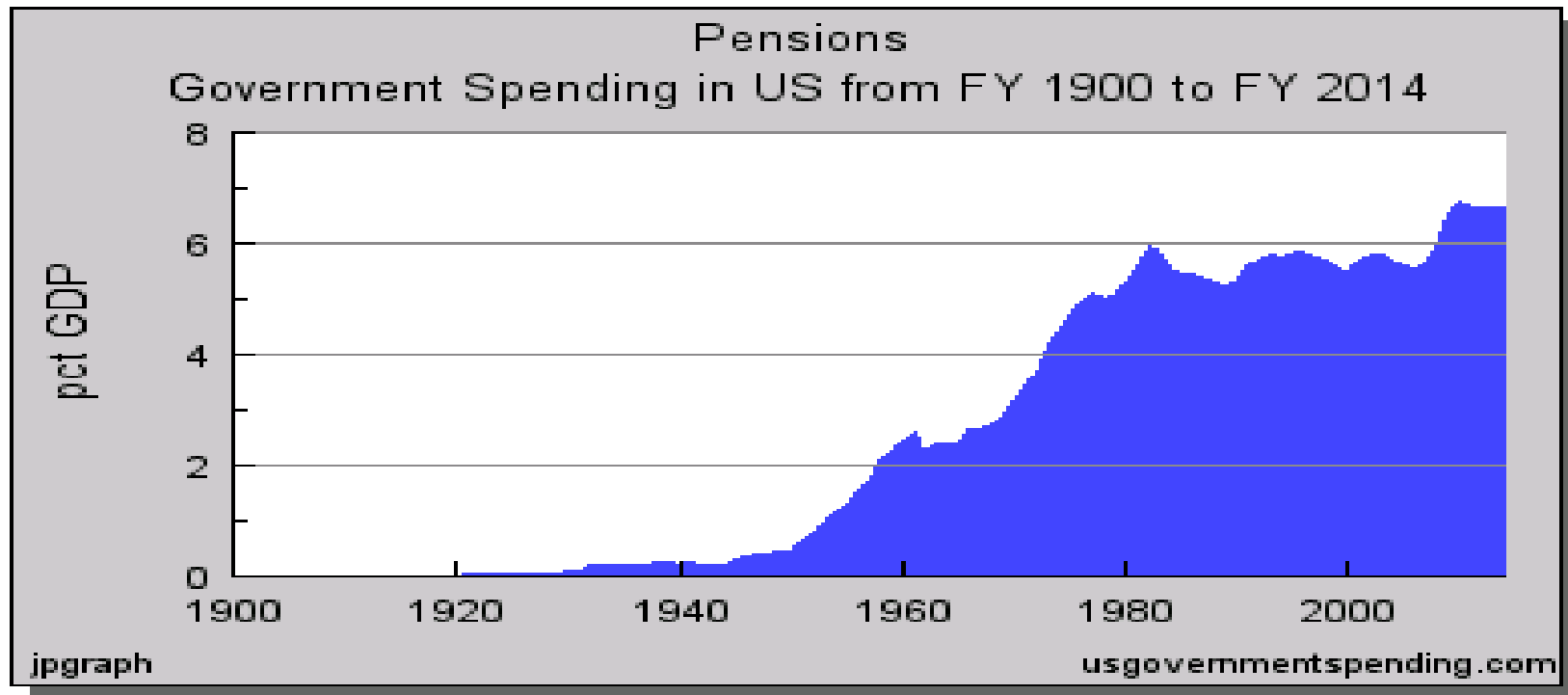
Total government spending :

- is at a post WWII high
- will remain high as we come out of the recession
- Fed direct = 20% of GDP, S/L = 20% of GDP



Government health care expenditures = 7% of GDP
Rapid growth (1% GDP/decade) explains the entire increase in total gov. spending since 1975
 It will keep growing with or without the Obama plan.

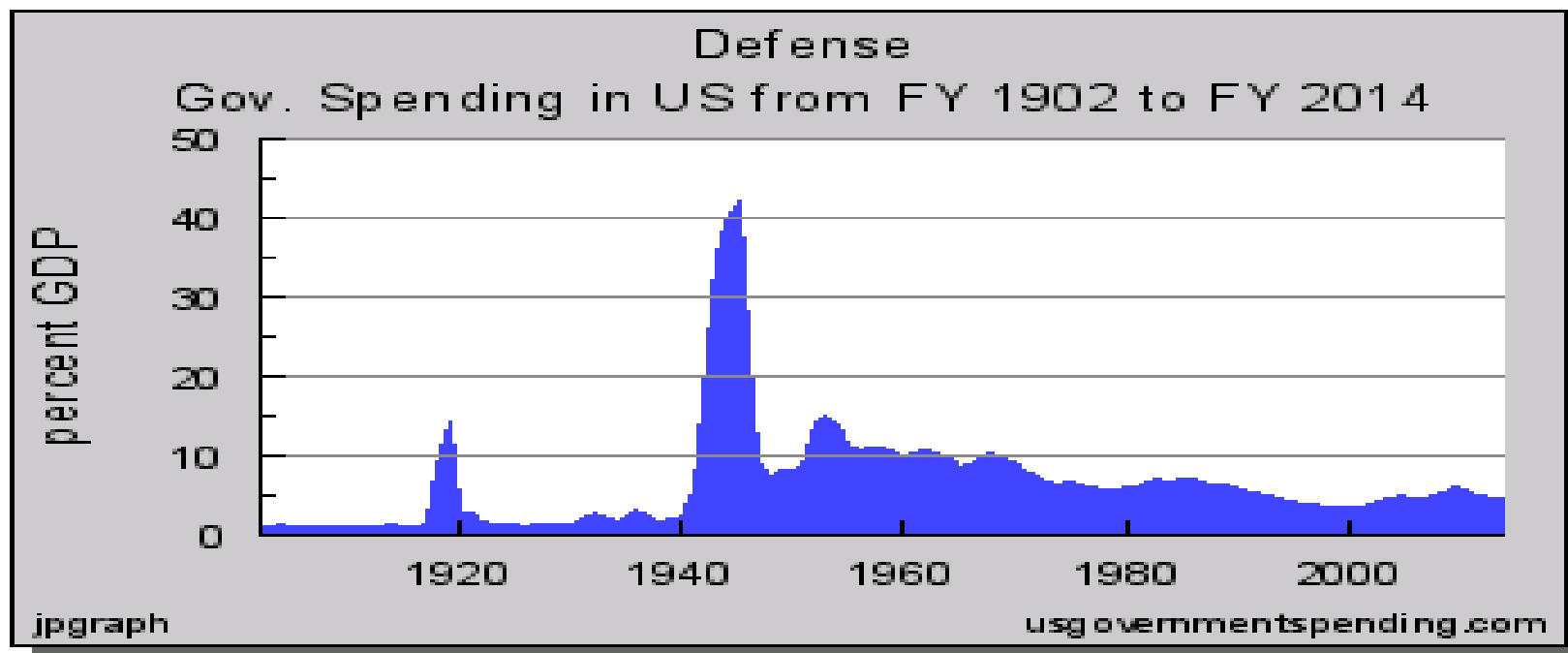
Private health care is another 10% of GDP.
Cost containment is critical for education funding.
Obama plan includes many cost containment pilot programs.



Social Security and gov. pensions = 6% of GDP
Slowly rising since 1975 and *not* the budget buster
that conservatives claim

Other nonstarters for explaining the budget crunch

- Welfare (4% of GDP and stable)
- Interest on debt (2% of GDP and stable)
- Ag subsidies (.4% of GDP and stable)
- Foreign Aid (.3% of GDP and stable)
- All other gov. (9% of GDP and stable)



Defense = 6% of GDP

(doesn't count interest on debt)

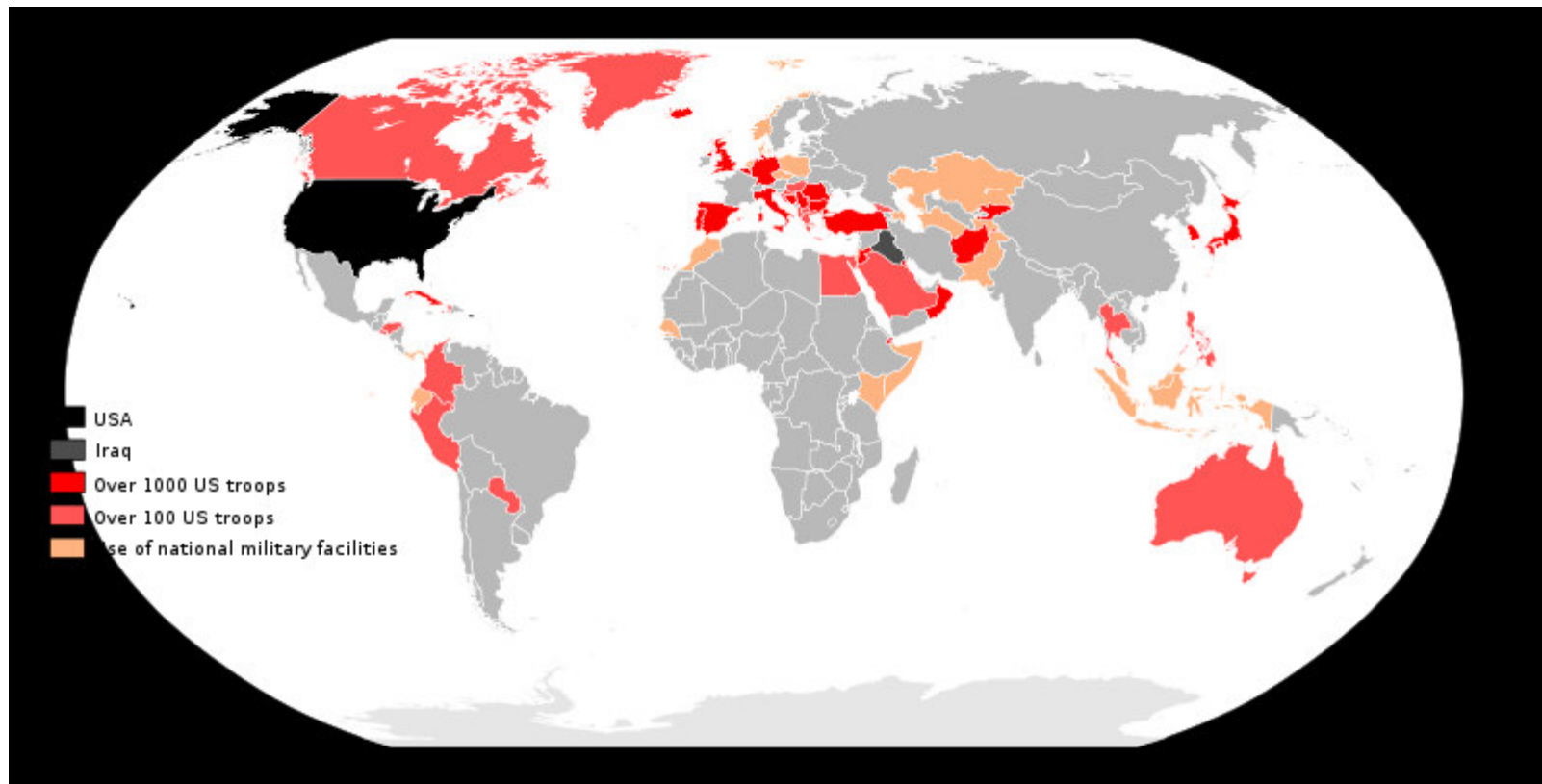
Somewhat below the cold war standard

Far above pre-WWII peace time standard

Projected to drop by a percentage point.

U.S. Military Presence, 2007

(Source: Carl Conetta)



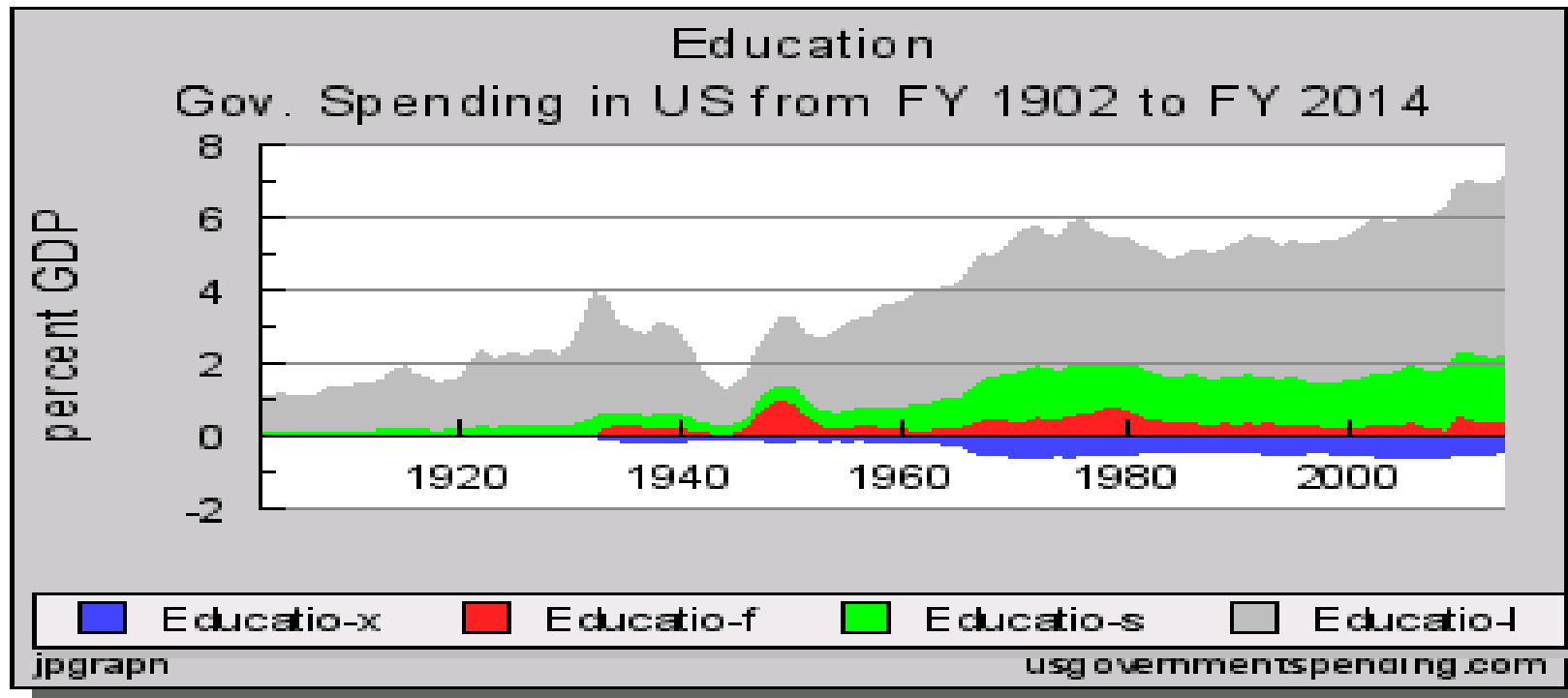
How much money could we squeeze out of defense?

(my guesstimates)

- Scenario 1: End the war
 - Gain 1% of GDP
- Scenario 2: Maintain the American Empire but get rid of our largely useless Airforce and nuclear overkill, cut the Navy in half, end the war
 - Gain 3% of GDP
- Scenario 3: Replace the American Empire with a NATO police force, end the war
 - Gain 4% of GDP
- Scenario 4: Revert to pre-WWII isolationist stance
 - Gain 5% of GDP

So why pick on defense?

- Some experts outside the military-industrial complex view it as expanded past the point of negative returns to national security.
- It is the only large pot of government service that can be eliminated without any loss to the rest of the economy.
 - This assumes we can put people to work on something else
 - Counterargument: technology fallout from military R&D
 - Counterargument: military sales abroad
- Replacement of defense with any other government service has a positive job multiplier.
- It may be the most wastefully managed branch of government. (Extrinsic waste.)
- Any military is innately wasteful: we only need one because other countries have them. (Intrinsic waste.)



Public education = 7% of GDP.

Slowly growing to an all-time high.

Growth rate around 1/2% of GDP per decade.

Federal direct spending plus grants = 1% of GDP.

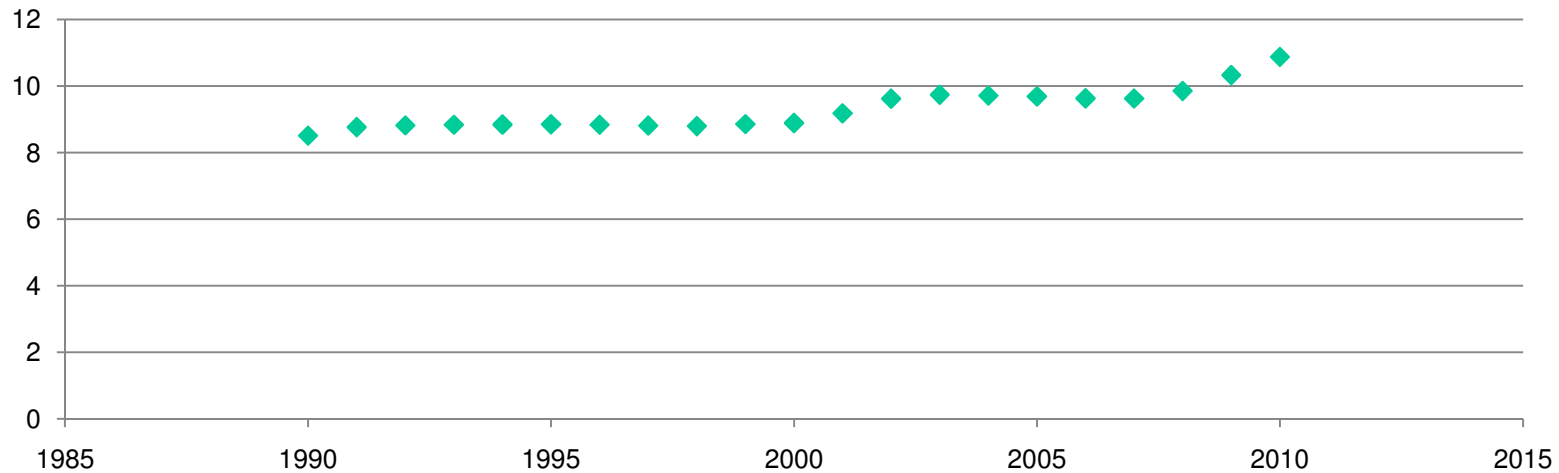
Roughly constant since 1965.

Why isn't 7% of GDP enough?

Demands for education keep growing

- We are paying teachers better
- We have smaller class sizes
- Higher education has gotten more expensive for many other reasons
- Students are staying in school longer

Education percentage of all employment



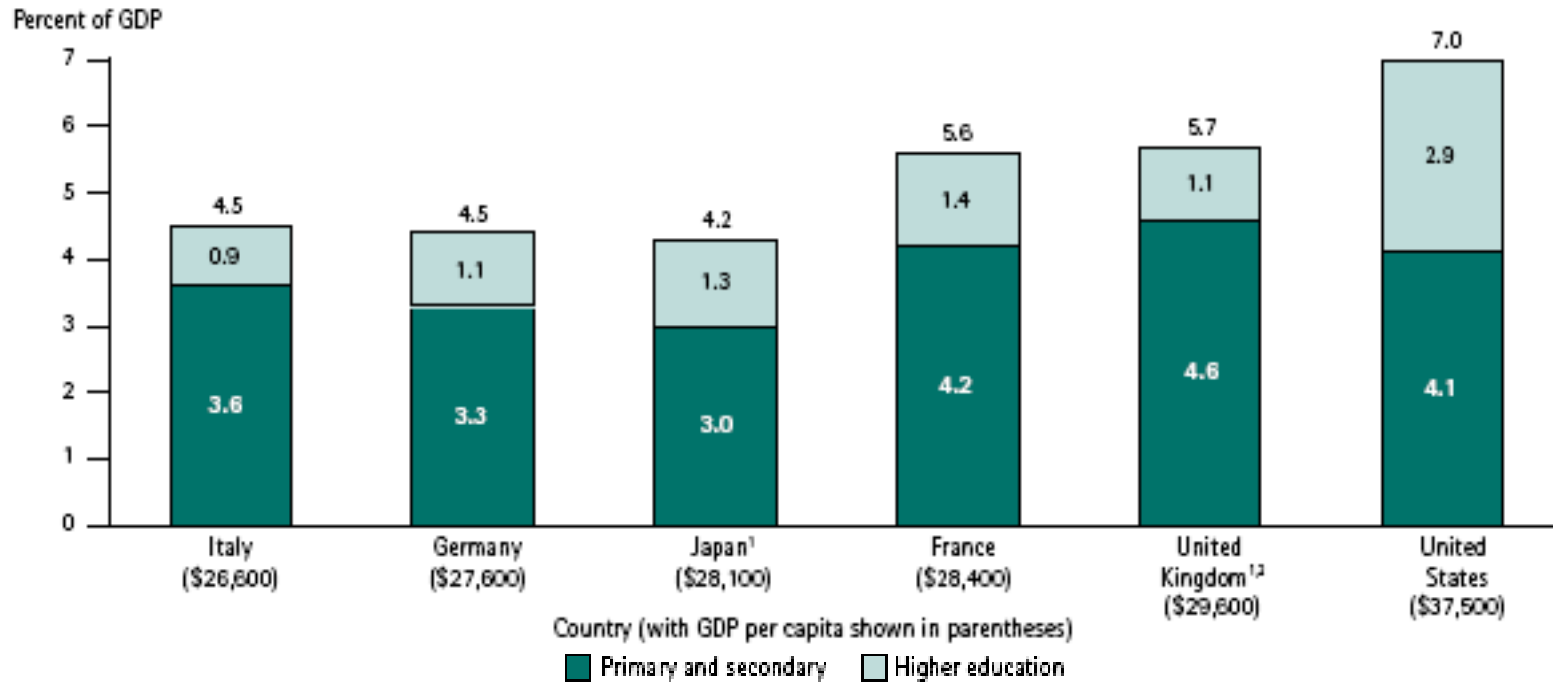
Since 1990:

Education share of US employment has grown by 28%.

Education share of GDP has grown 36%.

The relative cost of education per worker has grown by 7%.

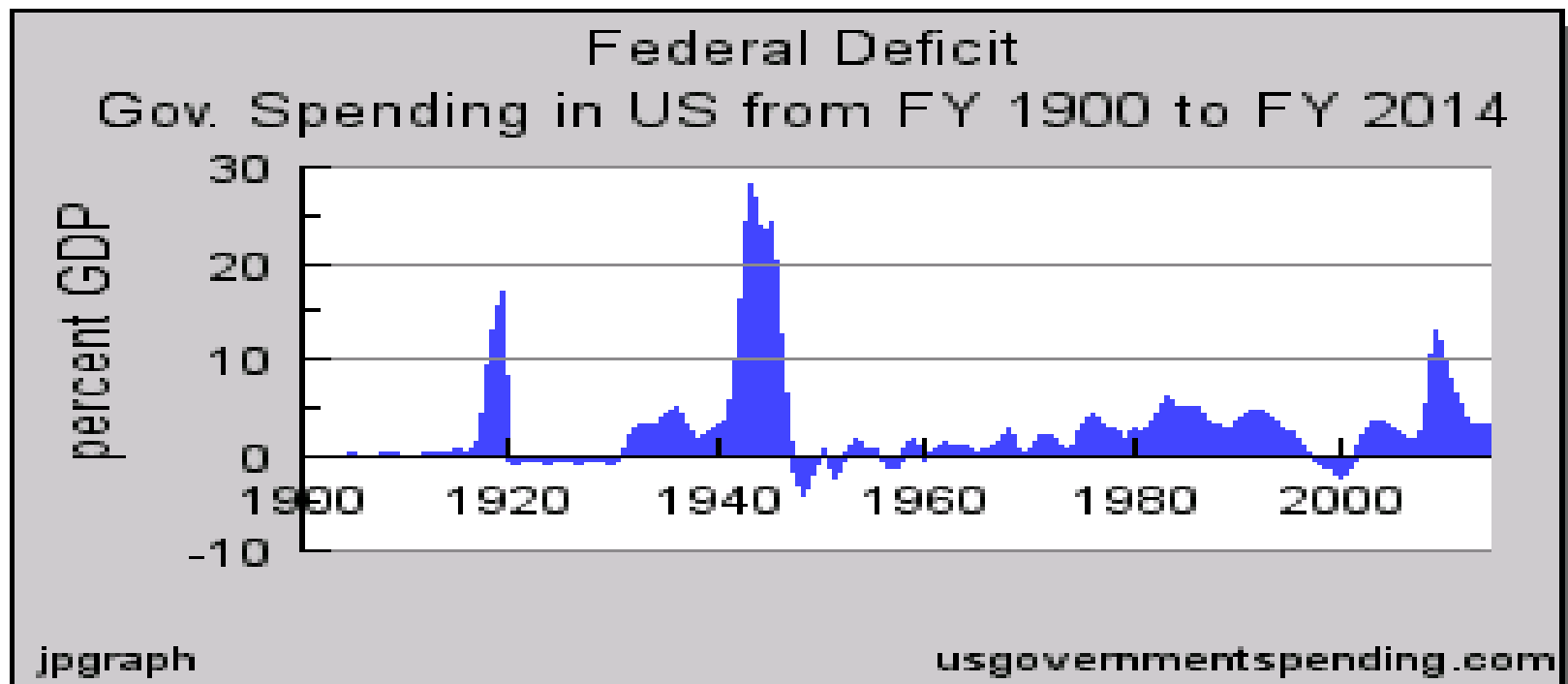
The main driver is demand-pull, not cost-push.



**US education is moderately well financed by international standards.
(However Scandinavian countries and several others not shown spend more than we do.)
The US excels in higher education funding, lags the leaders in K-12 funding.**

What is a plausible goal for education funding in the next decade?

- I'd suggest another 1% of GDP (i.e., from 7% to 8%).
 - 1/2% to accommodate normal growth
 - 1/4% to implement whatever they will call No Child Left Behind
 - 1/4% down payment on universal access to higher education.



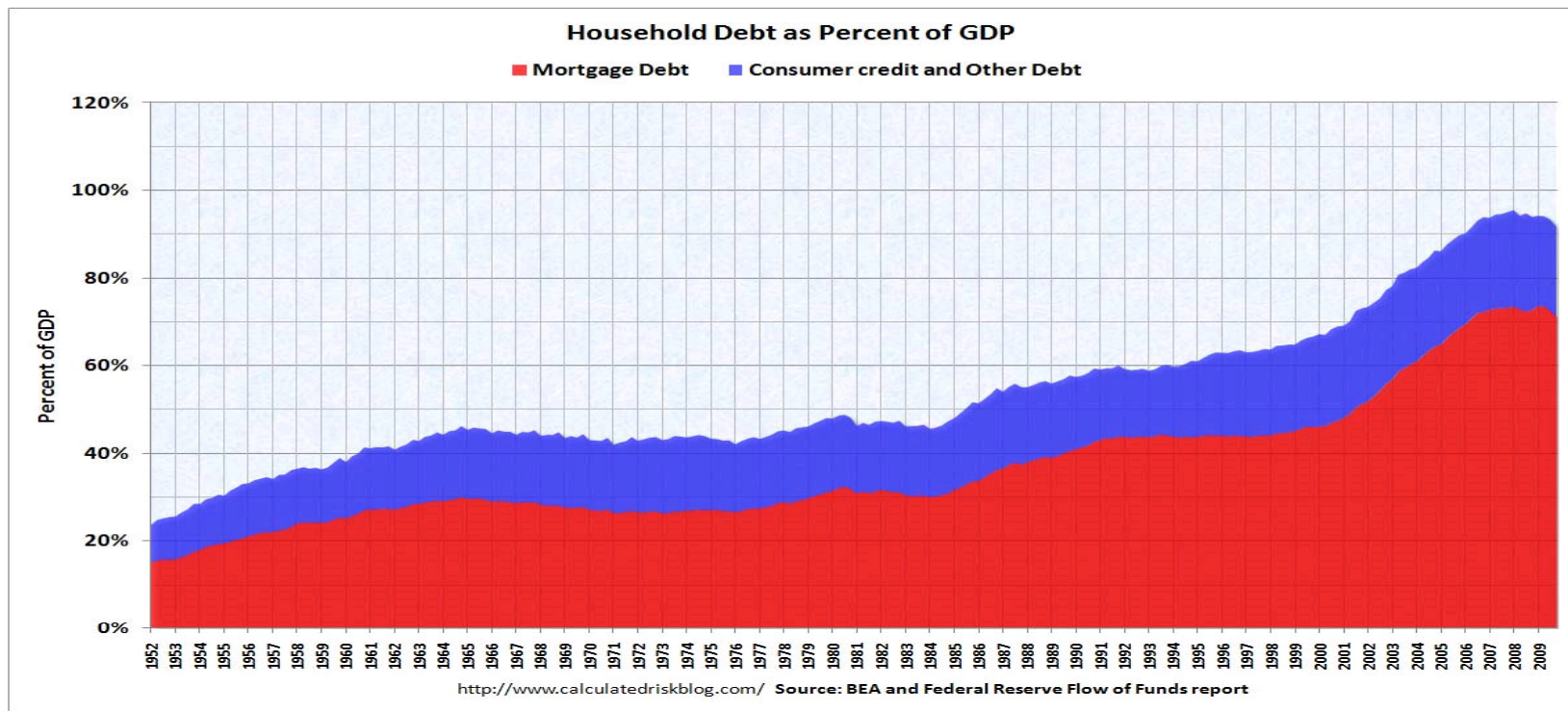
We are running the largest **deficit since WWII.
Without it, we'd still be in the recession.
It's projected to decline, even without tax increases.
Majority of macro-economists do not view it as a
major problem, by itself.**



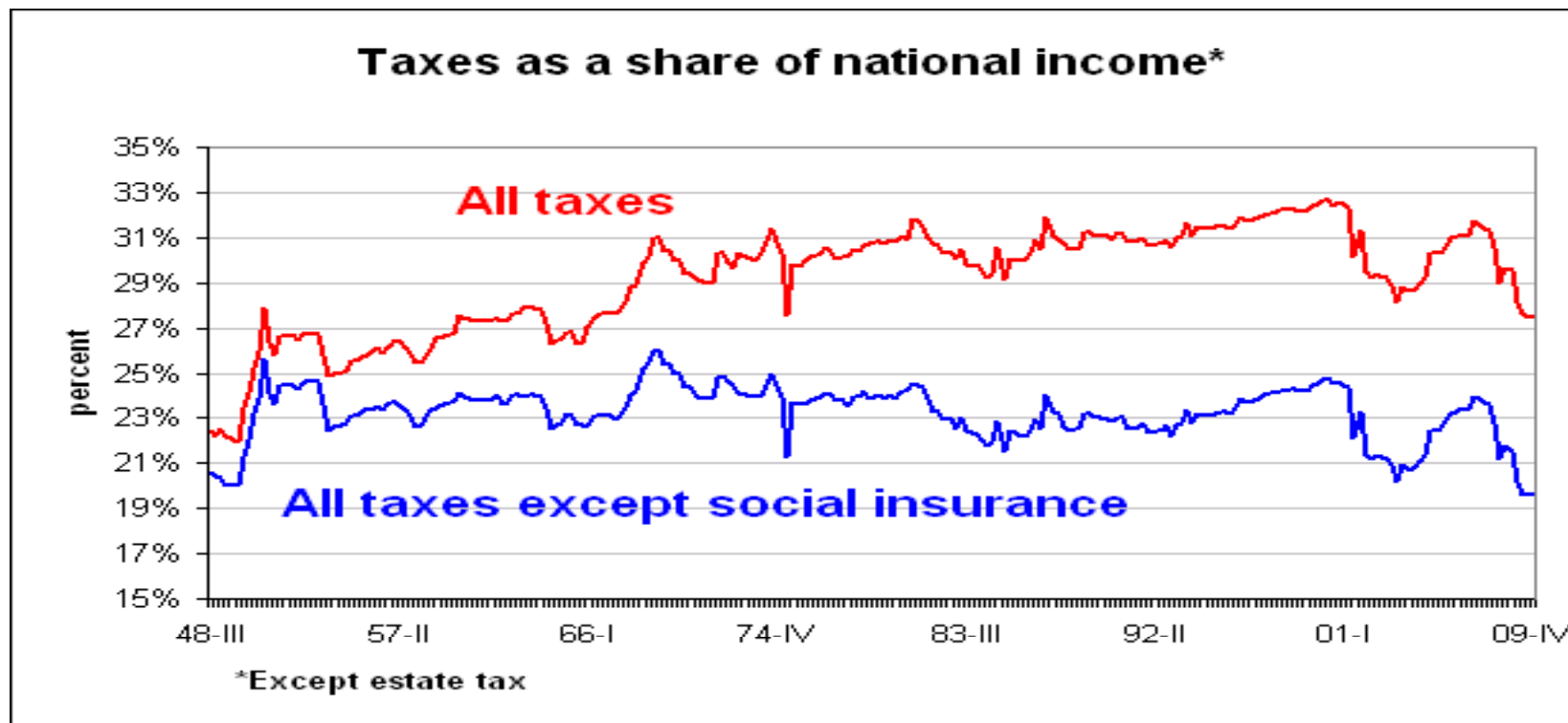
In the long run what matters is the **national debt
 (Bush 43 + recession runup), **not the deficit.**
We are now headed toward 100% of GDP.
Historically the debt fell at roughly the same rates
after each catastrophe (Revolutionary War, Civil War,
 WWI, Great Depression, WWII, Reagan-Bush 41 extravaganza.)**

How important is the size of the national debt?

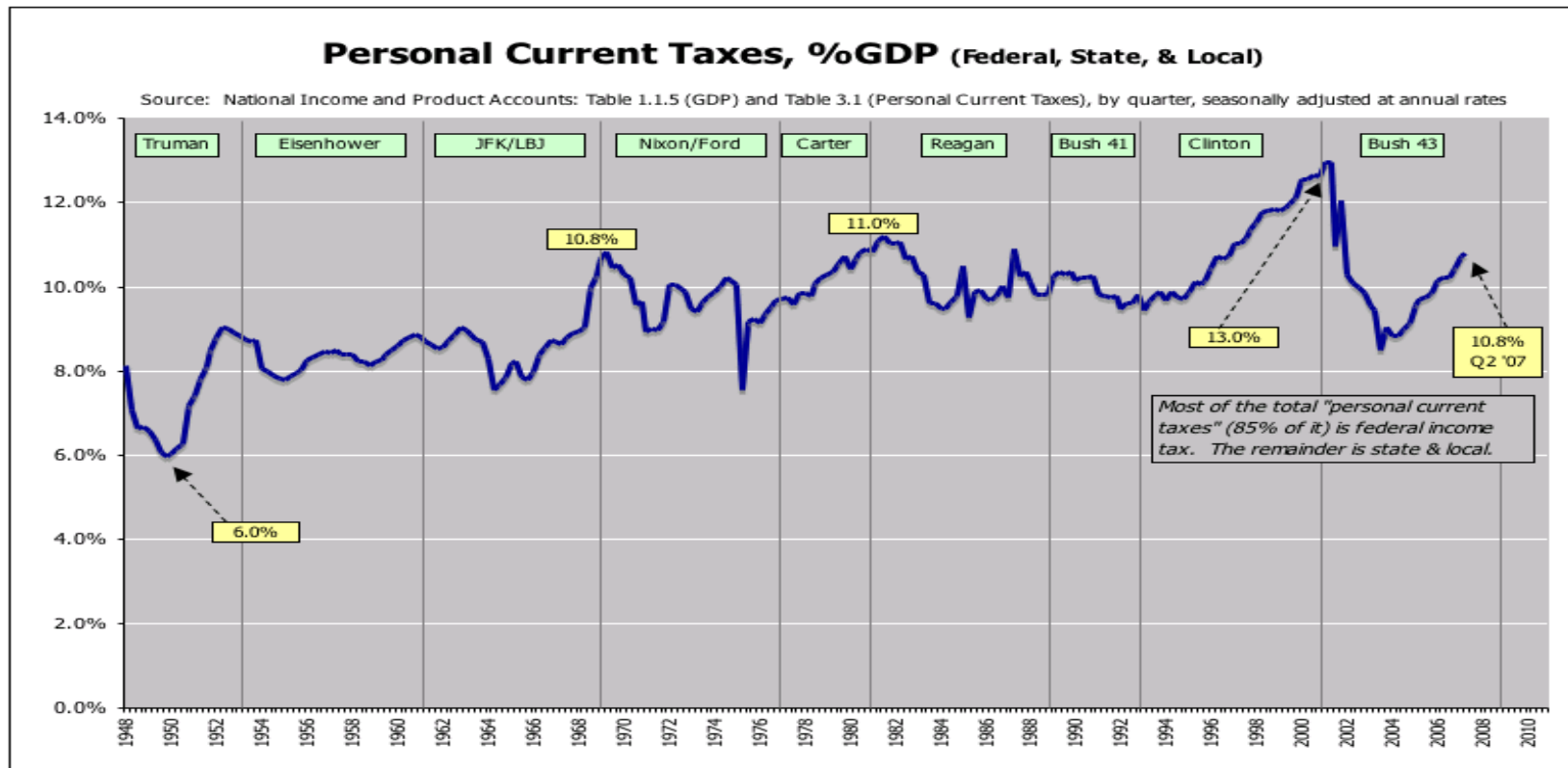
- Majority opinion among macroeconomists is that we can pay it down without serious strain *if we raise taxes.*
- Cutting total expenditures isn't likely to happen.
- Unlike various countries that got in trouble, we owe our debt in dollars.
- We can always print more dollars.
- Paying it down is still a good idea.



Household debt is at all time high – 95% of GDP.
 It is not a direct obstacle to public education
 funding.
 It's a bit worrisome because it makes the economy
 more fragile.



The total tax burden has been 28% to 32% of GDP. It hasn't kept up with total expenditures (40%). The difference is largely due to a federal deficit of up to 12% of GDP (earlier slide). Tax increases are likely in your future.



Personal Income taxes are the most controversial but among the best suited to taxing the rich. Return to Clinton peak gains 2% of GDP.

Corporate income taxes (not shown) have declined towards zero and are a good place to look.

Can we afford to raise taxes?

- US taxes and government expenditures are low by industrialized world standards
- Claims that taxes inhibit growth are not supported by international data
 - Some countries with much higher taxes are just as productive as US
 - We have the highest GDP per capita because we work more hours
- US is outstanding in having
 - A highly regressive tax structure
 - A highly unequal income distribution
 - A high GDP per capita.
- That means we could raise a lot of money by taxing the rich without hurting the middle class.
- The main obstacle is right-wing ideology and power.

A plausible budget

- Projected deficit in 2014: 4% of GDP
- Proposed changes—uses of funds:
 - Additional debt reduction 3% of GDP
 - Additional education 1% of GDP
- Proposed changes—sources of funds:
 - Additional taxes 2% of GDP
 - Reduced military 2% of GDP

An idealistic budget.

- Projected deficit in 2014: 4% of GDP
- Proposed changes—uses of funds:
 - Additional debt reduction 4% of GDP
 - Additional education 2% of GDP
- Proposed changes—sources of funds:
 - Additional taxes 3% of GDP
 - Reduced military 3% of GDP

Conclusions

- We are a very rich country.
- We could easily afford the taxes to meet reasonable education goals *even without cutting the military budget*.
- Politically in an anti-tax climate, military extravagance cuts into funds for social needs.
- BUT: we could fund reasonable education goals (+1%) and maintenance military goals (-1%) without raising taxes.
- Politically, that's not enough. There are pressures to cut the federal deficit and reduce the debt.
- Politics aside, backing away from our military empire (-4%) would free enough money to fund education (+1%) and almost balance the budget (+3%).

END

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