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FIVE FACTS ABOUT DEFENSE AND SEQUESTRATION

By Todd Harrison

1. Defense Funding Under Sequestration Would Fall to FY 2007 Levels

Under sequestration, the base DoD budget would fall to roughly \$472 billion in FY 2013. This would bring the budget back to approximately the same level of funding as FY 2007, adjusting for inflation. Funding would fall by about 11 percent in real terms from FY 2012 to FY 2013 and only grow with inflation for the rest of the decade.¹ The budget caps under sequestration are designed so that money can be moved among accounts within the budget cap, meaning cuts to DoD could be slightly more or less if other agencies under the 050 budget function, such as the National Nuclear Security Agency, are cut more or less. However, money cannot be moved between years under the budget caps. Thus, DoD cannot backload the cuts to allow for a more gradual decline in FY 2013.

2. War Funding Is Exempt from Budget Caps

The Budget Control Act specifically exempts war-related funding from sequestration. This creates an incentive for the Pentagon to move items from the base budget to the war budget in order to avoid the budget caps in future years. While it is not clear how much of this maneuvering Congress will be willing to tolerate, it is notable that Senate appropriators moved some \$10 billion of funding requested in the base budget to the war budget in their markup of the FY 2012 defense appropriations bill.²

3. Enforcement of Sequestration Does Not Begin Until January 2013

The Super Committee has until November 23rd to pass a deficit reduction package and should such a package pass, Congress has until December 23rd to vote on it. If by January 15, 2012 Congress has not passed the Super Committee's deficit reduction package totaling at least \$1.2 trillion, the sequestration mechanism of the Budget Control Act is triggered. However, enforcement of sequestration—

¹ Todd Harrison, *Defense Funding in the Budget Control Act of 2011* (Washington, DC: CSBA, August 2011) accessed at <http://www.csbaonline.org/publications/2011/08/defense-funding-in-the-budget-control-act-of-2011/>.

² Russell Rumaugh, "A \$10B Move," *The Will and the Wallet*, accessed November 2, 2011, <http://thewillandthewallet.squarespace.com/blog/2011/9/16/a-10b-move.html>.

when funding is actually taken out of accounts—does not begin until January 2013. This gives Congress a full year to modify, delay, or nullify sequestration, as some members of Congress have already suggested they should do.³ Given that 2012 is a Presidential election year, it is conceivable that should sequestration be triggered Congressional action to alter sequestration may not happen until after the November 2012 election. A lame duck session of Congress could delay enforcement of sequestration several months into 2013 to give the next Congress time to develop an alternative. As a result, the FY 2013 level of funding for defense may not be known until well into the fiscal year.

4. Cuts Under Sequestration Would Be Similar to Previous Drawdowns

Under sequestration, the base defense budget would fall 14 percent in real terms from the peak in FY 2010 to FY 2013. This seems modest compared to the drawdown at the end of the Cold War when the base budget fell by 34 percent from the peak in FY 1985 to the trough in FY 1998. But if the reduction in war funding is included—assuming war funding is gradually phased out in the coming years as troops are redeployed from Iraq and Afghanistan—the total reduction in defense spending would be roughly 31 percent, which is in line with the reductions following the Korean War (53 percent) and the Vietnam War (26 percent).

A key difference in this drawdown is that the growth in funding over the past decade did not result in a significant buildup in forces. Over the past decade, end strength fluctuated between 1.45 million to 1.51 million. At the end of the Korean War, end strength fell from 3.6 million to 2.5 million (31 percent). Following Vietnam, end strength fell from 3.5 million to 2.0 million (43 percent). And during the most recent downturn at the end of the Cold War, end strength fell from 2.2 million to 1.4 million (36 percent). Because the size of the military is essentially the same today as it was when the current buildup began, cutting end strength to reduce the budget is not as practical an option as it was in previous downturns.

5. Over the Past Decade, Acquisition Funding Soared but Modernization Lagged

Recent analysis by the Stimson Center correctly points out that procurement funding did not diminish over the past decade.⁴ In fact, procurement funding increased by 97 percent in real terms from FY 2000 to FY 2010, and RDT&E funding increased by 66 percent over the same period. While many new weapon systems were procured over the decade, the Department did not procure everything that was planned. This shortfall in procurement was not due to a

³ Thom Shanker, “In and From Congress, Calls to Limit Pentagon Cuts,” *The New York Times*, October 14, 2011, A18.

⁴ See Russell Rumbaugh, *What We Bought: Defense Procurement from FY01 to FY10* (Washington DC: Stimson Center, October 2011).

shortage of funding but rather a failure in the acquisition system: excessive cost growth, schedule slips, and technological issues plagued many of the major acquisition programs. A number of major programs were cut short during procurement, such as the F-22 and DDG-1000, with only a small fraction of the systems procured that were originally planned.

But looking only at procurement funding misses programs that were terminated while still in development and thus never made it into procurement, such as the Future Combat Systems (FCS), the VH-71 Presidential Helicopter, Transformational SATCOM (TSAT), and the Expeditionary Fighting Vehicle (EFV). In total, at least a dozen major acquisition programs were canceled while still in development over the last decade with a sunk cost of some \$50 billion in RDT&E funding.⁵ Other programs were delayed into the next decade, such as the Air Force's plans to buy the KC-46 tanker and begin development of the Next Generation Bomber. These canceled and delayed programs put DoD further behind in its modernization plans and pushed costs into future years. Many major platforms still need to be modernized or replaced as current systems reach the end of their life if these systems are to remain part of the force structure.

While the Department did not procure everything it had planned over the past decade, it did buy a number of new weapon systems that were not planned. The Army and Marine Corps procured over 25,000 MRAPs at a cost of some \$35 billion. The Air Force bought a number of UAVs, such as the MQ-1 Predator and MQ-9 Reaper. But many of these new weapons procured with war funding represent "point" solutions—systems that are designed to work well in a specific type of environment. For example, the initial MRAP vehicles procured for Iraq turned out to be ill-suited for off-road conditions in Afghanistan. As a result, a new version of the vehicle, the MRAP-ATV, had to be procured for Afghanistan. The Predator and Reaper UAVs that have proven so valuable in both Iraq and Afghanistan are likewise limited to environments where the U.S. already enjoys air superiority. These aircraft are not able to evade radar in contested air space and are virtually defenseless against surface-to-air or air-to-air missiles. While the MRAP and Predator and Reaper UAVs have been highly successful over the past decade, the large quantity of these systems currently in the inventory are not likely to be useful in the future unless the U.S. fights another war like Iraq or Afghanistan.

While the military did procure a significant quantity of equipment during the buildup and modernized parts of the force structure, it did not procure everything that was planned. Several major systems still need to be modernized over the coming decade. The challenge for DoD is adjusting those modernization plans to match the changing threat and fiscal environments to field the right mix of forces and capabilities for the future.

⁵ For a detailed list, see Todd Harrison, *Analysis of the FY 2012 Defense Budget* (Washington, DC: CSBA, July 2011), p. 36, accessed at <http://www.csbaonline.org/publications/2011/07/analysis-of-the-fy2012-defense-budget/>.

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