



President Proposes \$614B Defense Budget

By Jennifer DiMascio
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The Obama administration is proposing \$525.4 billion in fiscal 2013 base defense spending, along with \$88.5 billion for overseas operations — the first real reduction in military spending over the last decade. And it proposes to cap future war spending at \$450 billion through 2021.

War spending is already on the decline, falling 23% from fiscal 2012 in this request. President Barack Obama's request anticipates the base budget will increase in subsequent years, rising to \$533.6 billion in fiscal 2014, \$545.9 billion in fiscal 2015, and \$555.9 billion in fiscal 2016.

Wall Street analysts winced but ultimately shrugged at the long-expected downsizing of the Pentagon's purse. "A majority of changes to marquee programs are in line with expectations," said Jason Gursky of Citi Investment Research & Analysis.

Industry boosters, meanwhile, expressed their continued angst. "The budget released by the administration today is not a shot over the bow of the American aerospace and defense worker — it's a direct hit," said the Aerospace Industries Association. The group said the budget proposal means \$20 billion less in weapon systems buying power over a decade, and that is before the full effects of deficit reduction efforts agreed to in Washington last August.

Likewise, the Pentagon's request quickly came under fire from Rep. Buck McKeon (R-Calif.), chairman of the House Armed Services Committee, for "irresponsibly" ignoring sequestration, trying to shift military personnel off of its Tricare health care system and retiring nine Navy ships and removing 16 more from its five-year shipbuilding plan.

"It appears this is the only sector of the federal government to meaningfully contribute to deficit reduction," McKeon says of the Pentagon's budget. "Simultaneously, the budget proposes additional spending by diverting 'savings' from declining war funding to domestic infrastructure spending."

Already publicized program kills and restructurings to programs including Global Hawk Block 30 and the Joint Strike Fighter will save \$51.4 billion over the future years' defense plan, according to budget documents. But the Feb. 13 budget announcement brought along with those highlights new surprises, including a major reduction to the Missile Defense Agency's Sea-based X-band Radar program, asking for just \$9.7 million when it received \$176.8 million in fiscal 2012.

Even with the predicted cuts, a 4.3% reduction to the procurement and research & development accounts generated a mixed reaction from analysts. While there were few surprises after last month's high-level budget preview briefings, the administration still

devotes several paragraphs in budget documents to reforming and streamlining defense acquisition practices, meaning less leeway for contractors.

"The reduction in the investment accounts, and the tough language on contracting, will probably make this request an uncomfortable read for the defense industry," says Robert Stallard of RBC Capital Markets.

However, those cuts are modest, according to William Hartung of the Center for International Policy. "Overall spending on weapons remains high," Hartung says. "The real question is whether the Pentagon and its contractors can do a better job with our tax dollars. That means reducing cost overruns, improving performance, and eliminating unnecessary programs."

Moreover, completely missing from the Pentagon's budget rollout is a direct discussion of August's Budget Control Act, especially the so-called sequestration half that has yet to take effect.

That law mandates \$1.2 trillion worth of deficit reduction be enacted. Without new lawmaking, roughly \$500 billion will be automatically removed from the Pentagon's budget over 10 years starting in early January 2013, and an equal amount will come from domestic discretionary spending.

The debate over deficit reduction is at the heart of the larger discussion on the president's overall budget rollout. The president is proposing \$4 trillion in deficit reduction by 2022, and asking for tax increases on the wealthy and sidestepping the issue of entitlement reforms. The proposal allows sequestration to be avoided, but on the president's terms.

As such, the Republican chairman of the House Appropriations Committee vowed to scour the budget for savings. "Over the next few weeks and months, the Appropriations Committee will conduct comprehensive budget oversight hearings, including calling on administration officials to account for their past and proposed use of taxpayer dollars," says Rep. Hal Rogers (R-Ky.). "The committee will go line by line through the president's budget, prioritize programs, and make decisions on the appropriate investment of discretionary funds."

The standoff is likely to remain in place until after the November elections, and there's no guarantee that the elections will enable a resolution. Todd Harrison of the Center for Strategic and Budgetary Assessments refers to this as a "period of unusual uncertainty."

Even if sequestration occurs, Christopher Preble, vice president for defense and foreign policy studies of the Cato Institute and a budget-cutting hawk, maintains that U.S. defense capability will not suffer significantly even if congressional inaction hands down another \$500 billion in cuts to the Defense Department.

"The military is not in danger of declining to second-class status," Preble writes. "Indeed, if we took account of our still prodigious advantages over any conceivable combination of rivals, we could spend considerably less, and continue to enjoy a margin of security and safety that our ancestors would have envied."

FORCE STRUCTURE

The Pentagon plans to save more than \$50 billion by contracting all of the military services. Most dramatic is the U.S. Army reduction of 72,000 soldiers, reflecting the military's decision to shift its focus to the Asia-Pacific theater as the drawdown in Afghanistan unfolds. The Marine Corps will lose 20,000 Marines, the Navy 6,200 sailors and the Air Force 4,200 airmen.

MILITARY ENTITLEMENTS

