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Special Feature

Military Manpower Cost in India and the United States: A Comparative Analysis

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S*ummary*

Rising manpower related expenditure in India's defence budget has often been highlighted as a major structural constraint in the allocation of urgently required resources towards modernisation of the armed forces. It is argued that India's expenditure on military manpower as pay and pension as a percentage of defence expenditure is higher than the US. This special feature argues that defence related expenditure of the US is much larger than what is often assumed and share of expenditure on military manpower as a percentage of total defence related expenditure is broadly similar in both the US and India. Given the similar fiscal restraints prevailing in both countries, the key difference in their approaches towards military manpower cost has also been highlighted.

Rising manpower cost in the defence budget has been highlighted as a key concern in managing India's growing defence expenditure. Expenditure towards pay and pension in India's defence budget has progressively grown to nearly 60 per cent of India's defence budget.¹ It has been argued that exponential growth in the military manpower cost not only stifles defence modernisation but also impacts readiness due to progressively lesser budgetary allocations towards operational maintenance. Remedial measures under contemplation consider the twin approach of right-sizing the 1.4 million strong active duty military personnel along with various options for the reduction in pension expenditure. There is also a view that India's expenditure on military manpower as a share of the defence budget is higher than the United States (US).²

Even though both India and the US have approximately 1.4 million military personnel on active duty, India's total defence expenditure is substantially less than the US. The 'guns vs butter' or 'defence vs development' argument in the allocation of fiscal resource for defence is not unique to India. It has substantial resonance in the US as well. Concerns about growing fiscal deficit and the resultant burden of growing government debt, along with compelling and competing demands from other government sectors, have significant parallels in both countries. Defence allocations in both countries are not only facing enhanced scrutiny but also a growing clamour for reining in the growth in the defence budget. Given these commonalities, the US approach towards military manpower cost in defence expenditure has relevance in the Indian context.

Based on budgetary data of Financial Year (FY) 2019 for the US and FY 2019-2020 for India, this special feature provides a comparative analysis of expenditure on active duty military personnel, veterans/ military retiree³, and civilians paid from the defence budget. The focus of this feature is the critical evaluation of two key arguments about comparative military manpower cost in the US and India: first, US expenditure on military manpower as a percentage of total defence expenditure is smaller than India's.⁴ Second, relative expenditure on defence pension in the US is low since only 20 per cent of the US active-duty personnel retire with a regular pension.⁵ The reality, however, is that the share of expenditure on military manpower as a percentage of total defence related expenditure is broadly similar in both the US and India. Notwithstanding prevailing fiscal constraints,

¹ Ajai Shukla, ["India Spends Nearly 60% of Defence Budget on Salaries, Pensions"](#), *Business Standard*, April 30, 2020. Also, see Laxman Kumar Behera, ["India's Defence Budget 2020-21"](#), *MP-IDSA Issue Brief*, February 04, 2020; Laxman Kumar Behera and Vinay Kaushal, ["Defence Pension Reforms: Recommendations of the Past Committees and Commissions"](#), *MP-IDSA Special Feature*, February 28, 2020; and Laxman Kumar Behera, Vinay Kaushal and Amit Cowshish, ["Defence Pension: A Comparative Study of India, US and UK"](#), *MP-IDSA Policy Brief*, April 23, 2020.

² This comparison was highlighted by few experts during a webinar on "Covid-19 and its Impact on Defence Expenditure", conducted by MP-IDSA on April 28, 2020. It was argued that the US expenditure on military manpower was 42 per cent as against 60 per cent in India.

³ Veteran is a common term used to identify persons who have served in the armed forces. Among the veterans, military retiree refers to those veterans who are eligible for regular pensions.

⁴ *MP-IDSA Webinar*, no. 2.

⁵ This argument has been highlighted in the articles referred to in endnote no.1.

the pay and benefits of military personnel and expenditure on veteran welfare have remained beyond the purview of these cost curtailment considerations in the US.

Defence Related Expenditure – Comparison of Major Budgetary Outlays

India's defence expenditure in FY 2019 was Rs 4310 billion, which constituted about 15.47 per cent of the central government expenditure or 2.04 per cent of its GDP. This figure includes expenditure towards pensions for both military retiree and defence civilian pensioners. Defence pension expenditure towards the 2.5 million retirees and 0.6 million defence civilian pensioners was Rs 1120 billion which amounted to about 26 per cent of India's total defence expenditure.⁶

As in the case of India, defence expenditure is the largest segment of the US federal expenditure. The budgetary provisions under National Defence Appropriation (Function 050) of the US Federal Budget are generally considered as the US defence expenditure which includes the DoD budget and appropriations other departments for defence related activities.⁷ In FY 2019, the US defence expenditure was \$726 billion which included the United States Department of Defence (US DoD) budget of \$695 billion and \$36 billion as other defence-related expenditure for national defence. This amounts to 16 per cent of the total federal expenditure of the US and 3.2 per cent of its GDP.⁸

Often overlooked is the fact that the US defence related expenditure is much larger than the above-quoted figures.⁹ These include budgetary allocations for the US veteran support by the Department of Veteran Affairs and allocations from the US Treasury towards amortisation of unfunded military retirement fund to military personnel.¹⁰ Details of other defence related expenditure in the US Federal Budget beyond US DoD Budget and National Defence Appropriations are as under:

- The pension of US military retirees is paid through a military retirement fund which is partly funded through annual accrual contribution from US DoD and US Treasury.¹¹ Pay and benefits budget of US DoD include a contribution to the military

⁶ [“First Report of the Standing Committee on Defence \(2019-20\)”](#), Demand of Grants (2019-20), Seventeenth Lok Sabha, *Lok Sabha Secretariat*, New Delhi, December 2019, p.20.

⁷ Christopher T. Mann, [“Defense Primer: The National Defense Budget Function \(050\)”](#), *Congressional Research Service*, March 17, 2017.

⁸ [“Defense Budget Overview: United States Department of Defense Fiscal Year 2019 Budget Request”](#), *US Department of Defense*, February 2018.

⁹ William D. Hartung and Mandy Smithberger, [“America’s Defense Budget Is Bigger Than You Think”](#), *The Nation*, May 07, 2019; and Jeff Stein, [“U.S. Military Budget Inches Closer to \\$1 Trillion Mark, as Concerns over Federal Deficit Grow”](#), *The Washington Post*, June 19, 2018.

¹⁰ Todd Harrison and Seamus P. Daniels, [“Analysis of the FY 2019 Defense Budget”](#), *Centre for Strategic & International Studies (CSIS)*, Washington DC, September 20, 2018.

¹¹ [“Military Retirement: Service Contributions Do Not Reflect Service Specific Estimated Costs and Full Effect of Proposed Legislation Is Unknown”](#), *US Government Accountability Office (GAO)*, December 2018.

retirement fund towards future pension liability which amounted to \$15 billion in FY 2019.¹² The US Treasury provides additional annual allocation towards amortisation of unfunded military retirement liability which was estimated to be \$886 billion in 2018.¹³ Similarly, additional monetary support is also provided to military retiree health care fund. In FY 2019, the US Treasury allocated \$92 billion for amortisation of unfunded pension and health insurance-related obligations for military retirees which included \$86 billion for military retirement fund and \$6 billion for military retiree health care fund.

- The Department of Veteran Affairs is a separate civilian department (Indian equivalent of a ministry), headed by a cabinet ranked Secretary (or a cabinet minister in the Indian context), which provides for financial assistance and health services to the US veterans. Veteran benefits are available to the US citizens who have served in the US military on active duty for 36 months and have been honourably discharged. In FY 2019, the Department of Veteran Affairs was allocated \$193.2 billion towards disability pension, financial aid, educational support and health care for the US veterans. Annual expenditure on veteran welfare and support constitutes about 4.4 per cent of the US Government federal expenditure and about 0.9 per cent of the US GDP.¹⁴

These additional defence related expenditure by the US Government towards a military retirement fund, and veterans benefits and tax exemptions in FY 2019 amounts to \$285.2 billion which corresponds to 28 per cent of the defence related expenditure and nearly 7 per cent of the US Federal Budget. Taking these into account, total defence-related expenditure of the US in FY 2019 turns out to be 23 per cent of US Federal expenditure and 4.1 per cent of its GDP, a much higher figure than the narrow estimates based on budgetary allocations for the US DoD and National Defence.

Table 1 highlights the defence-related expenditure (major heads) of India and the US in their respective currencies.¹⁵

Also, see James Hosek, Beth J. Asch, and Michael G. Mattock, [“Toward Efficient Military Retirement Accrual Charges”](#), RAND Corporation, 2017.

¹² [“Department of Defense Budget FY 2019: Military Personnel Programs \(M-1\)”](#), Office of the Under Secretary of Defense (Comptroller), February 2018.

¹³ [“Military Retirement Fund Audited Financial Report”](#), US Department of Defense, November 06, 2018, p. 24.

¹⁴ [“Possible Higher Spending Paths for Veterans’ Benefits”](#), US Congressional Budget Office, December 2018.

¹⁵ Author’s compilation based on “First Report of the Standing Committee on Defence (2019-20)”, no.6, p.20 and Todd Harrison and Seamus P. Daniels, no. 10, p.2.

Table 1: Defence Related Expenditure in FY 2019 (Major Heads) ¹⁶

India		USA	
Defence Services (Capital)	Rs 1034 B	US DoD Budget {Base+ Overseas Contingency Operations (OCO) + Emergency}	\$695.1 B
Defence Services (Revenue)	Rs 2019 B	National Defence (other defence related activities)	\$37.1 B
MoD (Civil)	Rs 136 B		
Defence Pension	Rs 1120 B		
Total	Rs 4310 B	Total	\$726.8 B
		Amortisation of Unfunded Military Retirement Benefits	\$92 B
		Veteran Benefits and Services	\$193.2 B
Grand Total	Rs 4310 B	Grand Total	\$1012 B
% of total Central of Government Expenditure	15.47 %	% of Total Federal Expenditure	23 %
% of GDP	2.04 %	% of GDP	4.1%

The omission of additional defence related expenditure in the US Federal budget in the comparative matrix is the reason behind the underestimation of relative manpower cost of the US military vis-à-vis India as a percentage of total defence expenditure. This issue has been explored in the next two sections.

Size of Manpower Included in Defence Related Expenditure

Table 2 provides comparative statistics of defence-related manpower in the US and India. Even though both countries have similar military manpower on active duty at present, i.e., 1.4 million, the number of military retirees and veterans differs considerably. The US has a vastly larger veteran population due to the shorter duration of enlistment contracts and also due to the periodical surge in military manpower during various contingencies and conscription during the Vietnam War.

¹⁶ The choice of using budgetary values in local currency denomination is deliberate in order to maintain original budgetary figures as stated in the respective budget papers. For values in numeral, B= Billion.

Table 2: Comparison of Manpower included in Defence Related Expenditure¹⁷

	India	USA
Personnel on Pay Roll		
Military Personnel (Active Components)	1,438,717	1,338,100
Reserves and National Guards	Nil	817,700
Defence Civilians	398,422	776,027
Retiree/ Veteran		
Total Veteran Population (estimate)	2.6 M	19.2 M
Military Retiree	2,587,078	2,001,343
Number of Veterans supported by Department of Veteran Affairs in a Year	---	9.21 M
Number of Veterans with Disability Compensations/ Pension	214,411	5,000,000
Defence Civilian Pensioners	601,783	Nil

Veteran Population vs Military Retiree on Regular Pension

The population of veterans in the US is estimated to be approximately 19.2 million out of which about 2.1 million military retirees draw a regular pension. It needs to be highlighted that regular pension is provided only to those US military personnel who complete a minimum of 20 years which constitute about 20 per cent of the total active-duty strength. Even though just about one out of five military personnel are granted regular retirement

¹⁷ Author's compilation based on sources as under:

- India's military personnel on active duty. See Laxman Kumar Behera, ["India's Defence Budget 2020-21"](#), Table 9, *MP-IDSAs Issue Brief*, February 04, 2020.
- Number of Defence Civilian in India. See ["Annual Report on Pay and Allowances of Central Government Employee \(2017-18\)"](#), Pay Research Unit, *Department of Expenditure, Ministry of Finance*, Government of India, 2017.
- Number of military retiree and defence pensioner in India. See ["Lok Sabha Unstarred Question No. 3956: Downsizing Manpower in Army and Civilian in Defence"](#), *Department of Ex-Servicemen Welfare, Ministry of Defence*, Government of India, March 18, 2020.
- Number of Disability claimants in India. See Laxman Kumar Behera, ["India's Defence Budget 2020-21"](#), Table 10, *MP-IDSAs Issue Brief*, February 04, 2020.
- Manpower size of US DoD in FY 2019. See ["Defense Budget Overview: United States Department of Defense Fiscal Year 2019 Budget Request"](#), Figure 5.1, *US Department of Defense*, February 2018.
- Number of US military retiree on regular pension. See ["Statistical Report on the Military Retirement System \(FY 2018\)"](#), *Office of the Actuary, US Department of Defense*, May 2019, p. 17.
- US Veterans Data. ["VA Benefits and Health Care Utilisation"](#), *US Department of Veteran Affairs*, 2019.
- Suffix 'M' after numeral values denotes 'million'.

pension, the number of military retirees that is those who draw regular pension still remains about two million.

In comparison, India has an estimated population of 2.6 million veterans. Other than a very small number of Short Service Commission officers and military personnel who opt for voluntary separation, a regular pension is provided to nearly all members of the Indian Armed Forces after a minimum service period of 15 years for enlisted persons and 20 years for officers.

The point to note here is that 80 per cent of the US veterans who separated prior to the minimum retirement threshold are not simply left to fend for themselves. Financial aid, health care, and educational assistance are provided to every veteran who has served on active duty for a minimum period of 36 months. In the event of a disability, even this minimum period of 36 months of active duty is waived off. As highlighted in Table 1, annual expenditure towards veterans benefits and support by the US Government was about \$193 billion. In comparison, the US DoD expenditure on pay and benefits for serving military personnel was \$192 billion.¹⁸

There have been some recommendations in India for the lowering of colour service or a shorter enlistment period for soldiers in the Indian Armed Forces. The US model of awarding regular military pension only to a smaller set of military personnel is often cited as evidence for reducing defence pension bill.¹⁹ However, these studies have completely avoided any reference to robust veteran support and expenditure in this regard by the US Treasury.

Number of Veterans with Disability Compensation

Approximately five million US veterans have some sort of service-connected disability, of whom nearly 1.7 million have a disability rating of 70 per cent or higher.²⁰ A 'service-connected' disability is one that is a result of a disease or injury incurred or aggravated during active military service for which tax exempted disability compensation is paid by the US Government.

Even though the active end strength of the military in India and the US are comparable, the number of military retirees with a service-connected disability is minuscule in India. Only 214,411 individuals or less than 10 per cent of the military retiree receive disability

¹⁸ [“Defense Budget Overview: United States Department of Defense Fiscal Year 2019 Budget Request”](#), Figure 5.1, *US Department of Defense*, February 2018.

¹⁹ Laxman Kumar Behera, [“India’s Defence Budget 2020-21”](#), Table 9, *MP-IDSA Issue Brief*, February 04, 2020; and Laxman Kumar Behera, Vinay Kaushal and Amit Cowshish, [“Defence Pension: A Comparative Study of India, US and UK”](#), *MP-IDSA Policy Brief*, April 23, 2020.

²⁰ [“Statistical Trends: Veterans with a Service-Connected Disability, 1990 to 2018”](#), *The National Center for Veterans Analysis and Statistics, US Department of Veteran Affairs*, May 2019. Also, see [“VA Benefits and Health Care Utilisation”](#), *US Department of Veteran Affairs*, 2019.

compensation of any sort in India. What is surprising is that even this much lower number of disability pensioners has been highlighted as a major fiscal burden and disparaging observations have been made about them in recent times.²¹ Similar to the US, the disability pension of veterans was also tax-exempt in India till recently. The Government of India has removed this income tax exemption for disability compensation through a proclamation, although it has not yet been implemented in view of ongoing judicial review.²²

The list of 'service-connected disability' ailments is also much larger in the US than India. It is worth highlighting that 1.13 million US Veterans draw disability compensation for post-traumatic stress disorder (PTSD),²³ a disabling medical condition which is not even recognised as a 'service-connected' disability in India.

Pension Benefits of Defence Civilian as Defence Related Expenditure

Another key difference in the two countries is the treatment of pension provision of defence civilians. In the US, the retirement benefits of the US DoD civilian are provided through the US Federal Employee Retirement Fund. The US expenditure on military pension and veterans fund caters for former military personnel. In contrast, defence pensions outlay in India serves both military retirees and defence civilian pensioners.

It needs to be noted that defence civilian pensioners constitute about 20 per cent of the total defence pensioners in India. Segregated data on annual pension expenditure for military retirees and defence civilian pensioners is not available. In a reply to a pointed parliamentary question in this regard, the Ministry of Defence informed that "in the accounts and budget, the (pension) expenditure in respect of Military personnel and Defence Civilians are not maintained separately."²⁴

Nearly 60 per cent of the military personnel retire after 15 years of active service while defence civilians retire only after superannuation at the age of 60 years. Given the shorter service span and resultant lesser pension amount in case of military personnel in comparison to defence civilians retiring at superannuation, some analysts estimate that the pension expenditure on 20 per cent defence civilian pensioners could be as high as

²¹ Sudhi Ranjan Sen, ["Govt Plans to Curb Disability Pension Misuse, Will Start from the Top"](#), *Hindustan Times*, October 31, 2019; and ["Indian Army Says Disability Pension Is Taxed Due to Exploitation of Its Benefits"](#), *Scroll*, July 02, 2019.

²² Pradeep R. Sagar, ["What Drove Modi Government to Tax Military Disability Pension?"](#), *The Week*, June 2019; and Sudhi Ranjan Sen and Kumar Uttam, ["Government to Roll Back Tax on Disability Pension for Forces"](#), *Hindustan Times*, August 12, 2019.

²³ ["VA Benefits and Health Care Utilisation"](#), *US Department of Veteran Affairs*, 2019.

²⁴ ["Lok Sabha Unstarred Question No. 3956: Downsizing Manpower in Army and Civilian in Defence"](#), *Department of Ex-Servicemen Welfare, Ministry of Defence, Government of India*, March 18, 2020.

40-42 per cent of the annual defence pension outlay, while others estimate the share of defence civilian pension expenditure as only 20 per cent of the total.²⁵

Lack of segregated data, in respect of annual expenditure on defence civilian pensioners in India, distorts the comparison of total manpower cost in defence-related expenditure between India and the US highlighted in the next section.

Manpower Cost as a Percentage of Total Defence Related Expenditure

In FY 2019-20, pay and allowances constituted about 32 per cent of India's defence budget while pension expenditure is estimated to be about 26 per cent. Budgetary allocations towards capital procurement for modernisation was about 20 per cent while revenue allocations towards operations and maintenance were estimated to be 22 per cent.²⁶ As highlighted earlier, it is often argued that this high percentage of 58 per cent of the defence budget on manpower cost in terms of expenditure on pay and pension compares unfavourably with other countries particularly the US which spends just about 42 per cent of its defence outlay towards salary and pension.²⁷

In FY 2019, the US DoD budgeted a total of \$267 billion towards manpower related expenses for pay and benefits of its active-duty military personnel and the civilian employees which amounted to 43.7 per cent of its base budget.²⁸ While this figure in percentage terms broadly correlates with the heuristic estimate of manpower costs being 42 per cent of the US defence expenditure, other budgetary provisions as highlighted in Table 1 earlier need to be considered in the computation of total manpower cost in the defence-related expenditure of the US. Table 3 provides a comparative statistical summary of total manpower cost in the defence-related expenditure of the US and India.

²⁵ Prakash Katoch, [“The Truth About Rising Defence Pensions”](#), *Indian Defence Review*, February 19, 2020. Also, see Prakash Menon, [“Is India's Rising Defence Pension Bill Affecting Modernisation of Military? 5 Myths Busted”](#), *The Print*, March 12, 2020.

²⁶ Author's estimate based on data contained in the [Demand of Grants for Ministry of Defence \(Demand Nos. 18, 19, 20, and 21\)](#).

²⁷ *MP-IDSA Webinar*, no. 2.

²⁸ [“Defense Budget Overview: United States Department of Defense Fiscal Year 2019 Budget Request”](#), Figure 5.1, *US Department of Defense*, February 2018.

Table 3: Summary of Defence Related Expenditure (As % of Total)²⁹

India (Rs 4310 B or \$61.5 B)		USA (\$1012 B)	
Capital Expenditure	20%	Acquisition & Ammunition	22%
Revenue Expenditure (Excluding Pay and Allowances)	22%	Operation & Maintenance	24%
Manpower Related Expenditure			
Pay and Allowances (military + civilian)	32 %	Pay and Benefits (Active duty military +Reserves + US DoD Civilians)	26%
Defence Pension (Includes 20% Defence Civilian Pensioners)	26 %	Pensions (Only for military retiree)	9%
		Veteran Support	19%
Total Manpower Cost (%)	58%	Total Manpower Cost (%)	54%

The above comparative summary highlights that while in monetary terms India's defence expenditure is nearly 16 times smaller than the US; desegregated expenditure on modernisation, operations & maintenance, and total manpower cost, as a percentage of total defence related expenditure, are roughly comparable.

Contrary to the conventional wisdom about US manpower cost being much lower than India, the manpower related expenditure as a percentage of the US total defence related expenditure is not 42 per cent but amounts to 54 per cent which is much closer to India's estimated military manpower cost. As highlighted earlier, this statistical comparison has a certain distortion since India's pension expenditure includes about 20 per cent defence civilian pensioners as well.

Relevant to the ongoing debate in India about the burgeoning defence pension bill is the fact that India's expenditure towards defence pension, FY 2019-20, was Rs. 1120 billion or \$16 billion³⁰ which amounted to 26 per cent of its total defence related expenditure. In

²⁹ Author's estimate of percentage share.

India's total defence expenditure and the US defence expenditure as per Table 1 in the article. Currency conversion at the nominal rate of 2019 (\$1= Rs. 70)

Percentage share of India's defence related expenditure is based on data contained in the [Demand of Grants for Ministry of Defence \(Demand Nos. 18, 19, 20, and 21\)](#).

Percentage estimate for the US is based on ["Defense Budget Overview: United States Department of Defense Fiscal Year 2019 Budget Request"](#) and Todd Harrison and Seamus P. Daniels, no. 10.

³⁰ Currency conversion at nominal rate as in the year 2019, i.e., US\$ 1= INR 70.

comparison, the expenditure by the US on military pension and veteran support amounted to \$285.2 billion or nearly 28 per cent of its defence related expenditure.

The divergent approach in India about veterans disability compensation vis-à-vis the US has been highlighted earlier. Another important matrix to compare would be expenditure towards veterans' health care.

In the US, the military retirees and their families constitute about 58 per cent of the beneficiaries of US DoD's Military Health System under unified medical programme comprising of the US DoD hospitals and empanelled private hospital.³¹ The budget for the US DoD's unified medical programme in FY 2019 was \$50.6 billion or eight per cent of the US DoD base budget.³² Nearly 60 per cent or \$30 billion of this allocated amount catered for the health care of military retirees and their families and 40 per cent towards active-duty personnel, reservists and their families.³³ In addition, the annual expenditure on veteran health care by the Department of Veteran Affairs of the US was \$76.5 billion.³⁴

In comparison, India's defence budget had allocated a sum of Rs 32.81 billion (\$500 million approx.) towards the health care of its veterans though the Ex-Servicemen Contributory Health Scheme (ECHS).³⁵ While the inadequacy of budgetary allocations for the ECHS has been repeatedly flagged by the Parliament,³⁶ some argue that the expenditure on the ECHS is high and there is an urgent need to explore avenues for cost reduction.³⁷

Approach Towards Defence Related Manpower Cost in US

Similar to India, there has been a growing consternation about increasing fiscal burden of rising defence expenditure in the US as well.³⁸ There has been a constant attempt to

³¹ Bryce H. P. Mendez, [“Defense Primer: Military Health System”](#), *US Congressional Research Service*, December 18, 2019.

³² [“Defense Budget Overview: United States Department of Defense Fiscal Year 2019 Budget Request”](#), *US Department of Defense*, February 2018.

³³ Bryce Mendez, [“Defense Primer: Military Health System”](#), *US Congressional Research Service*, December 18, 2019.

³⁴ [“President Trump Seeks \\$12B Increase in FY2019 VA Budget to Support Nation's Veterans”](#), *US Department of Veteran Affairs*, February 12, 2018.

³⁵ [“Defence Services \(Revenue\): Demand No. 19”](#), *Union Budget 2020-21, Ministry of Finance, Government of India*.

³⁶ [“Fifth Report of the Standing Committee on Defence \(2019-20\)”](#), Demand of Grants (2020-21), Demand Nos. 18, 19, 20 and 21, Seventeenth Lok Sabha, *Lok Sabha Secretariat*, March 2020. Also, see [“Hospitals Threaten to Stop Cashless Facility under Central Govt Schemes”](#), *Hindustan Times*, November 21, 2019.

³⁷ Shaurya Karanbir Gurung, [“Army Plans to Shut Clinics for Ex-Servicemen”](#), *The Economic Times*, July 30, 2019.

³⁸ [“Reduce the Department of Defense's Budget: Options for Reducing the Deficit \(2019-2028\)”](#), *US Congressional Budget Office*, December 13, 2018; Michael E. O'Hanlon, [“Is US Defense Spending Too High, Too Low, or Just Right?”](#), *Brookings Institution*, October 15, 2019; and Jeff Stein, [“What America Could Do with European Levels of Military Spending”](#), *The Washington Post*, July 12, 2018.

manage the growth of defence budget through a focussed approach towards right-sizing the military³⁹ along with concerted encouragement to the US allies towards financial burden-sharing.⁴⁰ Even more stringent than India's Fiscal Responsibility and Budget Management (FRBM) Act of 2012 is the US' Budget Control Act (BCA) of 2011. It had imposed sweeping mandatory cuts or sequester amounting to 1.2 trillion for nine years from 2012 to 2021 on expenditure including defence expenditure.⁴¹ The spending cap under the BCA has a prescribed curtailment of \$500 billion from the US DoD budget spread over a decade.⁴² These spending cuts have led to significant cost curtailment by the US DoD across all its budget heads.⁴³ However, pay and benefits of military personnel and expenditure on veteran welfare remained beyond the purview of these cost curtailment considerations notwithstanding some arguments for a review.⁴⁴

Strategic Rationale for Military Manpower – Expensive But Essential

There exists a bipartisan view in the US that the military compensation for the all-volunteer force needs to retain its advantage in a competitive labour market due to the uniqueness of the military job profile.⁴⁵ There is a realisation that even though the US military manpower is certainly expensive, it is a critical element of the US military power. The US DoD has argued that “providing a robust pay and benefits package is essential and must be sustained to ensure the best warfighters are available to execute the nation's defence strategy.”⁴⁶

It needs to be noted that while civilian wages in the US plateaued in the new millennium, military compensation for the post-9/11 force has steadily increased. Even within the DoD, growth in military pay and benefits has been higher than for DoD civilians. The average cost of an active-duty person in FY 2019 budget request was 64 per cent higher

³⁹ Michael E. O'Hanlon and James N. Miller, [“Why We Need a More Modern and Ready Military, Not a Larger One”](#), *Brookings Institution*, October 04, 2019; and K. K. Rebecca Lai, et al., [“Is America's Military Big Enough?”](#), *The New York Times*, March 22, 2017.

⁴⁰ Lindsey Ford and James Goldgeier, [“Who Are America's Allies and Are They Paying Their Fair Share of Defense?”](#), *Brookings Institution*, December 17, 2019; and Abraham Newman and Daniel Nexon, [“Trump Says American Allies Should Spend More on Defense. Here's Why He's Wrong”](#), *Vox*, February 16, 2017.

⁴¹ [“Understanding Sequester: An Update for the 115th Congress”](#), *House Budget Committee Democrats*, February 01, 2017; and Suzy Khimm, [“The Sequester, Explained”](#), *The Washington Post*, September 15, 2012.

⁴² Brendan W McGarry, [“The Defense Budget and the Budget Control Act: Frequently Asked Questions”](#), *US Congressional Research Service*, September 30, 2019.

⁴³ [“2013 Sequestration, Agencies Reduced Some Services and Investments, While Taking Certain Actions to Mitigate Effects”](#), Report to the Chairman, Committee on the Budget, *US House of Representatives*, March 2014; and Robert Hale, [“Budgetary Turmoil at the Department of Defense from 2010 to 2014”](#), *Brookings Institution*, August 2015.

⁴⁴ [“Putting Military Pay on the Table”](#), Opinion, *The New York Times*, November 30, 2013.

⁴⁵ Lawrence Kapp and Barbara Salazar Torreon, [“Military Pay: Key Questions and Answers”](#), *US Congressional Research Service*, May 06, 2019.

⁴⁶ *US Department of Defense*, no. 8, Chapter V, p. 2.

than it was in 2001 even after adjusting for inflation. In comparison, the average cost for a US DoD civilian during this period only grew by 34 per cent. The spending cap on expenditure due to the 2011 BCA led to a freeze on annual raise in the pay of US DoD civilians for three years, from 2011 to 2013, and again in 2019. At the same time, however, the annual pay raise for military personnel remained unaffected and continued to grow in line with the Economic Cost Index for private-sector workers' wages and salaries.⁴⁷

Offsetting Rising Manpower Cost Through Additional Allocations

It is pertinent to highlight that the US DoD expenditure towards pay and benefits as a percentage of its base budget was 48.5 per cent in 2001, which increased to 49.4 per cent in 2015. The current lower value of 43.7 per cent towards pay and benefits has not been due to the reduction in manpower cost. It has been achieved due to additional appropriation to the US DoD through the National Defence Authorisation Act of 2017. From 2017 onward, additional funds were provided to the US DoD for addressing the critical shortfall in training, maintenance, modernisation, and infrastructure investment. This additional funding has resulted in the decline of pay and benefits expenditure as a percentage of the overall defence budget, even though actual expenditure towards pay and benefits has continued to grow from \$139 billion in 2001 to \$268.5 billion in 2019.⁴⁸

Enlistment and Retention Challenges

The Regular Military Compensation (RMC) for enlisted personnel in the US Armed Forces approximates the cash earnings of the 90th percentile of male civilian workers with comparable years of experience and some college education. The RMC for officers generally exceeds the cash earnings of the 70th percentile of male civilian workers with a bachelor's degree and comparable years of experience.⁴⁹ Despite these attractive remunerations, it has been rather challenging for the US DoD to fulfil its annual enlistment quota due to competitive civilian job market along with diminishing desire in youth for joining the military service.⁵⁰ Faced with diminishing enlistment number, the US military has been toying with the idea of further shortening its minimum enlistment contract from three years to two years.

⁴⁷ Todd Harrison and Seamus P. Daniels, no. 10, pp. 13-15.

⁴⁸ [“Defense Budget Overview”](#), US DoD FY 2019 Budget Request, Chapter 5, *US Department of Defence*, February 2018.

⁴⁹ Carla Tighe Murray, [“Approaches to Changing Military Compensation”](#), *US Congressional Budget Office*, January 14, 2020.

⁵⁰ Lisa Ferdinando, [“Military Leaders Highlight Efforts, Challenges in Recruiting, Retention”](#), *US Department of Defense*, April 13, 2018; and Lara Seligman, [“Strong Economy Poses Recruitment Challenge for the U.S. Army”](#), *Foreign Policy*, December 23, 2018.

For most enlisted personnel, their first active-duty term generally lasts between three and six years. For those who continue in the military, the second term ends after seven years to 10 years of total service, and the third term ends after 11 years to 14 years of total service. About two-thirds of the military personnel leave after a single term on active duty.

The context of a shorter enlistment period for nearly 80 per cent US military personnel is not driven by fiscal considerations of cost-saving in a pension by the DoD. Rather, it is dictated by the unwillingness of the US citizens to remain vested in military service for a longer period. From the DoD perspective, the retention of qualified military personnel—enlisted forces as well as officers—is considered essential to preserving morale and unit readiness and to avoid the costs associated with training replacement personnel in essential skills.⁵¹ Progressive increase in the re-enlistment bonus and rather attractive retirement benefits have not significantly changed the existing re-enlistment pattern.⁵²

Veteran Support: Unsustainable Fiscal Burden or Key Priority

The prevalent discourse in India often considers defence pension as an unsustainable fiscal burden and not as a tool of veteran welfare. In sharp contrast, Americans see veterans' services as an important priority and argue for even larger expenditure by the US Government on veteran support.⁵³ A survey by Pew Research in 2017 indicated a very high level of support (75 per cent) for increased spending on veterans support.

The US expenditure on veteran services and benefits (adjusted to remove the effects of inflation) has grown rapidly while budgets of other departments in the US Government have either remained flat or even contracted due to the sequester impact. As per the Congressional Budget Office, the Department of Veteran Affairs budget has grown from \$64 billion, or 2.6 per cent of all federal spending, in 2000 to \$183 billion, or 4.4 per cent of the spending, in 2017.⁵⁴ Under the Donald Trump administration, the veterans affairs budget has seen even higher annual allocations averaging nearly 9.5 per cent and which has further increased to \$243 billion in FY 2021.⁵⁵

⁵¹ ["Military Personnel: DOD Needs Action Plan to Address Enlisted Personnel Recruitment and Retention Challenges"](#), *US Government Accountability Office*, November 17, 2005; and Jan Kallberg, ["Train, Promote and Lose: The Battle for Retention"](#), *Fifth Domain*, July 10, 2018.

⁵² Beth J. Asch et al., ["Do Bonuses Affect Enlistment and Reenlistment?"](#), *RAND Corporation*, 2010.

⁵³ Kristen Bialik, ["5 Facts about U.S. Veterans"](#), *Pew Research Centre*, November 2017.

⁵⁴ ["Possible Higher Spending Paths for Veterans' Benefits"](#), *US Congressional Budget Office*, December 21, 2018.

⁵⁵ ["Department of Veterans Affairs - Budget in Brief"](#), *US Department of Veteran Affairs*, February 2020; and Nikki Wentling, ["Trump's Budget Request Seeks Another Increase in VA Funding"](#), *Stars and Stripes*, March 11, 2019.

Conclusion

Budgetary allocations towards defence expenditure by the state is a political decision of its government based on a subjective assessment of its strategic concerns, financial capabilities and national priorities. Factors including the state of the economy, domestic politics, and geopolitics and geostrategy have a role in determining the size and the composition of the military expenditure of a country. Given the overarching influence of political choice driven by subjective assessments of the government, comparing defence expenditure of India and the US is like comparing oranges and apples.

Leaving aside the disparate size of budgetary outlay towards defence related costs, it is evident that there exist similar constraints, both in India and the US, towards enhancing defence expenditure to the level desired by the defence establishment. As highlighted above, India's expenditure towards military manpower in percentage terms broadly correlates with the US.

It is pertinent to highlight that the US DoD budget represents only a subset of the US defence related expenditure. More than 30 per cent of the defence-related expenditure lies beyond the US DoD and comprises of expenditure on veteran support by the Department of Veteran Affairs and the US Treasury contribution towards a military retirement fund. Exclusion of these additional budgetary allocations in the contemporary defence economic literature has led to a significant underestimation of the US military manpower costs. The major points in the comparative assessment of military manpower costs between India and the US are as under:

- Notwithstanding the huge difference in the budgetary allocation towards defence in the US and India, the percentage share of the amount allocated towards procurements, operation & maintenance and manpower related expenditure is broadly similar.
- The overall expenditure by the US on military manpower is not 42 per cent but amounts to 54 per cent of its total defence related expenditure. In comparison, India spends 58 per cent of its budgetary allocations for defence towards pay and pension.
- Even though only 20 per cent of the active-duty military personnel in the US retire with a regular pension, the US expenditure on military retirees and veterans welfare amounts to 28 per cent of its total defence related expenditure. In comparison, India's expenditure on defence pension is 26 per cent of its defence budget.
- The expenditure by the Department of Veteran Affairs towards financial support, disability compensation and health care for veterans amount to nearly 19 per cent of the total defence related expenditure. This expenditure only caters to 80 per cent of veterans who have chosen to leave military service prior to the retirement age.

- The arguments about re-introduction of shorter enlistment period or reduction in the colour service in India, in line with the practices in the US military, have completely misinterpreted the context of shorter enlistment contracts in the US which is not driven by fiscal considerations of cost-saving in a pension by the US DoD. Rather, it is dictated by the unwillingness of the US citizens to remain vested in military service for a longer period. It also remains unnoticed that nearly one-fifth of the US defence related expenditure caters towards these veterans.
- While strict spending caps imposed by the Budget Control Act 2011 have led to significant cost curtailment efforts by the US DoD including a freeze on appointment and annual raise in pay for the civilians, military pay and benefits have remained untouched. Similarly, the expenditure of the Department of Veteran Affairs has remained unaffected by sequester and has continued to grow at the rate of seven to nine per cent in the last decade.
- By 2015, the share of pay and benefits in the US DoD budget had risen to 49.4 per cent. In order to offset the rising share of expenditure on pay and benefits, additional annual authorisations were provided to the US DoD from 2017 onwards for addressing the critical shortfall in training, maintenance, modernisation, and infrastructure investment.

While both countries face similar fiscal constraints, the approach towards military manpower cost in the two countries significantly diverge. The prevailing debate in India about the imperative to greater economic efficiency in military manpower cost would benefit from a holistic examination of approaches undertaken by the US in managing its manpower expenditure.

There is certainly a need for significant restraint in the wanton attempt to tinker with the existing pattern of enlistment, service conditions and defence pension purely from a fiscal perspective. Implications of these cost curtailment measures on operational effectiveness, and morale and future attractiveness of the military as a profession need to be carefully factored in.

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