Budgeting for Foreign Affairs and Defense

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The Reality of the Defense Builddown

By Russell Rumbaugh

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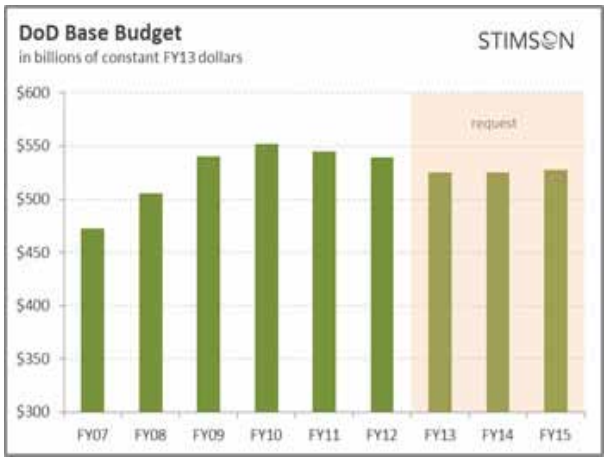
The President released the FY13 defense budget request today, and the total amount is $5B less than the FY12 appropriated levels. We are certainly into the defense builddown. But we should remember that the defense budget has cycled up and down over the last 60 years. This year's request of $525.4B is just one step of that cycle, and not a terribly dramatic one at that, especially if Congress takes advantage of the opportunity the administration has given it to ease the cut.

Although this is the first request smaller than the budget the year before, the defense budget actually entered the builddown two years ago. Both FY12 and FY11 were held by Congress at roughly the same level as FY10, meaning the defense budget wasn't keeping pace with inflation, and therefore was shrinking. The Defense Department's release puts the FY12 topline at $530.5B, which is a half a percent increase over FY11. However, at that time, inflation was between 1.5 to 2 percent, so the .5 percent increase didn't cover the lower value of each dollar. Seen in this context, the defense budget for FY13 is the gradual next step in a curve, as well as a step in line with the efforts Congress to address our fiscal crisis by constraining all discretionary spending with the Budget Control Act (BCA).



The Context of the BCA

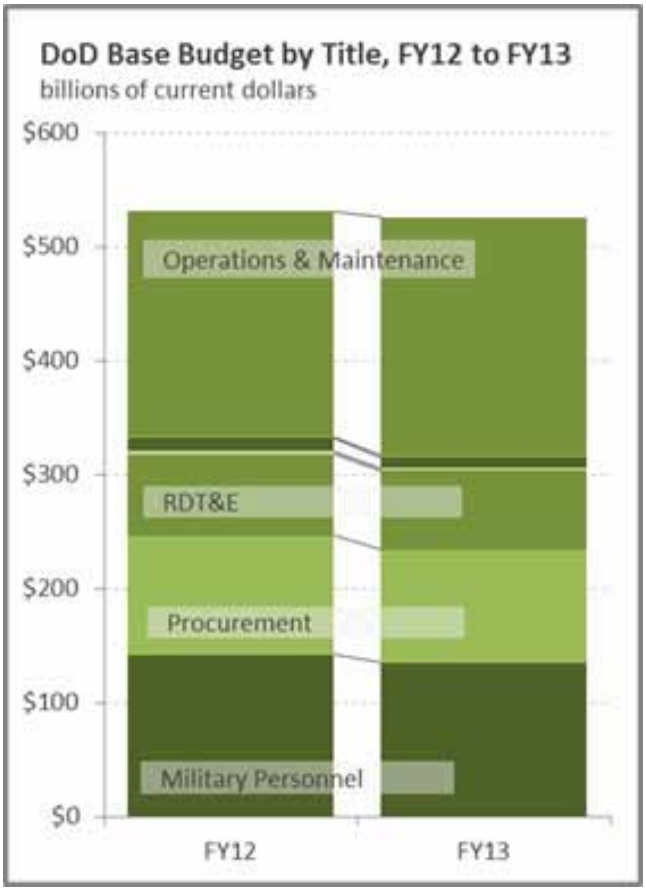
But the administration has opened the door for Congress to overturn those constraints. Despite the failure of the deficit reduction supercommittee created by the BCA, we have long said sequestration wasn't likely to happen because no one wanted to face the stick of 10-percent cuts. The administration has now provided a carrot along with that stick. They have assumed not just that sequester won't happen, but the caps will remain as the original BCA categories of security/non-security not defense/non-defense, to which the categories were "revised" to once the supercommittee failed. They have laid a bet on that assumption: the defense category, budget function 050, is already over its cap. Although DoD is $5B less than it was in FY12, the rest of 050 is $1B more, putting 050 above the cap as it currently stands in law. But like sequester, though the rules have legally changed because the supercommittee failed, the actual enforcement aren't enforced until OMB prepares its sequestration report at the end of this year. And so it appears that the administration is threatening Congress with yet another stick: change the law to keep the original security/non-security caps or defense is docked for being above its cap.

The administration, whether intentionally or not, has provided a carrot on top of the sticks. Under the security cap, DoD shares its allocation with Veterans, Homeland Security, National Nuclear Security Administration (NNSA), some intelligence funding, and State and Other International Programs. Of those, Veterans and NNSA, receive slight increases totaling about $3B, and State and Other International Programs gets a 10% increase plus-ing it up by $4B. If Congress agrees to the security/non-security cap, all or some of those increases could be reallocated to DoD, and—if enough was taken from Veterans—could completely offset the cut the administration has requested for DoD. That carrot sweetens the incentives for Congress to overturn not just sequester, but the caps too, instead of relying on just sticks.

The Request's Specifics

Within that context, the defense budget itself is being warped—in some good ways, and in some bad ways—by the pressures of the BCA.

The biggest change in the FY13 request is in military personnel funding. Secretary Panetta had already announced the endstrength cuts to the Army and Marines, although it would take a couple of years to draw down to those levels. This request captures those savings immediately by declaring the costs associated with the soldiers and marines above the endstrength goal to be "temporary," and therefore budgeted under the Overseas Contingency Operations (OCO) funding, which is not subject to the caps created by the BCA. That means despite a pay raise, base military personnel costs declined by almost 5 percent while military personnel costs in OCO increased by 25 percent. By taking advantage of the "free" nature of OCO funding, the administration has created room in the base budget for other funding.



In the administration's defense, most of that room has been used to keep healthy Operations and Maintenance (O&M) funding, which pays for all the training, fuel, and maintenance of our forces. For the first time, we seem to be seeing a genuine effort to institutionalize funding that has been paid for in war budgets, but is necessary to operate our forces whether we are at war or not. O&M funding receives a nearly $12B increase in base funding over FY12 levels, and the great bulk of this increase, $10B, went to accounts that are losing OCO funding compared to last year. Most notably, these accounts include the Army's and Air Force's depot maintenance (+$1.5B), which pays for long-term maintenance of equipment; the Navy's ship and flight operations (+$1.4B), which pays for steaming days and flight hours to keep the fleet and its aircraft underway; and the accounts that support Army operations (more than $2.9B). This shift represents a positive step in ensuring the enduring costs necessary to maintain our forces are paid for in the base budget, not the temporary war funding.

In contrast to O&M, procurement funding is being cut in both base and OCO funding. From a total of $122B in FY12, procurement is requested at only $109B in FY13, with both base and OCO each decreasing by about $6B. Secretary Panetta and the services previewed most of these cuts already. The Air Force is cutting its mobility aircraft (C-5s, C-130s, and C-27Js), as well as one variant of the Global Hawk and two satellites. However, despite the emphasis on cutting the F-35, the Air Force received only a 3 percent cut in funding for its F-35 program from FY12 to FY13. The Navy is delaying an amphibious ship and its new carrier, and cutting V-22s. Although most interesting, the Navy cuts its F-35 program by $500 million over FY12 while the Air Force cut its by only $100 million and the Marines actually increased theirs by $250 million. The Army, in contrast, is primarily cutting funding for those tried and true capabilities it already has in the force: tank upgrades, Blackhawk helicopter upgrades, Stryker vehicles, and its heavy trucks all receive significantly less funding overall than they did last year. Procurement is paying compared to other titles, just as it has in every past builddown. However, we often forget procurement not only pays more during builddowns, it also receives more during buildups, which we also saw over the last decade. The procurement cut is a much more traditional outcome of a builddown, and less a response to the specific pressures of the BCA caps.

Conclusion

The defense budget is going down; that does have real consequences. But those consequences are of a much smaller scale than rhetoric implies. Our force structure still looks roughly like it has for decades, and we still dominate any other military in the world. Although we can clearly feel the pressures of our fiscal crisis, we have not yet seen truly dramatic change in the budgeting priorities for our national defense.

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