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Panetta Faces Big Budget Challenges

By JULIAN E. BARNES And NATHAN HODGE

President Barack Obama's choice of Leon Panetta on Thursday to head the Pentagon may signal new resolve to arrest defense spending. The task will be far from easy.

Retiring Defense Secretary Robert Gates already has killed the most inefficient programs, and the ships and planes acquired during the Reagan buildup are coming to the end of their lives. To maintain a large global military force, the U.S. faces a big bill—and Mr. Panetta some tough choices.



Agence France-Presse/Getty Images

Robert Gates and Leon Panetta at a White House ceremony Thursday.

The White House announced earlier this month it is seeking an additional \$400 billion in Pentagon cuts by 2023. The White House proposal blindsided the Pentagon, which was given less than 24 hours advance notice of the plan.

Mr. Gates had outlined in recent months a series of efficiency measures aimed at forcing the department to live within its means and stave off just such cuts. With the White House announcement, the second part of that mission appears to have failed.

Some analysts believe that given the size of projected federal deficits in coming years, even deeper defense spending cuts may be necessary. That would require Mr. Panetta to take a much deeper look at military strategy, potentially abandoning some missions.

Douglas Macgregor, a retired Army colonel well known in national-security circles for his often-pointed criticism of military strategy, said the U.S. needed a broader re-think of strategic priorities, steering clear of interventionist policies and scaling back U.S. military forces that remain garrisoned in Europe and Asia. "Unconditional support for the defense industry does not equal patriotism," he said.

On Thursday, at a White House ceremony announcing his appointment, Mr. Panetta made a nod to the tough budget decisions ahead, noting that it was a "time for hard choices" and said the Pentagon must "be strong and disciplined in applying our nation's limited resources to defending America."

The defense budget, including the cost of the wars in Iraq and Afghanistan, currently totals about \$700 billion a year. That's more than double the inflation-adjusted \$316 billion spent in fiscal 2001 that ended weeks after the 9/11 attacks.

The military budget is the largest discretionary portion of the budget and will account for about 19% of total federal spending of \$2.6 trillion for the year ending Sept. 30.

Mr. Panetta, who is leaving his position as CIA director, is expected to arrive on July 1. Even before then, Mr. Gates has been trying to set the table.

Throughout his time in office, Mr. Gates cautioned against across-the-board cuts. Last week, he said no budget cuts would be made before a strategic review is completed.

"The worst of all possible worlds, in my view, is to give the entire Department of Defense a haircut, basically says everybody is going to cut X percent," Mr. Gates said. "That's the way we got the hollow military in the 1970s and in the 1990s." Instead, Mr. Gates is looking at delaying or eliminating specific programs. In his thinking, they could be restored later, compared with blanket trims that are hard to reverse.

Defense officials expect Mr. Panetta will likely follow a similar approach. Mr. Gates recommended Mr. Panetta for the job, in part because of Mr. Panetta's experience wrestling with budgets.

During the Reagan years, defense procurement spending, in current dollars, peaked at nearly \$140 billion. Under President George H.W. Bush, weapons spending began a decline that hit bottom at \$55 billion while Bill Clinton was president. For 2011, procurement spending is approximately \$116 billion.

Emerson Gardner, a retired Marine Lt. General who advised Mr. Gates on the defense budget, said it would be difficult for procurement spending to fall as much as it did in the Clinton years in large part because the department bought different things in each spending boom.

In the 1980s, the Pentagon bought new submarines, surface ships and planes. Over the past decade spending was focused on armored trucks, improved communications and unmanned drones. The Pentagon did not, for the most part, replace the aging Reagan-era weapons systems. Now that equipment is nearing the end of its useful life.

"It is apparent you cannot go to the low spending level of the '90s and replace those things," Gen. Gardner said.

Mr. Gates has already eliminated a number of the military's most-prized weapons systems, such as the F-22 Raptor, a high-end stealth fighter.

"Just the fact that he stuck to his guns on the F-22 really impressed me, and showed he knows how to deal with Congress and to stare them down," said Winslow Wheeler, director of the Straus Military Reform Project at the Center for Defense Information.

Cuts in defense spending have already hit companies like Lockheed Martin Corp., the manufacturer of the F-22. Other major weapons manufacturers are already anticipating that a downturn in military budgets may squeeze their bottom line.

More recently, Mr. Gates won a protracted fight to cancel an alternate engine for the F-35 Joint Strike Fighter, a project that had long enjoyed the backing of many members of Congress.

Christopher Preble, director of foreign policy studies at the libertarian Cato Institute, said Mr. Gates had effectively "held the line" in defense spending, offering modest efficiency measures to stave off deeper cuts. He questioned whether Mr. Panetta would be able to scale back the widening set of missions for the U.S. military to cut costs.

"There's always going to be somebody asking the U.S. military to respond to some global 911 call," Mr. Preble said. "It's [going to be] Leon Panetta's job to say, 'No.'"