

**Long-term Drivers of Defense Budgets and the Transatlantic Alliance**

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## **Long-term Drivers of Defense Budgets and the Transatlantic Alliance**

US defense spending is likely to continue to fall as an aging population and increased health care expenditures place heavier demands on the federal budget in the next 20 years. At the same time, many of the European allies with whom the US has build up 60 years of interoperability with through NATO are experiencing far greater budgetary stresses on their ability to fund their militaries even at current insufficient levels. This paper analyzes trends in both the US and Europe and finds that the ability of NATO to carry out missions such as ISAF in Afghanistan will be increasingly difficult to maintain without significant adjustments. The will force a re-evaluation of the transatlantic alliance that could lead to a fragmentation of the security relationship. On the other hand, it could lead to a rationalization of defense infrastructure that would renew the transatlantic relationship on somewhat more equal terms.

The concept of burdensharing in the transatlantic alliance has been a sticking point between the US and its European allies since at least the 1970s. This rather stale debate generally features an American official criticizing his European counterparts for not carrying their fair share of the common defense burden, and the Europeans responding with a variety of polite demurrals, secure in the knowledge that the US will always carry more of the burden, regardless of what Europeans do or do not do. The most recent iteration of this featured then-Secretary of Defense Robert Gates laying out the situation in stark relief. "If current trends in the decline of European defense capabilities are not halted and reversed," said Gates at a 2011 meeting in Brussels, "future US political leaders - those for whom the Cold

War was not the formative experience that it was for me - may not consider the return on America's investment in NATO worth the cost."<sup>1</sup>

Gate's comments were not far off from the sentiments of Senator Michael Mansfield and others in the 1970s who suggested cutting the US presence in Europe in response to the lack of European burdensharing.<sup>2</sup> But there was virtually no chance of the United States ending its role as the guarantor of European security during the Cold War when Europe was the focal point of American security interests. As Gates highlighted, however, the security environment is very different today and the cost-benefit analysis of American policy makers may lead to a very different analysis if the transatlantic alliance is increasingly seen as a drain on resources rather than as a force multiplier.

This is not to ignore the significant contributions in personnel and materiel by European members to NATO missions in Afghanistan and the Balkans. As limited as those contributions were by comparison to the American presence, approximately 30,000 non-US NATO member troops served in Afghanistan when ISAF was at its peak. Without those contributions, the US military would have been even more stretched than it was in the 2000s. The European presence, however, was a fraction of the approximately 100,000 US personnel that were in theater at the time, and is a tiny proportion of the nearly 2 million personnel in European

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<sup>1</sup> US Defense Chief Blasts Europe over NATO," *The Guardian*, June 10, 2011  
<http://www.theguardian.com/world/2011/jun/10/nato-dismal-future-pentagon-chief>

<sup>2</sup> Sean Kay, *NATO and the Future of European Security* (Oxford: Rowman and Littlefield, 1998)

militaries. For more than a decade, the European Union has promised to deliver more deployable military capability and NATO itself set goals for force utilization, deployability and defense spending as a percentage of GDP.<sup>3</sup> These targets and goals, however, generally have not been realized despite the political rhetoric. Furthermore, it is likely that European defense spending is at a peak from which it will only decline as a percentage of GDP. As low as most NATO members' defense spending currently is, the reality is that most European members of NATO are likely to further cut into defense budgets in an effort to maintain funding for more politically significant priorities such as pensions, health care and other forms of domestic spending as they deal with the current economic downturn and the long-term consequences of a rapidly aging population.

This is a reiteration of some familiar theme in transatlantic relations as well as the general assumption that the US will continue to cover the expenses of maintaining NATO's military credibility. This paper, however, argues that there may be a point in the near future when the United States is highly constrained in its ability to fund its current force structure and deployments. A taste of this future was perhaps seen with the battle over the budget sequester that reduces defense spending over the next decade to levels that some in the US military see as

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<sup>3</sup> See, for example, the *Prague Capabilities Commitment* [http://www.nato.int/cps/en/natohq/topics\\_50087.htm](http://www.nato.int/cps/en/natohq/topics_50087.htm)?. NATO set itself a goal that 40% of member state forces should be capable of deployment and that each member should be capable of sustaining 8% of its active duty force on a deployment. Those targets were not reached by many members of the alliance.

debilitating.<sup>4</sup> Regardless of whether or not the sequester remains in place, US defense spending is highly likely to fall to unprecedented levels as a percentage of GDP and of federal spending over the next 20 years. The reasons are mathematical, not political. Despite the political rhetoric and talking points on this subject that may feature in future presidential campaigns, defense spending will continue to fall because the meta-trends in federal spending and demographic pressures will decrease the proportion of federal spending that can be devoted to all discretionary budget items of which defense is the single largest.

Simply put, Europe will no longer be able to depend on the US to act as the guaranteed underwriter of the alliance. Yet at the same time, most European states are beset by the same demographic pressures as the US and feel them even more keenly at present. This could have either centrifugal or centripetal effects on the transatlantic alliance. On the one hand, the European member states could use this pressure to establish truly cross-national and joint capabilities while the US simultaneously rationalizes its existing defense structure for maximal joint effectiveness with its European allies. On the other hand, both the US and its European partners could go down the path of incremental, uncoordinated cuts in defense spending and capabilities that will leave the alliance a political shell with little ability to actually project power as an alliance.

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<sup>4</sup> Sara Sorcher, "Security insiders: Defense budget cuts put the military on a dangerous course," *National Journal*, April 7, 2014 <http://www.nationaljournal.com/defense/insiders-poll/security-insiders-defense-budget-cuts-put-the-military-on-a-dangerous-course-20140407>

This paper begins with an overview of the US federal budget and the trends that will drive future budgets. It then considers the likely scenarios for cuts in the US defense budget and the demographic pressures that will increasingly shift spending from discretionary items such as defense to entitlement spending such as Medicare and Social Security. Finally, it examines the same trends in Europe and concludes with two basic scenarios that could either lead to increased transatlantic cooperation or further disengagement that could prove fatal to the alliance as a means of coordinating effective military operations in the members' mutual interest.

#### THE US FEDERAL BUDGET

The US federal budget is divided into two basic categories: mandatory or entitlement spending, and discretionary spending. Entitlement spending is mandated by existing law and includes Medicare, Medicaid, Social Security and the range of programs that fall under the category of welfare. Appropriations for those budget items cannot be changed without revisiting the existing legislation. Discretionary spending is that which must be appropriated by the Congress each year and includes the funding for all government agencies, including the Department of Defense, which accounts for approximately half of all discretionary spending. Since the 1960s, however, the balance between entitlement and discretionary spending has gradually shifted in favor of entitlements. In 1965 approximately one-third of all federal spending was entitlements and the rest was discretionary. By 2010, that ratio was nearly completely reversed with slightly more than one-third of all spending in the discretionary category and the remaining

two-thirds in entitlement spending.<sup>5</sup> There are two core reasons for this shift. The first is the simple reality of an aging population and the demands that places on the main components of mandatory spending. The second is the ever-increasing cost of mandatory programs far in excess of their original estimates.

There are several potential policy choices that could slow the rise in entitlement spending including higher tax rates, faster GDP growth, health care rationing, and increased retirement ages. All of those come with trade-offs in terms of economic and political consequences that shape both their ultimate effects and likelihood of introduction. Regardless of what arrangements (if any) are eventually arrived at to reduce the growth in absolute costs, the US federal budget will almost certainly be increasingly devoted to mandatory or entitlement spending. This is driven by several factors, most importantly the growing life expectancy of Americans and the rising costs of health care. Even though the US population is at or near replacement in terms of the number of births, the on-going retirement of the “baby boom” generation will add significantly to the existing burdens on Social Security and Medicare.<sup>6</sup> Not only is a larger proportion of the population expected to be retired in the near future, they will live longer and need additional medical

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<sup>5</sup> Congressional Budget Office, *Historical Budget Data*, April 14, 2014.  
<http://www.cbo.gov/publication/45249>

<sup>6</sup> Social Security Administration, *The 2013 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, May 2013

care that will on average exhaust their contributions to the Social Security and Medicare system in the last third of their retirement years.<sup>7</sup>

As the Congressional Budget Office notes in a 2014 report, “between 2015 and 2025, annual budget shortfalls are projected to rise substantially—from a low of \$469 billion in 2015 to about \$1 trillion from 2022 through 2024—mainly because of the aging population, rising health care costs and an expansion of federal subsidies for health insurance and growing interest on the federal debt.”<sup>8</sup> Thus, the inescapable conclusion is that entitlement spending will grow as a percentage of the federal budget. In addition, the CBO goes on to sound a warning to those who hold that increasingly large amounts of federal borrowing can fill the gap. “...high debt means that lawmakers would have less flexibility than they otherwise would to use tax and spending to respond to unexpected challenges. Finally, high debt increases the risk of a financial crisis in which investors would lose so much confidence in the government’s ability to manage its budget that the government would be unable to borrow at affordable rates.”<sup>9</sup> The United States is not Greece and has many assets to draw on in the event of an economic downturn, but this is somewhat apocalyptic rhetoric coming from an office that is known for its staid and even-handed

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<sup>7</sup> This varies considerably depending on a range of assumptions, but the average recipient receives more than they contributed under virtually all possible scenarios. C. Eugene Steurele and Caleb Quakenbush, *Social Security and Medicare Taxes and Benefits over a Lifetime* (Washington DC, Urban Institute, 2012). <http://www.urban.org/UploadedPDF/412660-Social-Security-and-Medicare-Taxes-and-Benefits-Over-a-Lifetime.pdf>

<sup>8</sup> Congressional Budget Office, *Historical Budget Data*, April 14, 2014

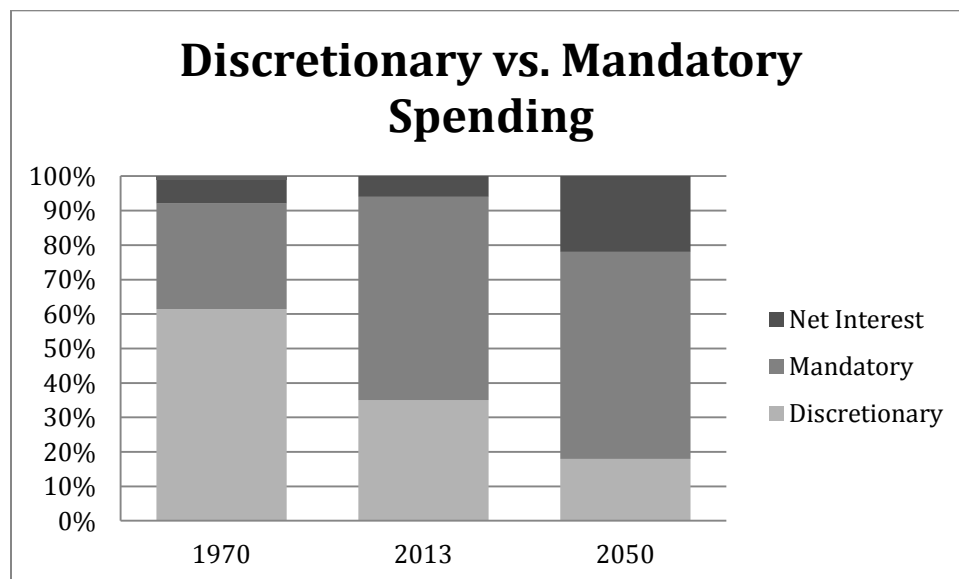
<sup>9</sup> Ibid.



presentation of budgetary information. It should be taken as a sign of the concern held by many professional budget analysts about the trajectory of US debt accumulation.

Setting aside the consequences of increased federal borrowing, the critical point for defense spending is that it represents approximately half of all discretionary spending. Although discretionary spending represents 35% of the federal budget in 2014, that is projected to fall to 18% by 2050- the remaining 82% of the budget will already be obligated to entitlement programs or debt service before Congress begins to discuss the budget and the president's priorities for transportation, research, education, and the entire range of federal spending.

**Figure 1**



Source: Congressional Budget Office, *Budget and Economic Outlook 2014-2024*; Congressional Budget Office, *Long Term Budget Outlook*, September 2013.

Therefore, even if federal spending remains constant as a percentage of GDP and GDP continues to grow at something close to its historical average, defense spending is likely to decline. Assuming GDP growth at 2.3% per year and a gradual decline of the defense budget from 3.8% to 2.5% of GDP over the next two decades, real defense spending would fall an additional \$100 billion (in 2014 dollars assuming a 1.5% deflator). Even if the defense budget remains relatively static, however, the same pressures affecting the rest of the federal budget will impact on the defense budget. Health care, personnel and veteran's benefits will compose and increasingly large proportion of the budget, leaving less for operations and maintenance, research and development, and procurement of new equipment.

**Table 1**

**Defense budget projections assuming 2.3% Annual GDP Growth**

Year	GDP (trillions)	% GDP Defense	Defense budget (billions)	Constant 2014 Dollars
2014	17.42	3.9	679.2	679.2
2015	17.82	3.8	677.0	667.0
2016	18.23	3.7	674.4	664.4
2017	18.65	3.6	671.2	661.3
2018	19.07	3.5	667.6	657.7
2019	19.51	3.4	663.4	653.6
2020	19.96	3.3	658.7	649.0
2021	20.42	3.2	653.5	643.8
2022	20.89	3.1	647.6	638.0

2023	21.37	3	641.1	631.7
2024	21.86	2.9	634.0	624.6
2025	22.37	2.8	626.2	617.0
2026	22.88	2.7	617.8	608.6
2027	23.41	2.6	608.6	599.6
2028	23.94	2.5	598.6	589.8
2029	24.50	2.4	587.9	579.2
2030	25.06	2.3	576.4	567.8
2031	25.64	2.2	564.0	555.6
2032	26.22	2.1	550.7	542.6
2033	26.83	2	536.6	528.6
2034	27.44	2	548.9	540.8

#### CURRENT AND LIKELY FUTURE REDUCTIONS

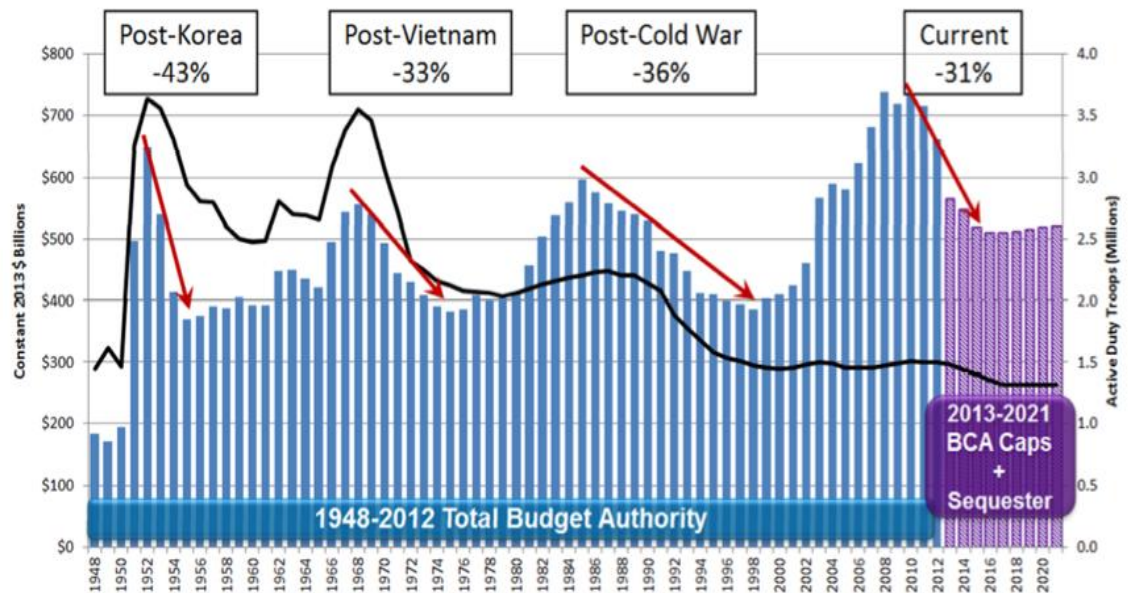
It is important to put the current defense budget in its historical context. The US defense budget has generally fallen by more than 33% following a major conflict (see Figure 2). The current decline since 2008 is in line with previous declines although somewhat less, perhaps in deference to the need to avoid a repeat of the “procurement holiday” of the 1990s.<sup>10</sup> Nonetheless, it is clear that defense spending as a percentage of GDP will fall below 3% over the coming decades given current trends. This would put US defense spending in line with that of France or the UK as a percentage of GDP and would represent a new low by this measure since the early

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<sup>10</sup> Mackenzie Eaglen, “A Rusting Military,” *New York Times*, May 9, 2011.  
<http://www.nytimes.com/roomfordebate/2011/05/08/how-to-cut-the-military/a-rusting-military>

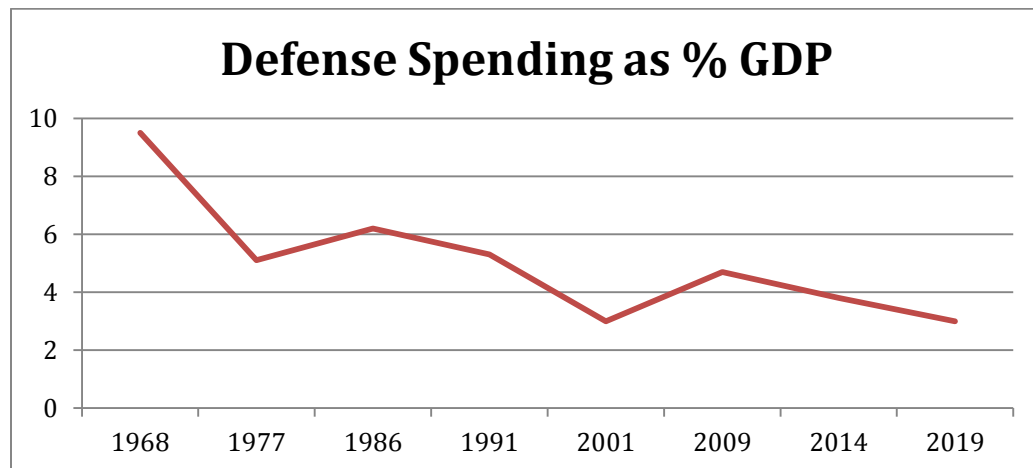
part of the 20<sup>th</sup> Century. By comparison, the US spent approximately 9% of GDP on defense in the 1960s and 6% in the 1980s (Figure 3).

**Figure 2: Defense Reductions in Perspective**



Source: Center for Strategic and International Studies

**Figure 3: US Defense Spending as a Percentage of GDP**



Source: Department of Defense, Congressional Budget Office

A number of expert panels have wrestled with the implications of falling defense budgets to craft a logical retrenchment. One panel brought together by the Center for Strategic and International Studies (CSIS) divided the participants into seven different teams to better flesh out the available options. The expert teams generally sought to control costs by reducing the number of active Brigade Combat Teams, (BCTs). The experts were generally less eager to cut into the US aircraft inventory or navy ships. The end result, however, is that fewer active BCTs means fewer “boots on the ground.”<sup>11</sup> That may be feasible in an era in which military operations increasingly substitute technology for personnel, but that is not always possible, particularly in peacekeeping, peace-making and counter-insurgency warfare. The sort of missions undertaken by NATO in the Balkans and Afghanistan could not be performed by UAVs and other technological advances without considerable personnel in theater. Counter-insurgency combined with humanitarian relief is labor intensive and NATO members ultimately committed 60,000 personnel to the mission in Kosovo and double that to the mission in Afghanistan. Even then, one critique of the NATO presence in Afghanistan is that it was not heavy enough to reach a critical mass in many parts of the country. While there is considerable room for debate as to how large a presence is needed in any given situation, a RAND study found that the typical presence of troops on the ground in successful stabilization missions came to approximately 1 foreign military

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<sup>11</sup> Clark Murdock, *Planning for a Deep Defense Drawdown, part 1* (Washington, DC: CSIS, 2012).

personnel for every 200 civilians.<sup>12</sup> Although Afghanistan was a particularly large mission covering a vast territory, smaller missions can also demand significant personnel commitments because of the need to sustain the presence over a long enough period to be effective. Given the typical 2-1 ratio of deployed to non-deployed units needed for a sustained presence, fewer troops means heavier rotations with potential negative effects on recruitment and retention.

It is possible that the US and its NATO allies will simply avoid counter-insurgency and stabilization missions in the future, thereby rendering any speculation about the need for large ground forces moot. But the basic strategic reality is that state failure across the Middle East and North Africa is a real and present danger that at a minimum presents challenges in the form of ungoverned spaces in which terrorist organizations can organize, as well as sources of destabilizing levels of migration to Europe. It is unlikely that the US and its allies will be able to avoid such missions in the future, thus there is a limited opportunity to substitute capital for labor in the near to medium term.

#### THE DEMOGRAPHIC CHALLENGE

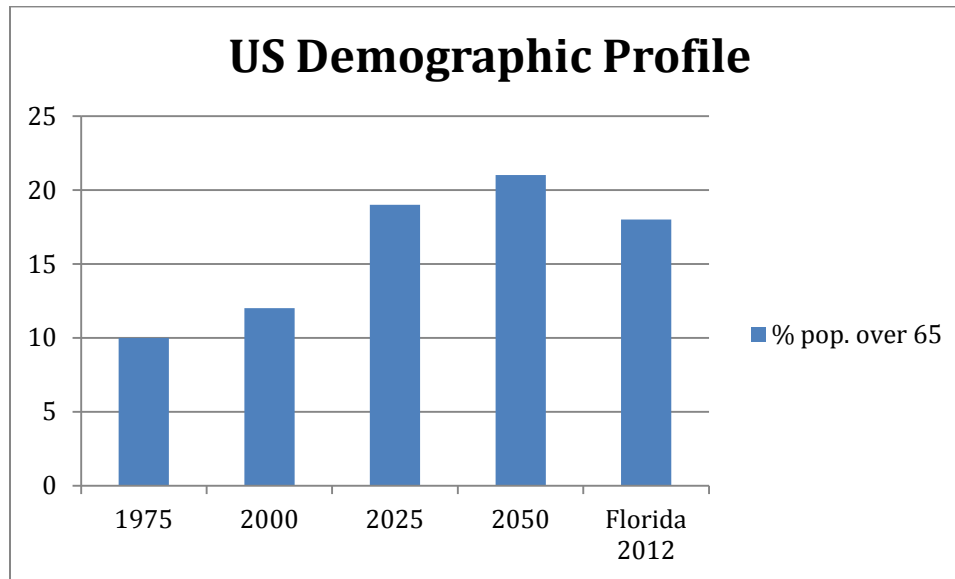
The overwhelming factor in the shift toward increased mandatory spending is the changing demographic profile of the United States. As a point of reference, Florida is known as the retirement capital of the US where currently 18% of the population is over the age of 65. By 2025, however, the population in the entire US

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<sup>12</sup> James Dobbins, et al, *A Beginner's Guide to Nation-building* (Washington DC: Rand, 2007)

over age 65 will rise to 19% (from its current 13%). In other words, the US overall will look more “gray” than its currently “grayest state.”

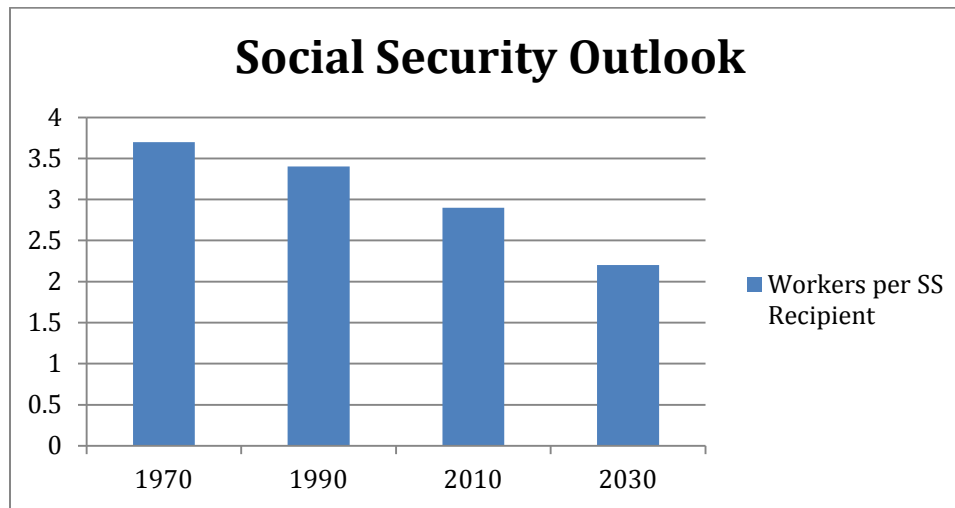
**Figure 4**



Source: Social Security Administration and US Census Bureau.

There are obvious implications to this trend, but the budgetary calculus is also affected by the declining ratio of workers paying into the social security system relative to retirees collecting benefits. In basic terms, a social security system designed in an era in which few individuals lived past 70 will struggle to remain solvent in a world in which people will routinely live well into their 80s.

**Figure 5**



Source: Social Security Administration, *The 2013 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, May 2013.

Social Security as a system is already in deficit, but those deficits are projected to balloon by 2030 as the baby boom generation completely retires. Given that retirees are living longer, they also will put more financial pressure on the Medicare system. There are numerous competing proposals for how to manage this budgetary challenge. Those on the left tend to focus on increased taxes, while those on the right tend to focus on increasing the retirement age or controlling the growth of entitlements. While both of those may be helpful, the scale of the deficit is so large that it is not clear that either of those could completely prevent a shift toward greater entitlement spending.

#### THE EUROPEAN SIDE OF THE EQUATION

As strained as the budgetary outlook is in the United States, it is generally far worse in most of its European allies. This is a product of two factors. First, the debt



crisis brought about by the introduction of the Euro across widely varying economies and second, a long-term demographic decline. The debt crisis and its impact on European budgets is a relatively short-term problem. The longer-term issue for European defense budgets, however, is a demographic shift with profound consequences.

It is unnecessary to explore here the reasons for why the Euro induced a serious debt crisis in many of the Southern European states. The critical point is that the policy solutions to the crisis are likely to aggravate the long-term demographic problem. When countries such as Greece, Italy and Portugal managed their own monetary affairs, the obvious solution to a debt crisis was a devaluation of the currency. Devaluation would make exports seem relatively cheap and the country would be a more attractive tourism destination. Imports would be relatively expensive, which would channel consumers toward domestic producers, thereby stimulating demand and increasing employment. The resulting influx of capital and tax revenues would allow the country to reduce its debts to a manageable level. It is a strategy used by many countries, particularly Italy, in the post-WWII period.

By joining the Euro, however, devaluation is no longer an option. The countries in question are therefore going through a painful process of “internal devaluation” in which wages are driven down. Combined with high levels of youth unemployment, fewer young people can start a career in their home country and are either forced to work in temporary positions or move abroad. Either way, they do

not build the capital to start families or pay taxes into the social security system at a level that will enable it to perpetuate indefinitely. Thus, the debt crisis can be seen as a short-term problem that can be overcome through some combination of austerity and other measures. But it exacerbates the demographic problems faced by most European states, which threatens the solvency of state retirement systems.

As a number of studies spell out with some detail, the population of most European countries is aging rapidly, meaning that retirement benefits and health care for the aged will be paid from a smaller tax base.<sup>13</sup> Thus, while Europe is attempting to build the means to act as a security provider independently from the United States through the Common Foreign and Security Policy, Europe will be set upon by a host of difficult choices whose likely resolutions will deprive it of the financial resources it needs to invest if it is to develop the capabilities needed to play an independent role in military operations beyond its current level.

Most European states are aging rapidly. Italy and Germany are two of Europe's most populous countries, but under current projections, the average age in both will be 50 by 2030. As a point of comparison, the current average age in Florida is 42. In other words, much of Europe will be considerably older than

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<sup>13</sup> Nicholas Eberstadt, "World Population Prospects and the Global Economic Outlook: The Shape of Things to Come," The American Enterprise Institute Working Paper Series on Development Policy, Number 5, February 2011; Ben J. Wattenberg, *Fewer: How the New Demography of Population will Shape our Future* (Chicago: Ivan R. Dee, 2004); Richard Jackson and Neil Howe, *The Graying of the Great Powers: Demography and Geopolitics in the 21<sup>st</sup> Century* (Washington D.C.: Center for Strategic and International Studies, 2008); Constantino Fotakis, "Demographic Ageing, Employment Growth and Pensions Sustainability in the EU: The Option of Migration," paper prepared for the Expert Group meeting on policy responses to population ageing and population decline, Department of Economic and Social Affairs of the United Nations Secretariat, New York, 16-18 October 2000.

America's retirement capital. According to estimates by the Center for Strategic and International Studies, 46 % of the population of Italy and Spain and 35 % of the population of France will be above the age of 60 in 2040.<sup>14</sup> Given current benefits, each retiree in Germany will have to be supported by 1.6 workers and each Italian and Spanish working age person will have to support one retiree. The consequences of this situation should not be underestimated. Either benefits will have to be reduced, taxes will have to increase, governments will have to borrow more to sustain the aging population or immigration will have to sharply increase to supply the workforce and rebalance the population.<sup>15</sup>

Some members of the EU are engaging in reforms along those general lines, but the political consequences of this path are readily apparent to those leaders who faced protests over increases in retirement ages or university fees in France and the United Kingdom. Increasing immigration is a particularly sensitive means of rebalancing the demographic profile. The negative political consequences of taking steps to ensure the viability of the welfare state that directly impact on citizens' benefits or incomes makes another option more likely in the near-term: shifting resources from other forms of government spending to shore up the pension

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<sup>14</sup> Richard Jackson and Neil Howe, *The 2003 Aging Vulnerability Index: An Assessment of the Capacity of Twelve Developed Countries to Meet the Aging Challenge*, (Washington, DC., Center for Strategic and International Studies, 2003).

<sup>15</sup> The US will face a similar problem but it is buffered by two factors: the population is not aging nearly as quickly as in Europe and retirees are more reliant on private pensions and savings than government benefits.

system. Among the likely candidates for further cuts are defense and international affairs budgets.<sup>16</sup>

Thus, over the next several decades, Europe likely will have fewer resources to devote to defense and international affairs. An aging population will require more and more resources to maintain it and there will be fewer working-age individuals whose income can be taxed to pay for those benefits. Some changes can and are being implemented such as raising the retirement age, and shifting health care toward private insurance based programs, but in the near-term governments are likely to continue to trim spending on international affairs, the military and foreign assistance programs. Simply put, a proposal to cut benefits to the fastest growing segment of the population has political consequences at the voting booth, but reducing spending on defense and international affairs has little domestic political cost among most European publics.

Much as in the US, a rapidly aging population has significant effects on the long-term budget. But in much of Europe, the budgetary issue is more acute because of the low Total Fertility Rate (TFR). Total fertility rate is a means of expressing the ability of a given population to maintain its current size. It is measured in the total number of children each female member of a population will bear in her lifetime, and 2.1 is the generally accepted benchmark for a stable

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<sup>16</sup> CFSP encompasses a range of tasks far larger than those traditionally associated with the military, and that by examining defense budget trends we may miss funding for non-military aspects of CFSP. However, the budgetary pressures of the current financial crisis and the long-term demographic decline will affect all aspects of national finance including development assistance, funding for police and rule of law missions, and other non-military aspects of the EU's global presence.

population. Thus, any population with a TFR above 2.1 will grow, and any below that will decline. The decline however is not monotonic and populations will begin to decrease dramatically once the TFR drops below 1.5. At that point, a population will halve itself in approximately 60 years.<sup>17</sup> Several states in Europe are at or below this level at the present and a long-term, deep demographic decline appears to be inevitable.

In short, the US faces serious challenges due to an aging population, but Europe faces a far more difficult situation. In addition to an aging population, the low TFR will further skew the demographic balance, while the generally higher dependence on state-funded rather than private pension plans will increase stress on national budgets. The Euro crisis may appear to be only a short-term issue, but its depressive effects on youth employment and family formation will only increase the intensity of the demographic transition and its attendant budgetary implications.

## CONCLUSION

For a very long time, the United States has complained about its European allies' inability or unwillingness to fund defense, and former US Secretary of Defense Robert Gates' valedictory speech to his European counterparts was only the most recent example.<sup>18</sup> But the current security environment makes it clear that both Europe and North America will likely face threats and challenges arising from

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<sup>17</sup> Ronald Lee (2003) "The Demographic Transition: Three Centuries of Fundamental Change," *Journal of Economic Perspectives*, 17:4, 167-190.

<sup>18</sup> "Gates rebukes European allies in farewell speech," *The Washington Post*, June 10, 2011.

failed and failing states requiring improved expeditionary capabilities. Both the European Security Strategy and the US National Security Strategy outline these common threats in detail including: terrorism and proliferation, illegal immigration, organized crime as well as the need to assist in preventing humanitarian crises resulting from state failure.<sup>19</sup>

A renewed transatlantic partnership would acknowledge the relative strengths of the two sides. While the US has vast capabilities in strategic lift, logistics, surveillance, intelligence and reconnaissance, Europe brings a variety of skill sets to the table as well. In addition to the militaries compatible with the US armed forces based on sixty years of close collaboration, many European states also have deployable paramilitary police forces that fill an important gap in the gray area between operations suited to military forces and those that can be considered civilian missions. The EU's rule of law assistance missions could be furthered if coordinated with similar-themed US assistance missions. Although it can be argued that this removes some of the independence of CFSP and thus defeats the purpose, it is not necessarily the case that a renewed transatlantic partnership focused on preventing state failure and dealing with the consequences of state failure puts the EU in the position of the junior partner. Clearly this would be the case in purely military operations, but the defining feature of the current security environment is

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<sup>19</sup> See for example the current ESS <http://www.eeas.europa.eu/csdp/about-csdp/european-security-strategy/> and the US NSS [http://www.whitehouse.gov/sites/default/files/rss\\_viewer/national\\_security\\_strategy.pdf](http://www.whitehouse.gov/sites/default/files/rss_viewer/national_security_strategy.pdf)

that current operations require a mix of military, civil and paramilitary assets, some of which Europe has significant capabilities compared to the United States.

It is not clear if this sort of partnership is politically viable, either in Brussels or Washington. What is clear, however, is that the members of transatlantic alliance will all face severe fiscal strains in the coming decades. Although there is considerable variation across countries, the overall picture is one of inexorable downward pressure on defense budgets as aging populations demand increased proportions of national budgets from increasing small working age populations. The trend is most striking in Europe where the combined effects of demographic decline, relatively large government pension obligations, and lingering effects of the Euro crisis diminish younger citizens payments into the social security systems. Yet, the United States is not immune to these trends, even if it maybe somewhat less immediately affected by the effects of an aging population on federal spending. Because defense spending is the single largest portion of discretionary spending, it is highly likely to fall as discretionary spending as a whole decreases. Significant sustained GDP growth can minimize the impact, but even relatively optimistic economic projections suggest long-term downward pressure on the US defense budget.