



FPI Analysis: Defense Spending and the Super Committee

September 12, 2011

President Obama and Congress arrived at a grand bargain to raise the debt limit on August 3, 2011. But due to the debt-limit deal's far-reaching and controversial terms, great uncertainty looms over the future of Department of Defense (DoD) spending.

Known as the *Budget Control Act of 2011* ([Public Law 112-25](#)), the debt-limit deal created a "Super Committee" of twelve lawmakers to hammer out a bill that reduces the federal deficit over ten-years by more than \$1.2 trillion. However, if this bill doesn't become law by mid-January 2012, then the debt-limit deal's so-called "trigger" provision will automatically reduce defense spending in not just one, but two ways. First, it will establish new long-term caps to limit discretionary spending that will cut over \$550 billion from what the Pentagon (based on Obama's fiscal year 2012 budget proposal) was projected to spend in the next ten years. Second, the trigger provision's multi-year "sequestration" cuts will further slash roughly \$600 billion more in the worst-case scenario. In all, the trigger provision could effectively cut anywhere from \$575 billion to over \$1 trillion from projected defense spending over the next decade.

As this analysis details further below, the Defense Department's civilian and military leaders—including Secretary of Defense Leon Panetta and General Martin Dempsey—have described further deep cuts to the Pentagon's budget as "devastating" and "extraordinarily difficult and very high risk."

Deep Defense Cuts Already Have Been Made.

Contrary to the prevailing wisdom, the Obama administration has presided, so far, over two rounds (arguably more) of deep defense cuts.

In the first round, then-Secretary of Defense Robert Gates [cancelled](#) 20 major weapons systems—including programs like the F-22 Raptor and the Army's Future Combat Systems—in 2009. Other vital replacement systems, like the Navy's CG(X) cruiser and the LCC Command Ship, were also delayed or targeted for cancellation by the Pentagon's 2010 Quadrennial Defense Review. Summing up this round of cuts, Secretary Gates [said](#) on May 24, 2011: "All told, over the past two years, more than 30 programs were cancelled, capped, or ended that, if pursued to completion, would have cost more than \$300 billion."

In the next round, Secretary Gates cut the base budget by \$78 billion over five years. As Gates [explained](#) on January 6, 2011, that cut had four elements:

"First, the approximately \$54 billion in DoD-wide overhead reductions and efficiencies... which included a freeze on all government civilian salaries. Second, roughly \$14 billion reflecting shifts in economic assumptions and other changes relative to the previous FYDP [five-year defense plan]—for example, decreases in the inflation rate and projected pay raises. Third, \$4 billion of savings to the Joint Strike Fighter program to reflect re-pricing and a more realistic production schedule given recent development delays. And fourth, more than \$6 billion was saved by our decision to reduce the size of the Active Army and Marine Corps starting in FY 2015."

Months before the debt-limit deal, President Obama [not only touted](#) these deep defense cuts in a major policy speech on April 13, 2011, but also stated his desire to repeat them: “Over the last two years, Secretary Bob Gates has courageously taken on wasteful spending [in the Pentagon], saving \$400 billion in current and future spending. I believe we can do that again.”

These multiple rounds of defense cuts have come despite the fact that, during President Obama's first two years, domestic cabinet agencies had not been asked to carry out comparable cost cutting. In fact, enacted funding for domestic discretionary spending grew from \$513.7 billion in FY 2008 to \$825.6 billion in FY 2009, representing a staggering increase of 58.5% in real terms.

How Will the Debt-Limit Deal Impact Future Defense Spending?

Unless Capitol Hill and the White House work together to avoid the *Budget Control Act's* worst possible outcomes, the Obama administration will once again preside over several more rounds of deep defense cuts. But this time, cuts could go far beyond the President's April 2011 goal of an additional “\$400 billion in current and future spending.” Under the debt-limit deal, the Pentagon could face as many as two more rounds of deep cuts that, in the worst-case scenario, would effectively slash projected defense spending by more than \$1.1 trillion.

In round one, the *Budget Control Act* established limits on discretionary “security” spending for the next two years. Here, “security” spending is defined by the debt-limit deal to include not only the Pentagon, but also the State Department, Homeland Security, and Veterans Affairs, as well as the Energy Department's National Nuclear Security Administration, foreign aid like USAID, and the U.S. intelligence community. The “security” spending cap for FY 2012 is \$684 billion, and for FY 2013, \$686 billion.

Lawmakers have yet to enact appropriations bills for the Defense Department and other affected agencies for FY 2012. Congressional appropriators are already fighting over the precise levels of funding for these agencies. But the White House's budget director, Jack Lew, [crudely estimated](#) in August 2011 that, if affected agencies are proportionally funded under these “security” caps over the next ten years, then the debt-limit deal's first round of defense cuts could total to \$350 billion in the next decade.

In round two, defense spending will be cut even more deeply if Congress fails to pass a law by January 12, 2012, that reduces the federal deficit by more than \$1.2 trillion between FY 2012 and FY 2021.

To fast-track congressional negotiations for such a law, the *Budget Control Act* created the Joint Select Committee on Deficit Reduction. Composed of twelve lawmakers—three Republicans and three Democrats from the Senate, and an equal number from the House of Representatives—this “Super Committee” must formally propose a ten-year deficit reduction bill to Congress by November 23, 2011. Both chambers of Congress then will have an opportunity to debate and vote on that bill.

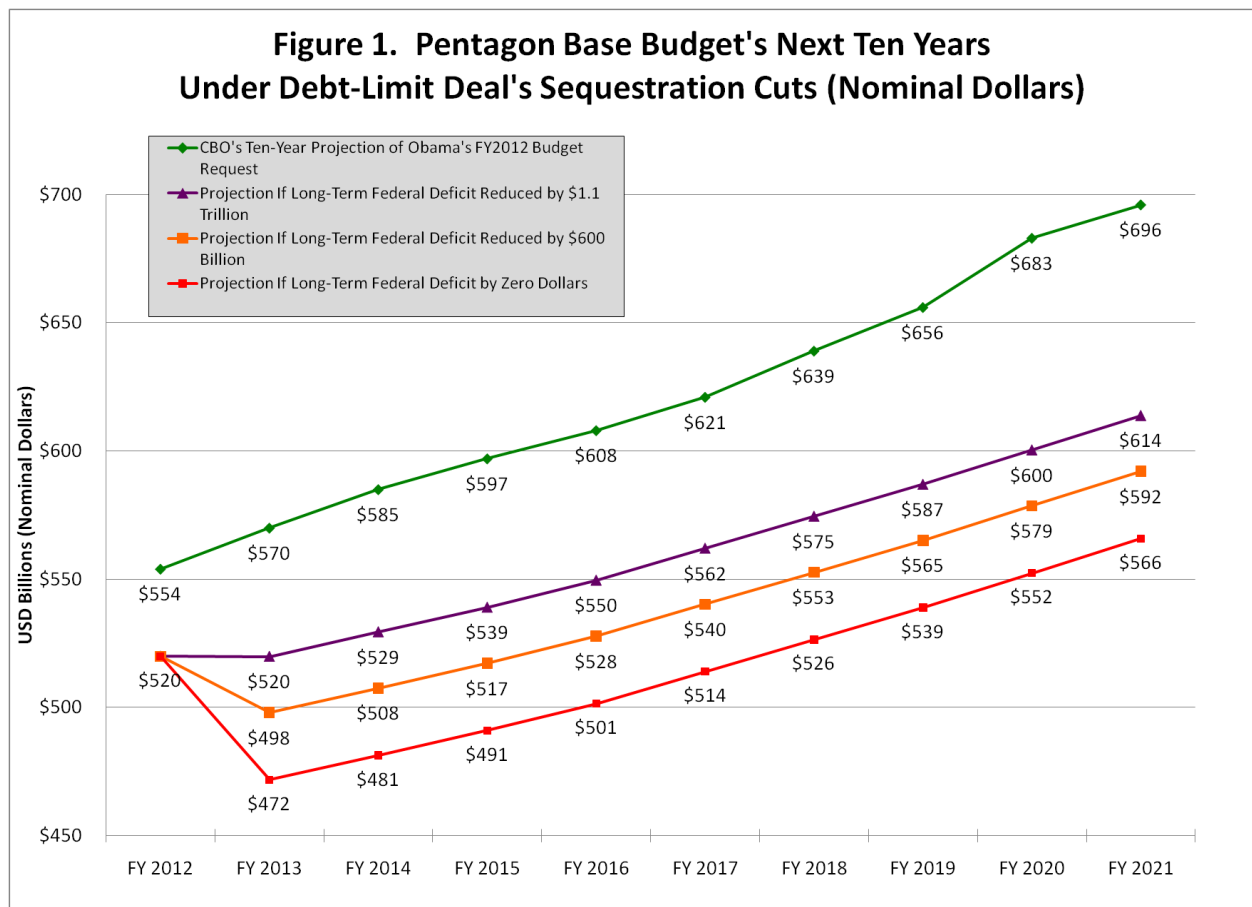
However, if Congress and the President fail to agree on a ten-year deficit reduction package that exceeds \$1.2 trillion by mid-January 2012, then the debt-limit deal automatically pulls the trigger on a provision that will not only further lower the caps on federal discretionary spending, but also require as much as \$1.2 trillion in additional, draconian “sequestration” cuts.

The *Budget Control Act's* trigger provision disproportionately targets the Defense Department. First, it places even lower long-term caps on the so-called “050 budget function”—a spending

account for “national defense” programs that encompasses the Pentagon’s base budget, the classified budget for certain specific national security activities, the defense programs of the Energy Department’s National Nuclear Security Administration, and defense-related activities in other agencies.

Given that the Defense Department typically [consumes](#) 96 percent of this “national defense” spending account, the trigger provision’s caps on “national defense,” by themselves, would effectively cut \$574.3 billion from what the Pentagon was projected to spend on its base budget over the next decade.

Second, the trigger provision makes defense spending—already lowered more than half-a-trillion dollars by the new multi-year caps—absorb half of the sequestration cuts to discretionary spending. The size of required sequestration cuts will depend on the size of federal deficit reduction: put simply, the closer that Congress gets to the goal of cutting the long-term deficit by more than \$1.2 trillion, the smaller the sequestration cuts become.



To illustrate the range of possible outcomes under the trigger provision, we assume three different scenarios for sequestration cuts. (See Figure 1.)

- In the first scenario, lawmakers agree to reduce the long-term deficit by \$1.1 trillion. Sequestration cuts to the “national defense” account therefore amount roughly to \$50 billion, and are subtracted from the trigger provision’s caps on “national defense.” As a result, an estimated \$613.7 billion will be effectively cut from what the Pentagon was

projected by the Congressional Budget Office (CBO) to spend on its base budget over the next ten years.

- In the second scenario, lawmakers reduce the long-term deficit by \$600 billion. Sequestration cuts to the “national defense” account therefore amount roughly to \$300 billion, and are subtracted from the trigger provision’s caps on “national defense.” *As a result, an estimated \$810.4 billion will be effectively cut from what the Pentagon was projected by the CBO to spend on its base budget over the next ten years.*
- In the third scenario, zero long-term deficit reductions are realized—the nightmare outcome for the Super Committee and the *Budget Control Act*. Sequestration cuts to the “national defense” account therefore amount roughly to \$600 billion, and are subtracted from the trigger provision’s caps on “national defense.” *As a result, an estimated \$1.1 trillion will be effectively cut from what the Pentagon was projected by the CBO to spend on its base budget over the next ten years.*

Under any sequestration scenario, the financial impact of deep cuts to the Defense Department will be alarming. Equally alarming, though, is what the Pentagon’s civilian and military leaders are saying about what more defense cuts could mean for the future of America’s national security and longstanding role in preserving global stability.

Pentagon’s Leaders Warn Deep Cuts are “Devastating” and “Very High Risk.”

The Pentagon’s civilian and military leaders have repeatedly warned of the many dangers of deep defense cuts in the weeks before and after the *Budget Control Act of 2011*’s passage.

Army General Martin Dempsey—who was President Obama’s personal pick to chair the Joint Chiefs of Staff—[bluntly called](#) proposals for deep defense cuts “extraordinarily difficult and very high risk” at his Senate confirmation hearing on July 26, 2011. General Dempsey cautioned that deep defense cuts will demand fundamental changes to America’s strategy and military posture worldwide. “We’ll make some adaptations on how we do things,” he said. “But we may reach a point where we have to recommend to the President that we have to adapt or revise our strategy.”

That same day, the Vice Chiefs of America’s four military services [testified](#) at a hearing of the House Armed Services Subcommittee on Readiness, and discussed the potential impact of deep defense cuts. They all emphasized that deep reductions to future defense spending will cast doubt on the military’s ability to carry out America’s current worldwide posture and strategy in the post-9/11 world. As Admiral Jonathan Greenert, the Vice Chief of Naval Operations, said:

“If we have a reduction of a kind that was passed around here—\$400 billion, \$886 billion—without a comprehensive strategic review—a fundamental look at what we were asking our forces to do, without a change in activity—as I described, we won’t be able to meet the global force management plan today.”

General Peter Chiarelli, the Army’s Vice Chief of Staff, added: “Whatever reductions are made carry risk, and with reductions we will not be able to do as much tomorrow as we are able to do today.”

The Vice Chiefs instead urged Congress to provide long-term stability and predictability to the Pentagon’s base budget. As General Philip Breedlove, the Air Force’s Vice Chief of Staff, said:

“Any stability in these kinds of budgets are helpful. In fact, when we look at how we buy in space and other large procurement programs, the ability to put stability into a purchasing program allows the subcontractors and others to predict and count on and then produce in good quantity. So stability in budget is always helpful as we plan for these types of things.”

General Joseph Dunford, Jr., Assistant Commandant of the Marine Corps, added that any cuts to the Pentagon's baseline budget will need to be made “in a measured way so that we don't end up at the end of the day with a force that's hollow in the future.”

In addition, former leaders of the Joint Chiefs of Staff recently testified before the House Armed Services Committee on how the debt-limit deal's sequestration cuts to defense spending would be anything but measured. As retired Navy Admiral Edmund Giambastiani, the former vice chairman of the Joint Chiefs of Staff, [said](#) on September 8, 2011, the sequestration cuts to defense would be like “performing brain surgery with a chainsaw.”

It's no surprise, then, that Secretary of Defense Leon Panetta has repeatedly urged Congress to avoid the *Budget Control Act's* potentially damaging effects to the Pentagon. To take a key example, Secretary Panetta [cautioned](#) at a public forum on August 16, 2011, that the debt-limit deal's deep cuts defense would be “devastating” to America's military and national security.

“If [Congress and the President] do the sequester, this kind of massive cut across the board which would literally double the number of cuts that we're confronting—that would have devastating effects on our national defense Very simply, it would result in hollowing out the force. It would terribly weaken our ability to respond to the threats in the world. But more importantly, it would break faith with the troops and with their families. And a volunteer army is absolutely essential to our national defense. Any kind of cut like that would literally undercut our ability to put together the kind of strong national defense we have today.”

It remains to be seen whether the Super Committee, Congress and the President will heed the warnings of the Pentagon's civilian and military leaders, and work to avoid the *Budget Control Act of 2011's* severe sequestration cuts to defense.

Defense Spending and the Federal Budget.

In debates over how to control government spending and reduce the federal deficit and national debt, defense spending is a frequent target. Indeed, it is not uncommon to hear critics of the Pentagon talk about the “spiraling” growth of its budget. Such claims, however, are factually inaccurate and wrong by any measure.

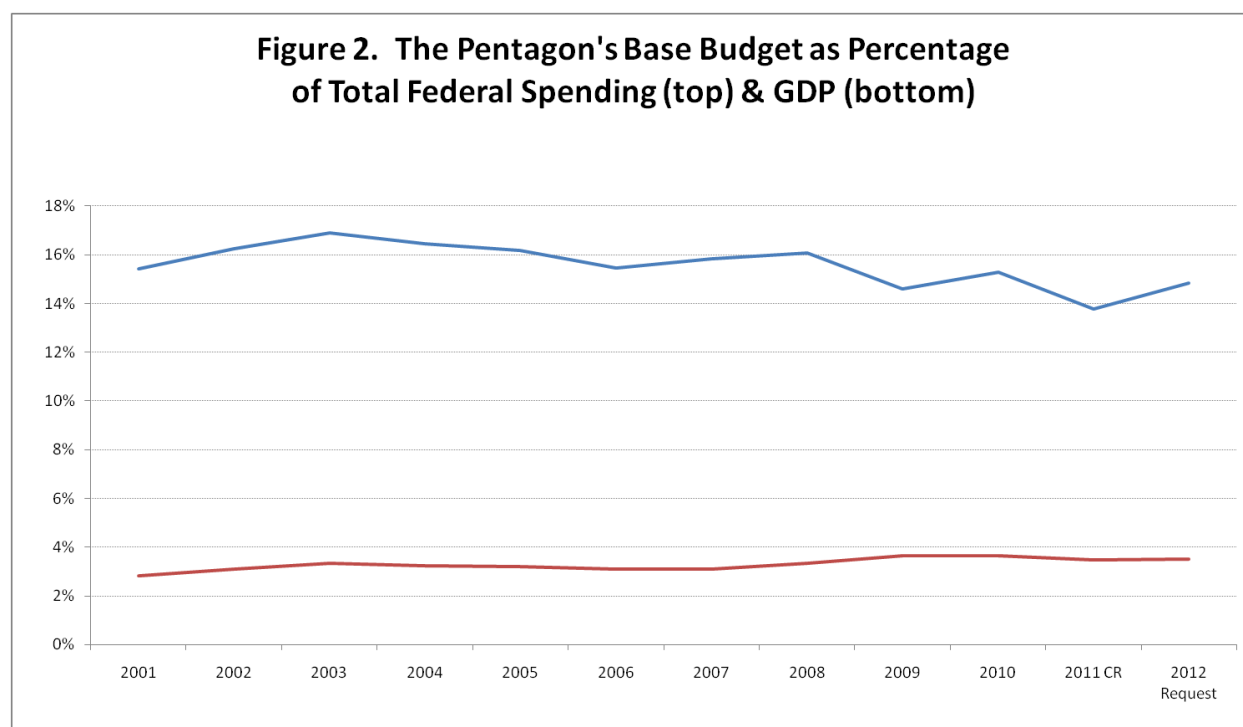
First, a closer look at the defense spending that Congress has actually enacted since 9/11 shows that the Pentagon's base budget has not seen “spiraling” or exponential growth. It hasn't even doubled, as critics sometimes claim. Rather, it has grown, at most, gradually.

The base budget—which excludes the supplemental costs for the conflicts in Afghanistan and Iraq, and defense-related programs funded by other federal agencies—is what the Defense Department uses annually to pay the costs of military personnel and benefits, operations and maintenance, procurement of weapons systems, research and development, military construction, and housing. As Table 1 shows, enacted defense spending for the base budget,

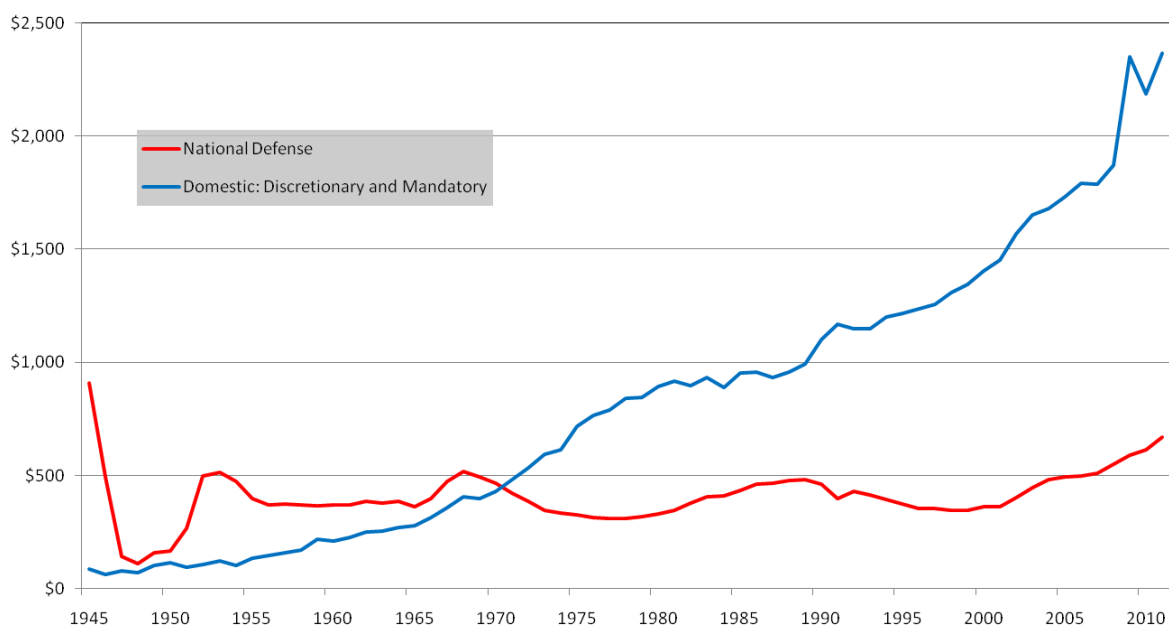
Table 1. The Pentagon's Base Budget Since 9/11

Fiscal Year	Enacted Base Total DoD (In USD Billions Not Adjusted for Inflation)	Enacted Base Total DoD (Inflation-Adjusted FY2012 USD Billions)	Real Change from Previous Fiscal Year
FY2001	\$287.4	\$382.4	--
FY2002	\$327.0	\$423.7	10.8%
FY2003	\$365.2	\$457.7	8.0%
FY2004	\$377.5	\$458.1	0.1%
FY2005	\$400.1	\$466.1	1.8%
FY2006	\$410.7	\$463.2	-0.6%
FY2007	\$431.7	\$474.0	2.3%
FY2008	\$479.0	\$511.0	7.8%
FY2009	\$513.2	\$539.8	5.6%
FY2010	\$527.9	\$544.2	0.8%
FY2011	\$529.0	\$537.1	-1.3%

Figure 2. The Pentagon's Base Budget as Percentage of Total Federal Spending (top) & GDP (bottom)



**Figure 3. National Defense vs Domestic Spending
FY 1945-FY 2011 (Constant FY 2005 USD Billions)**



Note: "Domestic: Discretionary and Mandatory" spending includes the following functions: General Science and Technology (excluding space programs); Natural Resources and Environment; Energy; Agriculture; Commerce and Housing Credit; Transportation; Community and Regional Development; Education, Training, Employment and Social Services; Health; Income Security; Administration of Justice; General Government; Revenue Sharing and general purpose fiscal assistance.

when adjusted for inflation, grew by an annual average of 3.5% over a ten-year period (since FY 2002), and by 2.7 % over a nine-year period (since FY 2003).

Moreover, as Figure 2 illustrates, the Pentagon's base budget, when viewed as a percentage of total federal spending, has declined over the last ten years. And when viewed as a percentage of America's gross domestic product (GDP), defense spending has remained more-or-less constant.

Second, publicly-available government data shows that discretionary and mandatory domestic spending on social and economic programs have experienced spiraling increases in growth, especially since the early 1970s. In contrast, "national defense" spending—even when the emergency funding of the conflicts in Afghanistan and Iraq is included—has remained comparatively flat, as Figure 3 illustrates.

Indeed, the explosive growth of America's spending on discretionary and mandatory domestic programs explains why Defense Secretary Panetta said at his Senate confirmation hearing on June 9, 2011: "[Defense spending] is by no means the cause of the deficits, the huge deficits that we are incurring today."

Conclusion: Defending Defense from the Super Committee.

Congress and the Obama administration are at a key crossroads. Further defense cuts will significantly impact the U.S. military's ability to defend the nation. While the country has been able to reduce outlays on defense spending in previous postwar periods, America remains a nation at war ten years after the terrorist attacks of September 11, 2001.

Even as U.S. forces withdraw from Iraq and (eventually) Afghanistan, challenges in the global war on terror will remain. Moreover, the United States will face potential threats over the horizon from rising powers such as China. And rogue regimes that possess or seek to possess nuclear weapons, such as North Korea and Iran, will continue to threaten U.S. allies and interests. As outgoing Secretary of Defense Robert Gates [pointedly asked](#) on May 23, 2011: "If you want to change the size of the budget in a dramatic way, what risk are you prepared to take in terms of future threats to the country?" Gates [elaborated](#) on this point on August 9, 2011:

"My responsibility to the President and to the Congress is to present them with a program that I believe is necessary to defend this nation And as I look around the world and see a more unstable world, more failed and failing states, countries that are investing heavily in their militaries—as I look at places like Iran and North Korea and elsewhere around the world—as I look at the new kinds of threats emerging from cyber to precision ballistic and cruise missiles and so on—my greatest worry is that we will do to the defense budget what we have done four times before And that is, slash it in an effort to find some kind of a dividend to put the money someplace else. I think that would be disastrous in the world environment we see today and what we're likely to see in the years to come."

There is no question that America faces significant economic challenges. The current focus on deficit reduction is warranted, but the fact of the matter is that defense, having already been cut by more than \$400 billion in long-term spending, has done its part. As Senator Jon Kyl (R-AZ), a member of the Super Committee, [said](#) at a Defending Defense event on September 8, 2011:

"[D]efense has already taken huge hits—especially in the last three years, but really over the last several years.... In a three-and-a-half trillion dollar budget, two-thirds of which is entitlements, there is enough slop in the system that you can find a trillion and half in savings [over the next ten years], without deeply cutting into benefits, or totally readjusting how these programs work—although they will require some adjustment. People kid about waste, fraud, and abuse, but it's real. And if we have the courage to face that, we can find the savings without forcing additional discretionary cuts, which, of course, would implicate defense spending.... So my point of view is that defense should not have any additional cuts"

It is now time for the Super Committee, Congress and the President to address the real drivers of America's deficit, while defending our men and women in uniform from further defense cuts that will make it difficult—if not impossible—for them to carry out the missions that their civilian leaders have given them.