



CQ WEEKLY – COVER STORY
Aug. 6, 2012 – Page 1610

Wiggle Room For Cuts?

By Frank Oliveri, CQ Staff

Republican lawmakers lined up last month at an event sponsored by three conservative think tanks to denounce how the coming budget sequester would gut the nation's military. South Carolina Sen. [Lindsey Graham](#) called the mandated, across-the-board cuts “the most irresponsible approach to defense in modern times.” Californian [Howard P. “Buck” McKeon](#), chairman of the House Armed Services Committee, said it is “shameful” to “hold the troops hostage” to the budget-cutting device. And several quoted Defense Secretary [Leon E. Panetta](#) as saying that allowing the sequester to take effect would be akin to “shooting ourselves in the head.”

Potential job losses at defense contractors are being estimated at more than 1 million. Predictions of a “hollow force” are being thrown around. Last week, Graham joined two other senators for a tour of military-rich Florida, North Carolina and Virginia, three presidential election battleground states, to deliver their full-throated anti-sequester message in person.

Behind the intensifying rhetoric is a growing fear on Capitol Hill that the automatic cuts, which had been designed to be so punishing that they would force a broader compromise on deficit reduction, might not be averted. This realization has prompted congressional aides on both sides of the aisle, outside budget experts and even a few lawmakers to take a closer look at exactly what the first year of the sequester would mean.

The somewhat surprising findings are that the automatic cuts need not, in fact, be as painful for the military as conventional wisdom would suggest. The worst-case scenarios being offered assume that the Pentagon, the White House Office of Management and Budget (OMB) and Congress would do absolutely nothing to manage the sequester before it takes effect Jan. 2. Although the defense cut for fiscal 2013 would total almost \$54.7 billion, it turns out that a fair amount of flexibility might be employed to limit damage. Lawmakers and executive branch officials have a variety of tools that would allow them to wield the sequester as a scalpel, rather than an ax, to trim away fat from a military budget that finances far more programs than the Pentagon ever could hope to complete.

“I have no doubt that there is greater flexibility in sequestration than at first it would appear — more than people are claiming there is right now,” says [Adam Smith](#) of Washington, the ranking Democrat on the House Armed Services Committee.

Some steps, in fact, have already been quietly taken. Last week, the White House announced that military personnel accounts would be exempt from the sequester — an option allowed by the August 2011 debt limit law that set the automatic cuts in motion. As a practical matter, that eliminates the potential need to dismiss members of the armed forces but would apply the total amount of the scheduled cuts to a smaller portion of the Pentagon’s budget — taking a bigger slice from such line items as procurement accounts.

Moreover, the White House and Senate appropriators have taken pre-emptive steps involving a special financing mechanism for war-related expenses, known as Overseas Contingency Operations. The White House issued what many believe is an inflated request for OCO costs, and the top Senate Appropriator, [Daniel K. Inouye](#) of Hawaii, wants to boost it further. Because OCO spending isn’t subject to statutory caps on appropriations but would be subject to sequester, those moves would expand the pot of defense spending and make it easier for the Pentagon to absorb the automatic cuts.

Very few lawmakers say sequester is good policy. The across-the-board, account-by-account cuts scheduled for the coming year would prevent the sort of deliberate steps that budget experts would prefer when it comes to managing spending reductions.

Many, including Smith, voted against the debt limit law at least in part because of the heavy toll the sequester would take on defense spending. And others, among them Missouri Democratic Sen. [Claire McCaskill](#), remain confident that Congress will find a way to stop the sequester from coming to pass.

“There will be a path,” says McCaskill, who serves on the Armed Services panel and faces a difficult re-election bid. “I don’t think sequester is going to happen. I think most people around here don’t want it to happen.”

But as the sequester date nears, partisan opposition to the sorts of compromises that might be needed to repeal or replace the sequester with alternative savings have only appeared to harden. Unless Republicans relax their opposition to raising revenue or Democrats abandon their insistence on tax increases, the sequester will stay on track. And some budget experts suggest that may not be the worst outcome.

Before the reality of the sequester settled upon Capitol Hill and Pentagon planners, defense spending was already being constrained. In addition to creating the sequester, which was triggered only after a special joint committee of Congress didn’t produce a plan to trim the deficit by \$1.2 trillion over the next

decade, the debt limit law had also set strict year-by-year defense appropriations caps through fiscal 2021.

In the aggregate, those caps already require that the Pentagon reduce its future spending plans by about \$487 billion over the coming decade. The sequester will require additional savings of about \$500 billion over that period.

How those sequester cuts are managed raises many questions. That's why Congress voted overwhelmingly two weeks ago to demand a detailed report on the automatic cuts from the administration in the next month.

The administration's decision to exempt military personnel was favored by many Pentagon officials. But others counseled against it. Exempting personnel costs will levy a heavier price on the rest of the budget, prompting some military leaders to object that they won't be able to support their forces with the training and equipment required.

"We can't yet say precisely how bad the damage would be, but it is clear that sequestration would risk hollowing out our force and reducing its military options available to the nation," Panetta told Senate Defense appropriators on June 13.

Several experts say it is in the administration's interest to make the sequester appear unacceptable in order to put pressure on lawmakers to find alternative savings and repeal it.

"It's the Washington monument technique," says Benjamin H. Friedman of the Cato Institute, a libertarian think tank. "You want to cut? Sure. We'll close the Washington Monument. Yeah, it's overwrought."

Still, Friedman is among a phalanx of defense budget experts who say that the sequester, while undesirable, wouldn't be the disaster it's being portrayed to be.

Another is Gordon Adams, who handled the Pentagon budget at the OMB under President Bill Clinton. "The one thing that makes serious choice-making and management at the Pentagon possible is making the budget go down," says Adams. "One thing that forces the department to become more efficient is to have less money. Sequester has the prospect of imposing discipline it would be hard to get any other way."

It's these experts who note that the administration and Congress have some alternatives, even absent repeal of the sequester, to limit the budgetary pain felt by the Pentagon. Some are used every year to mitigate, for example, the effects of program cost overruns, fluctuating fuel costs or outdated requirements.

Adams, who now works with the Stimson Center, a nonpartisan think tank in Washington, says that by including OCO war costs for fiscal 2013 in the sequester,

OMB has expanded the pool of money that would be cut to well in excess of \$600 billion.

Flexibility in War Spending

The war fund is thought by many experts to be inflated because it assumes that 68,000 troops will be operating in Afghanistan throughout fiscal 2013. President Obama has announced a strategy to draw down the number of U.S. troops to about 68,000 in Afghanistan by October. But many, including Smith, say that number is likely to come down before the end of fiscal 2013.

Additionally, while the House-passed fiscal 2013 Defense appropriations bill would provide \$88.5 billion for OCO costs, Inouye has shifted an additional \$5.9 billion into the OCO category from the base military spending accounts in the Senate Defense appropriations bill. Inouye views the war fund, which he set at \$93.3 billion, as a tool to relieve pressure on the base defense budget. In fiscal 2012, he shifted billions of dollars of operations and maintenance costs into the war fund.

Florida Republican [C.W. Bill Young](#), chairman of the House Defense Appropriations Subcommittee, also says the war fund offers opportunities to protect military accounts.

“The OCO number has been very flexible, and it has been used almost as a slush fund for a number of other projects. So there is probably some room in the OCO funds,” Young says.

Another way to create flexibility in applying sequester would depend on how the across-the-board cuts should be applied. OMB has determined that the cuts will be applied at the “program, projects and activities” level, which would assure that every program would take a hit of around 10 percent.

But appropriators might simply change the definition of program, projects and activities in report language to create greater flexibility, says a senior congressional aide with knowledge of the process. Should that occur, Adams adds, it could be applied to a higher aggregate, say to all Army track vehicles, for example. He says such a move would offer the Army more flexibility in applying the cuts.

“Congress’ hands are not tied at all,” says Todd Harrison, a defense budget expert with the Center for Strategic and Budgetary Assessments, an independent defense policy think tank in Washington. “Congress has total flexibility in how this plays out. This is up to Congress.”

The Pentagon also has some inherent operating flexibility in the nature of its budget makeup. About a third of the base defense budget and about two-thirds of

the war funding is taken up by the operations and maintenance category, which covers everything from fuel costs to tires and other spare parts.

“O&M dollars are highly fungible,” says Adams.

Beyond those options, Congress routinely grants the Pentagon permission to redirect billions of dollars throughout the fiscal year in a process known as reprogramming, which enables officials to shift money within the base and war budgets.

It is expected that lawmakers will provide about \$6.5 billion in reprogramming authority to the Pentagon for fiscal 2013, an amount that would represent about 12 percent of the total defense sequester.

The four defense committees must approve any reprogramming. But Smith says the defense panels would be very willing to work with the Pentagon to try to offset the effects of sequester by shifting money from troubled or lower-priority programs to protect those of greater importance.

“There is a fair amount of money sloshing around the Pentagon,” Smith says.

And if the sequester appears to be more likely later this year, lawmakers might have time to give the Pentagon even greater reprogramming authority, one senior congressional aide says.

Flexibility in the Law

The original Gramm-Rudman-Hollings law contains a section that also affords the president an opportunity to mitigate the effects of sequester by providing him with an option to reshape it.

The law includes a section that would enable the president to provide an alternative plan for meeting the requirements of sequester. Another provision would permit the president to realign military cuts being made by sequester, as long as the total amount of the reduction meets the mandate.

The Cato Institute’s Friedman says this would allow the Pentagon to make choices and set priorities. In this way, Panetta and his service chiefs could protect higher- priority programs from sequester. Both options would require congressional approval.

“I haven’t a clue as to why no one is talking about this,” Adams says. “It’s a mystery to me.” Adams points out it would not be difficult for the Defense Department to come up with such a plan. But most experts say defense isn’t really at the core of the sequester debate. Defense “is just the whipping boy,” Adams says.

In fact, Harrison of the Center for Strategic and Budgetary Assessments suggests that defense wouldn't even be cut all that deeply, particularly in historical terms.

The spending caps in the debt limit law require the Defense Department to reduce only increases it had planned over 10 years — and that would come on top of an overall defense budget that grew at a 6.6 percent annual rate from 2001 to 2010, according to the Congressional Research Service. Defense spending almost doubled over the past decade, not counting the cost of the wars in Iraq and Afghanistan.

Even after the sequester, Smith says, the Pentagon would receive \$552 billion for fiscal 2013, about the same amount as was spent on defense in fiscal 2007. “That’s a lot of money,” Smith says.

Of course, sequester still wouldn't be simple. The cuts would still be steep — and could fall quite suddenly.

Asked by McKeon about the effects of sequester during a House Armed Services hearing with defense industry officials on July 18, Lockheed Martin Corp. chief Robert J. Stevens took note of the potential effects — and the accumulated cost of delaying the sequester until after the start of the fiscal year.

“The act requires a \$55 billion reduction in fiscal '13, but the act takes effect after the first quarter. So the \$55 billion has to be reduced over nine months, not a year. If three more months go by, the equivalent of \$110 billion would have to be taken out of the agency, which would be more and more disruptive,” Stevens said. “Every day that’s delayed after Jan. 2 makes the magnitude of the reduction to accumulate \$55 billion in the year more.”

More details about how sequester would play out should be available in the next month or two, assuming the administration supplies the required report regarding its implementation.

And nothing is likely to stop the dire warnings from defense hawks on and off Capitol Hill.

Still, Adams says he doesn't buy all the “doomsday machine” talk about the sequester.

“It’s a management challenge,” he says. “The Pentagon has spent 10 years getting fat, and people forgot how to prioritize. The real management challenge we face is we spend too much on defense.”

Megan Scully contributed to this story.