



Grants & Contracts

Search Grants

Search Contracts

Tax Subsidies

Loans & Loan Guarantees

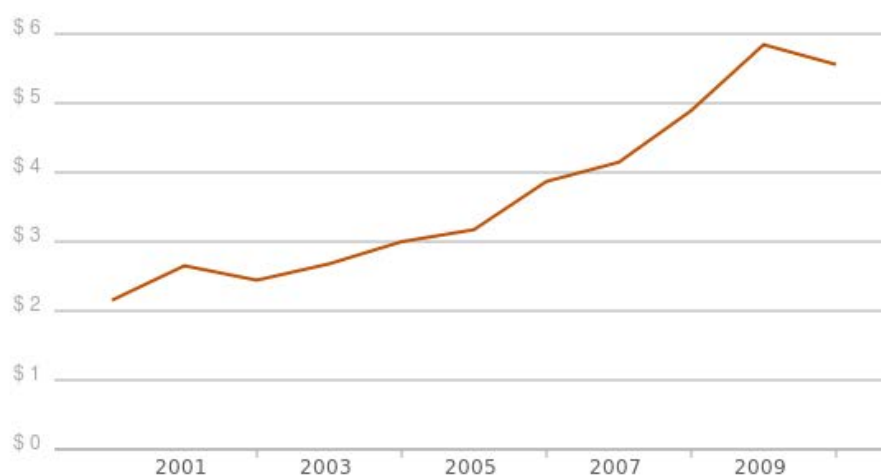
Direct Expenditures in the National Defense Sector

Grants in the Defense Sector

The federal government spent approximately \$5.5 billion in fiscal year 2010 on domestic grant programs that may provide a subsidy to the Defense sector.¹ This funding, administered by eight agencies² across more than 30 active programs (Table 1), accounted for almost 1 percent of all government grants made that year (\$822.6 billion).³

Subsidyscope reports the total amount spent on grants and contracts that are most likely to contain any subsidy. Since not all the spending in these programs would properly be counted as a subsidy, the spending estimates presented here constitute the upper bound of government subsidies in a sector. For example, there is a distinction between *spending* on grants and contracts and the *subsidies* conveyed through that spending. Not all of the money obligated to a grant or contract ends up subsidizing the sector. Some funds are devoted to administering the grants or other activities that do not affect supply or prices. However, little data are available that would help estimate just the subsidy portion of spending on grants and contracts.

Figure 1: Expenditures on Grant Programs in the Defense Sector, Fiscal Years 2000-2010 (\$ billions)



Source: Subsidyscope analysis of data from USASpending.gov. Estimates are in nominal dollars and reflect the data as they appear in USASpending.gov at the time of this analysis.

Note: Data presented are obligations to programs that Subsidyscope deems likely to contain a subsidy. All grant programs in Subsidyscope's definition of the Defense sector are included, despite the fact that some programs may not have reported dollar amounts. Changes in government reporting methods during fiscal year 2007 typically make the estimates for that year highly

unreliable, yet the Defense sector remains considerably more constant over time than other sectors analyzed. For more information about the quality of these data sources, visit Clearspending.org.

The direct expenditure totals presented on this Web page are compiled using government data from USASpending.gov and the Catalog of Federal Domestic Assistance (CFDA).⁴ As [previously noted](#), these data may not include some types of subsidies, and may contain gaps that prevent allocating some published subsidy data to the Defense sector. All of these limitations can result in omissions of federal support that may, nonetheless, influence markets. However, they are the best data available, and they provide a baseline for comparing subsidies across economic sectors. By publishing these estimates, Subsidyscope makes these data more accessible and their shortcomings can be more easily identified and, ultimately, improved.

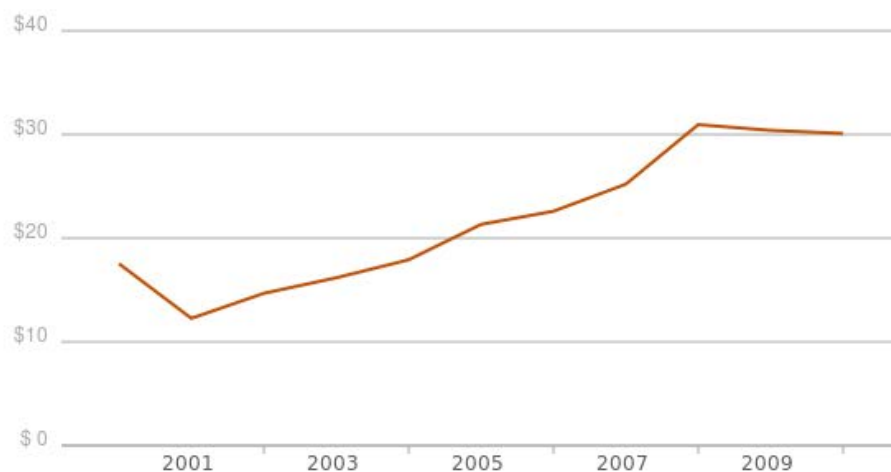
Contracts in the Defense Sector

In addition to awarding grants, the government directly contracts with organizations to provide defense-related goods and services. During fiscal year 2010, all reported defense-related contracts in USASpending.gov totaled \$48.5 billion, 9 percent of all reported government contracts (\$537.8 billion).⁵ Of the \$48.5 billion in total defense-related contracts, \$29.7 billion, or 61 percent, were not competed.⁶ It is important to note that this is not all defense-related contract spending (see Box 1 and footnote 6 for more information). While not all contracts contain a subsidy, non-competed contracts are more likely to contain a subsidy than competed contracts.

Subsidyscope's focus on non-competed contracts reflects that the federal government generally prefers agencies to compete contracts because competition is expected to result in lower costs and/or better quality goods and services. In contrast, non-competed contracts generally are assumed to be more likely to cost the government more than the fair market value.⁷

Subsidyscope presents spending on programs deemed likely to contain a subsidy, rather than the subsidy amount itself. Under a contract, a subsidy occurs when the government pays more than fair market value for a good or service. It is difficult to determine when and how much of a subsidy is included, as the fair market value may be open to interpretation. Subsidyscope does not differentiate between specific contracts that may or may not include a subsidy or measure the amount of the subsidy. However, competed contracts—contracts that are subject to an open bidding process—generally are less likely to have a subsidy component, even though the bidding process may include certain preferences. Therefore, Subsidyscope does not analyze competed contracts. This does not mean non-competed contracts contain a significant subsidy, only that they are more likely to do so. There may be various reasons why the government uses non-competed contracts, for example, there may be only one provider of the service, there may be unique experience required, or it may be more expedient or convenient. For more information on contracts, see Subsidyscope's [Contracts](#) page.

Figure 2: Expenditures on Non-competed Contracts in the National Defense Sector, Fiscal Years 2000-2010 (\$ billions)



Source: Subsidyscope analysis of data from USASpending.gov. Estimates are in nominal dollars and reflect the data as they appear in USASpending.gov at the time of this analysis.

Note: Government spending on non-competed contracts is likely more consistent during this time period than the figure represents. Any increases or decreases may reflect poor data resulting from reporting variation, in addition to actual spending increases or decreases in defense-related contracts.

Box 1: The National Security Exception for Defense Procurements

The Defense sector differs from other Subsidyscope sectors in that there is a "national security exception" for subjecting defense-related procurements to full and open competition. In the event that such transparency and open competition could compromise national security, an agency is permitted to use this exception. A January 2012 report from the Government Accountability Office (GAO) found that 2 percent, or \$13 billion, of all reported Department of Defense (DOD) contracts used the national security exception between fiscal years 2007 and 2010, relative to those subjected to full and open competition.⁸ Of these national security contracts, 84 percent, or \$10.6 billion, were not competed, having received only one bid proposal.⁹

In the same report, GAO found that several DOD intelligence agencies generally are exempt from reporting procurement data to the Federal Procurement Data System - Next Generation (FPDS-NG). Three agencies explicitly exempt from reporting to FPDS-NG by the Office of the Secretary of Defense are the National Geospatial-Intelligence Agency (NGA), the Defense Intelligence Agency (DIA), and the National Security Agency (NSA).¹⁰

To search Subsidyscope's direct expenditures data from the federal government's USASpending.gov Web site, click [here](#) for grants and [here](#) for non-competed contracts. The table below provides an aggregate summary of the grants made by each program in the Defense sector in fiscal years 2009 and 2010, retrieved from Subsidyscope's searchable database of grants.

Table 1: Defense Sector Direct Expenditure Programs, Fiscal Years 2009 and 2010 (\$ thousands)

CFDA #	CFDA Program Title	FY 2009	FY 2010
12.401	National Guard Military Operations and Maintenance (O&M) Projects	\$1,506,646	\$1,374,928

12.420	Military Medical Research and Development	\$882,692	\$1,022,051
12.300	Basic and Applied Scientific Research	\$579,057	\$684,380
12.431	Basic Scientific Research	\$376,444	\$469,655
12.800	Air Force Defense Research Sciences Program	\$378,236	\$432,719
17.310	Energy Employees Occupational Illness Compensation	\$953,601	\$400,605
12.400	Military Construction, National Guard	\$352,717	\$182,838
12.630	Basic, Applied, and Advanced Research in Science and Engineering	\$152,270	\$154,428
12.910	Research and Technology Development	\$135,707	\$154,334
12.610	Community Economic Adjustment Planning Assistance for Joint Land Use Studies	\$27,475	\$107,362
81.112	Stewardship Science Grant Program	\$104,935	\$85,149
12.404	National Guard ChalleNGe Program	\$72,053	\$58,270
12.631	Science, Technology, Engineering and Mathematics (STEM) Educational Program: Science, Mathematics And Research for Transformation (SMART)	\$16,396	\$45,219
12.600	Community Economic Adjustment	\$6,026	\$44,925
12.351	Basic Scientific Research - Combating Weapons of Mass Destruction	\$25,590	\$44,717
81.113	Defense Nuclear Nonproliferation Research	\$27,184	\$42,913
81.106	Transport of Transuranic Wastes to the Waste Isolation Pilot Plant: States and Tribal Concerns, Proposed Solutions	\$28,940	\$28,939
81.104	Office of Environmental Waste Processing	\$19,936	\$22,054
81.124	Predictive Science Academic Alliance Program	\$17,067	\$21,200
97.091	Homeland Security Biowatch Program	not reported	\$20,632
97.106	Securing the Cities	not reported	\$19,794
81.123	National Nuclear Security Administration (NNSA) Minority Serving Institutions (MSI) Program	\$23,541	\$18,828
12.607	Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	\$61,815	\$17,878
12.902	Information Security Grant Program	\$12,286	\$16,042
12.901	Mathematical Sciences Grants Program	\$5,839	\$7,947
12.560	DOD, NDEP, DOTC-STEM Education Outreach Implementation	not reported	\$3,757
12.114	Collaborative Research and Development	\$3,887	\$2,856
97.104	Homeland Security-related Science, Technology, Engineering and Mathematics (HS STEM) Career Development Program	not reported	\$2,500
97.065	Homeland Security Advanced Research Projects Agency	\$1,201	\$2,383
97.062	Scholars and Fellows, and Educational Programs	not reported	\$1,400
12.611	Community Economic Adjustment Planning Assistance for Reductions in Defense Industry Employment	not reported	\$990
12.615	RESEARCH AND TECHNICAL ASSISTANCE	\$743	\$584
12.550	The Language Flagship Grants to Institutions of Higher Education	not reported	\$71
12.614	Community Economic Adjustment Diversification Planning	\$52	\$44

12.360	Research on Chemical and Biological Defense ⁱ	\$3,323	\$
10.677	Forest Land Enhancement Program ⁱⁱ	\$48	not reported
12.002	Procurement Technical Assistance For Business Firms	-\$108	not reported
12.330	Science, Technology, Engineering & Mathematics (STEM) for K-12 & Institutions of Higher Learning- NAVY	not reported	not reported
12.335	Navy Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance	not reported	not reported
12.352	Scientific Research - Combating Weapons of Mass Destruction	not reported	not reported
12.357	ROTC Language and Culture Training Grants	not reported	not reported
12.369	Marine Corps Systems Command Federal Assistance Program	not reported	not reported
12.551	National Security Education Program David L. Boren Scholarships	not reported	not reported
12.552	National Security Education Program David L. Boren Fellowships	not reported	not reported
12.553	The Language Flagship Fellowships	not reported	not reported
12.554	English for Heritage Language Speakers Grants to U.S. Institutions of Higher Education	not reported	not reported
12.555	English for Heritage Language Speakers Scholarships	not reported	not reported
12.900	Language Grant Program	not reported	not reported
16.749	Radiation Exposure Compensation Program	not reported	not reported
19.999	Export Control and Related Border Security	not reported	not reported
85.101	Homeland Security Award	not reported	not reported
97.122	Bio-Preparedness Collaboratory	not reported	not reported
97.127	Cybersecurity Education and Training Assistance Program (CETAP)	not reported	not reported
Grand Total		\$5,775,599	\$5,492,393

i. This program reported a dollar amount of -\$14 for FY2010 in USASpending.gov.

ii. This program was included in the National Defense budget function in USASpending.gov, which is why it has been included in the Defense sector.

Source: Subsidyscope analysis of data from USASpending.gov. Program names are copied directly from USASpending.gov. For more information about the quality of these data sources, visit Clearspending.org.

Notes: Individual estimates may not sum to the reported total due to rounding. Some programs report negative totals for FY2010. This reflects a downward adjustment to obligations made in previous years. Table excludes loans and loan guarantees.

1. Subsidyscope analysis of USASpending.gov.
2. The eight agencies are the Department of Defense (CFDA # 12.***), the Department of Agriculture (10.***), the Department of Justice (16.***), the Department of Labor (17.***), the Department of State (19.***), the Department of Energy (81.***), the Christopher Columbus Fellowship Foundation (85.***), and the Department of Homeland Security (97.***). For the purpose of counting the number of agencies that administer funding in a sector, Subsidyscope relies on the CFDA's designation of what constitutes a federal agency.

3. *Subsidyscope analysis of USASpending.gov. This total is the aggregate of grant spending in Subsidyscope's Agriculture, Education, Energy, Health, Housing, National Defense, Natural Resources and Environment, Science, Space, and Technology, and Transportation sectors. The Nonprofit sector is not included in this total, as it is not mutually exclusive in scope and cuts across all other sectors.*
4. *The Catalog of Federal Domestic Assistance (CFDA) captures domestic grant programs and thus does not include grants administered in a foreign capacity (e.g. in a combat zone). Thus while the list includes grant programs administered for the National Guard, it does not include funds from the Commander's Emergency Response Program (CERP), which allocates grant funding toward the reconstruction effort in Iraq and Afghanistan. This amount also excludes several grant programs administered by the U.S. Army Corps of Engineers, as these grant programs that primarily focus on environmental restoration and water resource projects have been included in the Natural Resources and Environment sector.*
5. *Subsidyscope analysis of USASpending.gov. This total is the aggregate of total contract spending (competed and non-competed) in Subsidyscope's Agriculture, Education, Energy, Health, Housing, National Defense, Natural Resources and Environment, Science, Space, and Technology, and Transportation sectors. The Nonprofit sector is not included in this total, as it is not mutually exclusive in scope and cuts across all other sectors.*
6. *Subsidyscope analysis of USASpending.gov. Subsidyscope has previously determined that there can be problems with the quality of the contracts data that are reported by agencies to USASpending.gov. In order to sort government contracts by economic sector, Subsidyscope uses North American Industry Classification System (NAICS) codes to match contracts to the appropriate economic sector, or Product Service Codes if NAICS codes are not available. (See Section C of Subsidyscope's [methodology](#) for more on how contracts are organized by sector.)*

In the case of [NAICS codes](#), the classification falls along a broad spectrum that includes industry-specific categories like Construction, Manufacturing, and Wholesale Trade, to name a few. In many instances, NAICS codes for Department of Defense (DOD) contracts will have been included in the Housing and Energy sectors given that they use an industry classifier and may provide a subsidy to that particular economic or industrial sector. For example, a contract for jet fuel that is classified under the Petroleum Refineries sub-category (NAICS code: 324110) is captured in Subsidyscope's Energy sector, even though multiple federal agencies, including DOD, use that contract code. Thus, Subsidyscope's methodology means that the data presented in our non-competed contracts search database is comprehensive in terms of looking at spending on explicit defense-related materiel, as defined by a NAICS code classifier, but not overall DOD spending. For example, USASpending.gov reports that \$367.8 billion in contracts were administered by DOD for FY2010. Ultimately, DOD spending tends to cut across multiple economic sectors, making Subsidyscope's definition of the Defense sector a unique subset of spending on likely subsidies through defense contracts.

Further, Subsidyscope found that there is significant variation in agencies' use of NAICS codes when reporting contracts to USASpending.gov over the 10-year period from fiscal year 2000 to 2010. For instance, despite there being a requirement that contracting officers identify NAICS codes for each contract, for fiscal year 2000, approximately 88 percent of all contract records are missing NAICS codes while in fiscal year 2010, only 3 percent of records are missing NAICS codes. This inconsistent application of NAICS codes as well as other reporting variations may be responsible for some of the increase in defense-related contracts spending in fiscal years 2000 to 2010, as presented in Figure 2 above.

7. U.S. Department of Energy (DOE). "[Competition in Contracting Guide](#)." p. 1.
8. Government Accountability Office (GAO). "[Defense Contracting: Improved Policies and Tools Could Help Increase Competition on DOD's National Security Exception Procurements](#)." January 2012. p. 6.
9. *Ibid.*, p. 20.
10. *Ibid.*, pp. 10-11.

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Home

About

Subsidy Types

Sectors

Data

Contact



- + Grants & Contracts
- Tax Subsidies**
- Loans & Loan Guarantees

Tax Expenditures in the National Defense Sector

Tax expenditures are government revenue losses resulting from provisions in the tax code that allow an individual or business to reduce their tax liabilities by taking certain deductions, exemptions, exclusions, preferential rates, deferrals, or credits. Tax expenditures reduce the amount of revenue that would otherwise have been collected by the government, and thus have a similar effect on the federal budget as a spending program. They also can benefit recipients in much the same way as direct spending. Subsidyscope illuminates the budgetary costs of these programs; however, any use of these data for policy evaluation must weigh those costs against the benefits they provide. The costs of tax expenditures are estimated by two government entities: the US Department of the Treasury (Treasury), in the executive branch, and the nonpartisan staff of the Joint Committee on Taxation (JCT), a congressional committee. Each uses different methods and formats for calculating and presenting its estimates (see this [Methodology](#) page for more detail). Subsidyscope presents Treasury estimates below that are published by the Office of Management and Budget (OMB).

Table 1: Defense Related Tax Expenditures for Individuals and Corporations, Fiscal Years 2009 and 2010 (\$ millions)

Tax Expenditure	FY 2009	FY 2010
Exclusion of benefits and allowances to armed forces personnel	\$11,930	\$12,740
Exclusion of veterans death benefits and disability compensation*	\$3,900	\$4,130
Exclusion of GI bill benefits*	\$300	\$450
Exclusion of veterans pensions*	\$190	\$210
Total¹	\$16,320	\$17,530

Source: Subsidyscope analysis of data from OMB. Budget of the U.S. Government. Fiscal year 2009 figures are from [Analytical Perspectives, FY2011](#), pp. 209-212; fiscal year 2010 figures are from [Analytical Perspectives, FY2012](#), pp. 241-244.

*Treasury categorized these tax expenditures in the "Veterans Benefits and Services" budget function.

Of the tax expenditures listed in Table 1, only the Exclusion of benefits and allowances to armed forces personnel falls under what the federal government classifies as the Defense sector for the budget; this is the largest defense related tax expenditure with an estimated revenue loss of \$12.7 billion in fiscal year 2010. This particular tax expenditure includes the many types of payments received by members of the armed forces that are excluded from gross income, including combat zone pay, death allowances, family allowances, living allowances, moving allowances, travel allowances, and various in-kind military benefits.²

The other three tax expenditures that Subsidyscope classifies in the Defense sector are exclusions that fall under what the federal government classifies as the Veterans Benefits and Services sector for

the budget.³ These include the Exclusion of veterans death benefits and disability compensation, the Exclusion of GI bill benefits, and the Exclusion of veterans' pensions, totaling \$4.8 billion in fiscal year 2010.

1. *Summing tax expenditures often provides a reasonably good estimate for the total cost of groups of tax expenditures, though it does not capture potential interactions among tax expenditures or behavioral responses if any single one is changed or repealed. For more on summing tax expenditures and their interaction effects, see Burman, Leonard, Eric Toder and Christopher Geissler. "How Big Are Total Individual Income Tax Expenditures, and Who Benefits from Them?" The Urban Institute. Washington, DC. December 2008. For more on why tax expenditure estimates are not exact estimates of the amount of federal revenue that would be raised if they were eliminated, see the [Methodology](#) page of Pew's Tax Expenditure Database.*
2. *Internal Revenue Service (IRS). "Publication 3: Armed Forces' Tax Guide." Table 2: Excluded Items. 2011.*
3. *Exclusion of interest on veterans housing bonds is included in the Housing sector because it is a housing subsidy. The other three tax expenditures related to veterans are included in the Defense sector given that their impact on a specific sector was less defined than 'housing bonds' were to the Housing sector. These three exclusions include: the Exclusion of GI bill benefits (which cuts across both the Housing and Education sectors), the Exclusion of veterans death benefits and disability compensation, and the Exclusion of veterans pensions (tax expenditures for pensions will not be captured in any other sector).*

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Home

About

Subsidy Types

Sectors

Data

Contact



National Defense

+ Grants & Contracts

Tax Subsidies

Loans & Loan Guarantees

Loans and Loan Guarantees in the National Defense Sector

In the case of direct loans, the government lends money directly to the borrower and services the loan by collecting repayments. When the government offers direct loans at below market interest rates, or terms more generous than what private markets would provide, there is a subsidy. The government estimates the subsidy conveyed through such credit programs as the net cost to the government of a loan or loan guarantee, calculated by summing all the expected future cash flows to and from the government; this is the cost the government is required to present under the 1990 Federal Credit Reform Act (FCRA).¹

Many argue that there is also an implicit subsidy, not measured by the government under FCRA, that results from excluding the costs of program administration and market risk (which arises from volatility in the economy).² This implicit subsidy is generally the difference between the terms the recipient would get in a competitive market and those offered by the government.

The Department of Defense does not report any risk transfers (loans and loan guarantees) in the Federal Credit Supplement (FCS) portion of the President's Budget. Therefore, the FCS is not a sufficient data source for assessing loans and loan guarantees that fall under the scope of the Defense sector.

1. Congressional Budget Office (CBO). "[Estimating the Value of Subsidies for Federal Loans and Loan Guarantees.](#)" August 2004. p. 1.
2. *Ibid.*

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