

National DEFENSE

Defense CEOs More Receptive to Pentagon Budget Cuts

By: Sandra I. Erwin – December 3rd, 2012

Pentagon contractors are making yet another plea to the Obama administration and Congress to end the stalemate and agree on a budget deal in order to avert mandatory cuts to the defense budget next year.

While they firmly oppose across-the-board cuts to defense spending known as sequestration — about \$500 billion over 10 years — they said they would support a smaller reduction that was more “orderly” and targeted at lower-priority programs.

Remarks by four defense CEOs at a National Press Club event Dec. 3 mark a considerable departure from the industry’s more intransigent position six to 12 months ago, when they staunchly rejected any cuts to the defense budget.

The panel included David Hess, president of Pratt & Whitney and chairman of the Aerospace Industries Association; Wes Bush, president and CEO of Northrop Grumman Corp.; Dawne Hickton, president and CEO of RTI International Metals Inc.; and David Langstaff, president and CEO of TASC Inc.

The CEOs agreed that cuts to military spending of up to \$150 billion over 10 years and tax increases would likely be necessary to avert the fiscal cliff Jan. 2 — \$1.2 trillion in defense and domestic spending cuts, and the expiration of the Bush tax cuts.

Bush cautioned that it is not up to industry to “set a number,” because contractors support whatever defense strategy is set by policymakers. But he insisted that the sequestration cuts are damaging to national security because they are not driven by a strategy.

The outcome of the fiscal talks, which remain deadlocked, is of great concern to defense industry, as more than half of the Pentagon’s \$500 billion to \$600 billion in annual spending goes to contractors.

Langstaff chastised the nation’s elected leaders for playing politics to the detriment of national security. He also recognized that industry has not always been helpful in moving the debate forward.

Industry leaders have been telling Congress to “avoid sequestration, but don't touch my budgets,” a stance that has been counterproductive, he said. “We can't have it both

ways.”

Defense firms have to be willing to “part with short-term interests” if that is what it takes to achieve a long-term plan that averts sequestration, Langstaff said. “We need to stop pretending there's a scenario out there that offers no defense cuts.” An “orderly” reduction is a far better alternative than the fiscal cliff, he added. “Additional cuts are not only possible but also necessary, but cuts need to be strategically driven.”

He also called on elected officials to “lead” regardless of what public opinion polls say. “You can't be looking at polls all the time,” he said. The public might want to cut defense over Medicare, but that doesn't mean lawmakers should blindly follow. “I don't care what the polls say,” he said. “We elect leaders to go forward.”

Industry has been dismayed at the behavior of elected officials who continue to play budget chicken, he said. He fears that they “will kick the can down the road in continuation of this irresponsible partisan procrastination and paralysis.”

Today, 115 industry leaders signed a letter to President Obama and congressional leaders, urging them to work together on a deal to avert sequestration, said Hess.

There are only a handful of legislative days left in 2012, and industry is running short on patience, the CEOs suggested. “We may not get the ‘grand bargain’ we want in the next 28 days. But there is no reason why a framework can't be reached. That would instill a lot of confidence in industry,” said Langstaff. “What we're not seeing is the leadership commitment to even reach that framework.”

There is growing speculation that lawmakers might gamble that if the nation goes over the fiscal cliff and taxes go up, they will have a chance to act next year to lower them back down. That scenario would cause untold disruption to government contractors and would not be acceptable, Langstaff said. “Elected officials are playing this game that if taxes go up, [next year] they can proudly vote for tax reduction,” he said. “I hope the public sees that as a travesty.”

Revenue increases also have to be on the table, officials on the panel agreed.

Langstaff noted that defense firms should not be lumped with anti-tax industry groups such as the U.S. Chamber of Commerce and the Business Roundtable, which have taken a hard stance against any tax hikes. “I hope Congress [realizes that these] are not the only voices of industry,” he said. “Some companies are being pragmatic and not ideological.”

The defense industry CEOs said they would be willing to support \$150 billion in cuts over 10 years, which is a modest reduction but should be considered in the context of already agreed-upon Pentagon spending reductions of \$487 billion over 10 years that the Obama administration plans to begin in 2013.

“The defense community has stepped up to \$487 billion,” Langstaff said. “The heavy lifting still has to be done in other areas” such as entitlement programs, he added.

Bush acknowledged that the industry's anti-sequestration campaign was excessively focused on the number of jobs that would be lost. Defense should not be viewed only as a

jobs program, he said. A more important concern for many companies is recruiting and retaining high-skilled workers who might leave the industry if the defense sector is perceived as being in decline, he said.

The threat of sequestration already has created a negative business environment for industry, Bush said. He noted that companies have stalled hiring and have curtailed investments.

Critics of Pentagon spending, meanwhile, said they were pleased by the defense CEOs' more flexible attitude about budget cuts.

"It's encouraging that several defense contractor CEOs say Pentagon spending reductions should be on the table during deficit reduction negotiations," said Heather Hurlburt, executive director of the National Security Network, a progressive think tank. "These executives are adding to a growing consensus that Pentagon spending is not sacrosanct. The American people deserve a comprehensive, balanced deficit-reduction plan," she said.

Christopher Preble, vice president of the libertarian Cato Institute, said it should be no surprise that defense CEOs are in favor of tax hikes as a means to avoid the fiscal cliff. "An industry that depends on taxpayer money to survive wants more taxpayer money" is no shocker, he said. "The public is not falling for scare campaign" about sequestration leading to millions of lost jobs, he added. "Everyone wants a strong military. We have one, and we will have one even if sequestration takes effect."

Ben Freeman, national security investigator at the watchdog group Project on Government Oversight, said defense CEOs lack credibility on these issues because over the past several years they have boosted their companies' profit margins and their own compensation as they laid off thousands of employees across the industry.

But Freeman was favorably impressed by the CEOs' openness to more defense cuts. That is a sign that the Pentagon is losing its clout vis-à-vis other domestic programs, he said Dec. 3 during a conference call with reporters. "The electoral implications are far more significant for the tax crowd and entitlement spending crowd than Pentagon cuts."

William Hartung, security director of the Center for International Policy, said it is notable that Defense Secretary Leon Panetta has been unusually quiet regarding sequestration in recent weeks. "The Pentagon doesn't have the privileged position it had six months ago," said Hartung. The idea that defense spending packs a special punch, politically speaking, has been overstated by the industry, he said.

Freeman also cautioned that the Pentagon has successfully perpetuated the \$487 billion number a "real cut" to defense spending whereas that figure only reflects a reduction to what the Pentagon had hoped to spend. In reality, the budget will be flat, not down, he said. "There's no fiscal cliff for the Pentagon, it's more of a gradual fiscal slope."