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Pentagon faces year of difficult decisions

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Defense Secretary Leon Panetta issued several grave warnings about what would happen to the Pentagon and the military services if the congressional supercommittee failed in its task to identify \$1.2 trillion to reduce the deficit.

Now that failure is here, what happens next? Does the sword of Damocles fall, chopping \$600 billion more out of the next decade of defense spending?

President Obama has made it clear that while he does not support the automatic cuts called for in the sequestration process, he will veto any legislation that tries to roll the cuts back and is pushing Congress to continue working toward a reduction package. But with no end in sight to the political gridlock on Capitol Hill, it is unlikely such a compromise will be made before the 2012 election.

So where does this leave the Pentagon and other federal agencies, which have to deliver their 2013 budget requests to Congress in February? Is the Defense Department incorporating the larger, across-the-board spending cuts into its budget? Should it be?

With so many questions unresolved, Pentagon planners are headed into what one defense analyst described as "a year of living dangerously."

"You may want to assume there won't be a full-blown sequester, but there's a possibility there will be," Loren Thompson of the Lexington Institute said. "Either way, we won't know the outcome until after the 2012 election."

For now, it appears the Obama administration has no intention of building sequestration cuts into its February budget submission.

"The president's budget is a reflection of his policies," Office of Management and Budget spokeswoman Meg Reilly said. "We have been clear about the fact that we do not think the sequester is ideal policy, and it is not our desire to see it implemented. Thus, it will not drive the budget process currently underway."

Some think this is the sensible approach.

"I don't think the Pentagon should adjust one nickel or cut one nickel because the sequester is so irresponsible and so detrimental to national security that it would be, I think, irresponsible for the Pentagon to basically provide a road map for those kind of mindless cuts," said Arnold Punaro, a retired Marine Corps general and former senior SAIC executive.

The Defense Department should proceed with the budget it has been working on for months, said Punaro, who worked for 24 years on Capitol Hill, including a stint as staff director for the Senate Armed Services Committee.

After the Budget Control Act was signed into law in August, the Pentagon revised its budget plans to meet the new spending caps. It is now working on a budget request that is \$489 billion below what the president submitted in February for the next decade's defense base budget. Of these cuts, \$261 billion is expected to come over the next five years.

It is that five-year spending plan that DoD will submit to Congress in February.

"People don't understand - this is really a long process and there's a lot of work and review that goes into it," said Emerson Gardner, a retired Marine Corps lieutenant general who served as the principal deputy director of the Pentagon's Cost Assessment and Program Evaluation office until last year. "You can't just snap, and turn something in and make great changes."

Of the \$261 billion, \$60 billion is expected to come from making the Pentagon more efficient. This is on top of the \$178 billion in efficiencies that former Defense Secretary Robert Gates already mandated.

According to Gardner, to meet the remaining \$200 billion in savings, the Pentagon will cut \$130 billion from modernization accounts and \$70 billion in manpower costs. To reach the Budget Control Act's spending targets even before sequestration takes place requires real changes to the Pentagon's plans, Gardner said.

"I believe the FY13 budget that will go to the Congress in February will be very controversial," he said.

To meet the five-year goals, Gardner said he expects the Pentagon to request \$529 billion for its base budget in 2013.

When the Pentagon submitted its 2011 budget in February 2010, it projected it would receive \$582 billion in base budget funding for 2013.

"I think [the president] puts in the budget what he thinks will execute the strategy, and I think that's \$529 billion," Gardner said. "Then he tells Congress, you still need to meet your deficit targets, you just need to do it in a different way."

According to analysis by the Center for Strategic and Budgetary Assessments (CSBA), the combination of this first round of cuts and sequestration would reduce the base budget to \$472 billion in 2013.

Punaro agreed the president should first show Congress how the Pentagon is implementing the first round of cuts without providing plans for sequestration.

"We're going to be cutting fighting muscle, increasing risk, changing strategy before we start talking about the totally irresponsible sequester-type cuts," he said. "I think we need to let the body politic absorb what the Pentagon is already doing."

CSBA's Todd Harrison agreed that the Pentagon will not include the sequestration cuts in its 2013 budget request, but thinks this is a mistake.

"If you want to do this strategically, if you want to target your cuts, you need to work it into your budget."

The Pentagon will likely submit a budget in February that exceeds sequestration caps by more than \$50 billion, making it "dead on arrival," he said.

"My understanding is, they've not been developing a contingency plan or a set of options in the event that sequestration is triggered," Harrison said.

Without a plan in hand, the Defense Department is once again turning its fate over to Congress, he said.

"For all of the contingencies which DoD prepares for all around the world, it seems like this is one contingency that they should be planning for, and they're not," Harrison said.

The Pentagon should start working up budget options if needed, he said.

"You don't have to present it publicly, but it seems like it would be prudent to have those options in your hip pocket," he said. "Sequestration enforcement doesn't start until Jan. 2, 2013, so they've got a little over 13 months."

Cato Institute foreign policy director Christopher Preble agreed, saying the Pentagon should have begun this kind of planning a long time ago.

"Some aspects of the current fiscal crisis have been building for years," he said. "We should have revisited our strategy before the fiscal crisis, but the fiscal crisis might finally force us to have that strategy discussion."

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