

Obama's Pentagon budget hits divided Congress



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By Andrea Shalal-Esa and Jim Wolf

WASHINGTON (Reuters) - President Barack Obama sent Congress a \$671 billion defense budget on Monday with \$13 billion in program cancellations and a smaller war budget that drew immediate fire from a divided Congress.

Some U.S. lawmakers called for even bigger cuts while others rallied to resurrect funding for job-rich programs.

The administration's fiscal 2012 budget proposal includes \$118 billion for wars in Afghanistan and Iraq, \$41.5 billion less than requested last year, given the troop drawdown in Iraq.

But it called for a record Pentagon base budget of \$553 billion, a boost of \$22 billion above the level enacted for 2010. Congress has failed to agree on 2011 funding, leaving

spending at 2010 levels under a temporary spending bill.

Defense Secretary Robert Gates said critics who were calling for even bigger cuts were out of touch with reality and warned that the Pentagon faced a looming crisis if Congress did not act soon to pass a spending bill for the 2011 fiscal year.

"Suggestions to cut defense by this or that large number have largely become exercises in simple math, divorced from serious considerations of capabilities, risk, and the level of resources needed to protect this country's security and vital interests around the world," Gates told reporters.

The stop-gap spending bill expires March 4, and Gates warned that extending that measure for the whole of 2011 would cost the Pentagon \$23 billion.

He insisted that the U.S. military needs at least \$540 billion for fiscal 2011 that ends September 30 to carry out its missions and maintain readiness.

Gates also blasted lawmakers blocking the Pentagon's five-year effort to cancel a \$6 billion interchangeable engine for the F-35 Joint Strike Fighter being built by General Electric and Britain's Rolls-Royce Group.

"We consider it an unnecessary and extravagant expense, particularly during this period of fiscal contraction," Gates said, vowing to examine "all available legal options" to shut it down once the current stop-gap spending measure expires.

The proposed budget contained few surprises after a January 6 briefing at which Gates mapped out plans to cut Pentagon spending by \$78 billion through 2016.

CUTS "DROP IN THE BUCKET" OR TOO EXTREME?

The 2012 spending plan calls for \$113 billion to buy weapons and services, down from \$120 billion projected a year ago, but still at a record level. Weapons research would get nearly \$77 billion, roughly on par with last year's projection.

U.S. defense contractors including Lockheed Martin Corp, Boeing Co, Northrop Grumman Corp have been bracing for slower growth in defense spending after a decade of double-digit increases that have nearly doubled the Pentagon's core budget since September 11, 2001.

Some Republican lawmakers are already calling for deeper cuts given the U.S. budget deficit and nearly \$1.5 trillion national debt; others want to add money back to the defense budget.

Christopher Preble, with the conservative Cato Institute, said on Monday the cuts outlined by Gates were a "drop in the bucket," amounting to just over 2 percent of total Pentagon spending and said "far deeper cuts" were needed.

House Armed Services Committee Chairman Howard McKeon said he agreed that a fiscal 2011 spending bill was needed, and said he had real concerns about the cuts Gates is seeking in 2012.

"We cannot take our eye off our national security requirements," McKeon said, vowing to ask tough questions when Gates testifies before his committee on Wednesday.

Defense shares mostly edged down on Monday.

Among large contractors, industry leader Lockheed closed down nearly 1 percent to \$80.92. Northrop shed 2.6 percent to \$68.70 and Raytheon Co fell 0.4 percent to \$50.86. Boeing gained 0.2 percent to \$72.26.

"Big platforms are getting stretched out and that's going to hurt the primes the most," Morgan Keegan analyst Brian Rutenbur said. Supplemental budgets, which have provided some growth for big contractors, are dropping.

Growth areas in the 2012 budget plan include cybersecurity, to be funded with \$2.3 billion, about \$10 billion in spending on space-based weapons, and nuclear security. It also included \$9.7 billion for Lockheed's F-35 fighter.

At the same time, the Pentagon proposed to cut \$13 billion from programs like a landing craft being designed by General Dynamics Corp, a surface-launched missile being developed by Raytheon for the Army, as well as the SM-2 surface-to-air missile that Raytheon builds for the Navy.

(Reporting by Andrea Shalal-Esa and Jim Wolf; Additional reporting by Karen Jacobs in Atlanta; Editing by Tim Dobbyn)